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Panamanian President Ricardo Martinelli's Agenda Marches on Unfazed by Opposition

by Sean Mattson
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Panamanian President Ricardo Martinelli usually gets what he wants. While he had to back down on controversial labor and environmental legislation (NotiCen, Nov. 11, 2010) this year—which led to violent clashes between police and protesters that might have contributed to the deaths of 10 civilians (NotiCen, Sept. 9, 2010)—his broader agenda so far seems unaffected. And it does not seem to matter which sector of society he has to confront to move administration plans forward.

In Martinelli’s latest flexing of presidential will, the president appears to have begun foisting international transparency standards on Panama’s influential bankers and lawyers. In late November, Panama signed a Tax Information Exchange Agreement (TIEA) with the US that should aid US efforts to crack down on US tax evasion in Panama. The agreement could also be a tool to fight money laundering as well as help win US legislative ratification of a free-trade agreement (FTA) between Panama and the US.

Some influential powerbrokers had long opposed the TIEA in this Central American nation, which is famed for its isthmus-crossing canal as well as its very discreet banks and corporation-establishment services. But Martinelli’s Panama wants to be removed from the Organization for Economic Cooperation and Development (OECD) list of tax havens. Having the US as an ally should help in removing the scarlet letters of "fiscal paradise" from beside Panama's name. As well as boosting Panama's global image, removal from the list is expected to attract new investors—including international banks—that currently shun tax havens.

But for 2011 to be the year Panama is removed from the OECD list, there is work to be done. Panama needs to pass know-your-client legislation for banks and lawyers and also implement an efficient system for information exchange. In Panama, Sociedades Anónimas (SA) are not just the meaning of the two initials following the name of a company, they truly can be well-shrouded shell corporations with no legally traceable trail back to the corporation's real owners or source of capital. Panama also needs to sign and have ratified at least 12 double-taxation agreements with other countries, a process that has steadily advanced under Martinelli.

Barring Martinelli calling a long-rumored session in the Asamblea Legislativa (AL) in December, the already drafted know-your-client legislation is likely to move through lawmakers' hands early next year.

"Despite the fact that [Martinelli] is from the political establishment, he has clearly separated himself from the traditional pressures that might have inhibited policy-making decision before," said Heather Berkman, an analyst at the US-based Eurasia Group.

While he has received much attention for upsetting civil society, early in his administration, Martinelli took on bankers, casino owners, and the country's Caribbean free-zone traders by raising their taxes. He also raised the sales tax and kept the government deficit in check. These
fiscal-responsibility moves were what ratings agencies wanted to see before bumping Panama to investment grade status this year, another of Martinelli’s main agenda goals.

"[Martinelli] has his sights on bigger issues than just appeasing the local private sector," said Berkman. "He wants the FTA [with the US], he wants to get off the OECD gray list, he wanted to achieve investment grade. In order to do these things he had to get policies passed that did not necessarily cater to the local private-sector interests. It seems like he has pretty good relations with the private sector but, unlike other Latin American countries—especially Central American countries, he's been able to work with them and get sort of a faded green light to pass these reforms."

**All eyes on the mine**

Martinelli’s next major moves will probably include legislation to allow companies with foreign-government shareholders to invest in mining (NotiCen, Sept. 30, 2010). The government had hoped to move the legislation as early as July this year, but the controversial labor legislation and social backlash was blamed for its delay. Passing the legislation is vital to Inmet Mining's investment plans to develop its massive Cobre Panama copper project in central Panama. An environmental impact study for the project is also pending government approval as well as the relocation of some 300 people, mostly from Ngobe Bugle indigenous communities.

So far it is unclear if opposition to the project—either from people who will be directly affected or from local, Panama City-based and international activists—will hinder development. During a November public hearing hosted by the Canadian mining company in Cacleito, a town closest to the mine site, small groups protested and voiced opposition but did not outline a legal strategy or series of actions that could hinder development. Authorities have said they wants to proceed carefully—if in a very determined fashion—to develop mining but are short experts to help enforce mining environmental laws, which the government has said it will toughen under the new legislation.

