



Report from Panama – May 2017

And so the world turns...

“The future always comes faster than we expect. Our ancestors awoke not knowing the world is round. Today we wake up knowing we are connected to a global grid with only a few degrees of separation between any two people.”

Parag Khanna – global strategist and best-selling author (1977 – present)

Parag Khanna is a Senior Research Fellow at the Lee Kuan Yew School of Public Policy at the National University of Singapore. Dr. Khanna is a well-known and widely-respected global analyst. I was recently reading some of his latest work where he took some time to discuss Dubai.

We all know Dubai as a tiny city-state, part of the United Arab Emirates, famous for its very high buildings and its artificial islands. When you and I grew up, none of us were likely to have heard of Dubai, much less been impressed by it. They were only known for fishing, not for oil, if you knew them at all. “Small” and “insignificant” were the key words.

Things have changed in Dubai, a very successful and extremely wealthy city-state where 85% of the population is made up of foreign residents who would never even have considered *visiting* Dubai two or three decades ago, much less living there. Today, they stay to make money on a big scale.

Even now, Khanna tells us that some of these foreign residents dismiss Dubai as a simple fishing port that got lucky, as Panama is dismissed by some. Dubai’s Arab critics come from ancient cities like Cairo, Baghdad, Damascus, and Beirut that were major centers of education and culture for centuries while, in comparison, Dubai was “nothing”. However, Khanna adds this...

“But this is precisely why Dubai should not be compared to the others. It does not seek to replace them. It is a platform for their survivors.”

It is a platform for their survivors. Exactly. So is Panama. What a wonderful thing to be, when you stop and think about it.



I will only add two short comments:

1) You are welcome to share the platform, but never forget that Panamanians **own** the platform. Show respect.

2) What you do on that platform will determine the benefits you get. People here are friendly, but you are responsible for building your own life. No one else can do it for you.

The Forest, not just the Trees

Talking about Panama, we often get too involved with the individual “trees” and forget to take a good look at the “forest” of trees.

Panama is a small nation. Ignoring the islands for the moment, in terms of area, Panama is only the 19th largest of 23 mainland nations (75,000 square kilometers or 29,000 square miles). That is half the size of Florida and a little smaller than Scotland. 17 states of the US are larger than Panama.

In terms of population, Panama is #17 of 23 (4 million currently). The metro areas of New York City and Sao Paulo each have more than five times the population of the Republic of Panama.