"The political will is definitely there," said Berkman. "They just don't have enough technical experts."

While Cobre Panama could proceed without much trouble, the government could have its hands full trying to develop another massive reserve at Cerro Colorado in western Panama. 2011 could see the government seek to sell the government-owned concession to the undeveloped project, which has been a flash point for conflict during past attempts to establish a mine there. Government dealings with the much larger Ngobe Bugle communities in that region will be closely watched if development plans proceed.

"That's going to be a political hot potato," said Berkman.

**Economy heats up**

Barring an unforeseen disaster, Panama's diverse services economy should have returned to annual GDP expansion rates of around 7% in 2010. The government and some economists are expecting this pace of growth to stick for a few years while cash flows into the small country as the US$5.25 billion expansion of the Panama Canal hits full speed toward its planned 2014 completion. The government will also start unleashing much of its infrastructure spending, with the focus being a US$1.45 billion subway line, construction of which is scheduled to begin soon.
"Panama is one of the economies with the brightest prospects for 2011," said Boris Segura, senior economist for Latin America at Nomura International Securities. "The canal expansion is like the trigger, the spark for all this to proceed. Over the last five years or so the country has done a great job in terms of diversifying into other sectors, for example into tourism. Tourism wasn't there five years ago. Construction is also a recent phenomenon. But accelerated growth also presents inflationary risks."

"There has been a pick up in inflation already," said Segura, who has watched Panama's economy closely for a decade. "Inflation in September is almost hitting 5%. Definitely in an economy that is dollarized, inflation shouldn't diverge materially from US inflation. US inflation is running around 1%-2% right now." Inflation could be between 4% and 5% for 2011, Segura said.

While the Panama story is positive on many fronts, there are still lingering concerns that Martinelli has concentrated much of the nation's institutional power. One key to his success is the few-questions-asked government alliance that controls the AL, which has shown signs of strain but is unlikely to break in 2011, said Berkman.

"I do see a weakening of the institutions in Panama," said Segura. "It's gradual, but it's there."

Social agenda still unconvincing to some

Panama has mostly avoided the violent scourge of the drug-trafficking trade, but Panama's coast and mainland have become an important trafficking corridor. Inner-city violence has increased because of gang activity, and police have responded with a heavy-handed crackdown, the results of which are still unclear.

"I believe the police will improve considerably in quantitative terms, because there will be more police, better equipment, et cetera," said Julio Yao, a foreign-affairs professor at the Universidad de Panamá and human rights activist. "But the problem of public security is a long-term state problem in which it is not possible to expect much success."

Yao said he expects the government to continue a strong stance against activists, the press, and groups opposed to major projects like mines and hydroelectric dams.

"For the coming year, I don't think the government is going to change much," said Yao. "It will maintain a hard line, especially against farmers and the indigenous, because the mining and hydroelectric concessions are fundamental for the government and these overwhelmingly affect extremely poor farmers and indigenous people. Next year I think there will be more resistance to mining."

The government has said these projects are part of plans to bring employment and improved living conditions to poor rural areas, but Yao does not see convincing social-development or public-education plans on the horizon, though he said public health care may be improving. He said the government remains focused on populist measures such as scholarships, pensions, and cash transfers to the elderly.

"On the surface, this isn't bad," Yao said. "What makes it negative is that it is not part of a comprehensive focus on the problem of the poor distribution of wealth, which will continue."

Yao expects 2011 to see a drop in Panama's already relatively low unemployment figures, thanks to infrastructure spending. But the academic is not convinced government attempts to improve public
education will advance much in the coming year. "In education, I think it's more of the same," said Yao. "There is no qualitative change that the average citizen perceives that will solve education problems. This is going to be a permanent problem."

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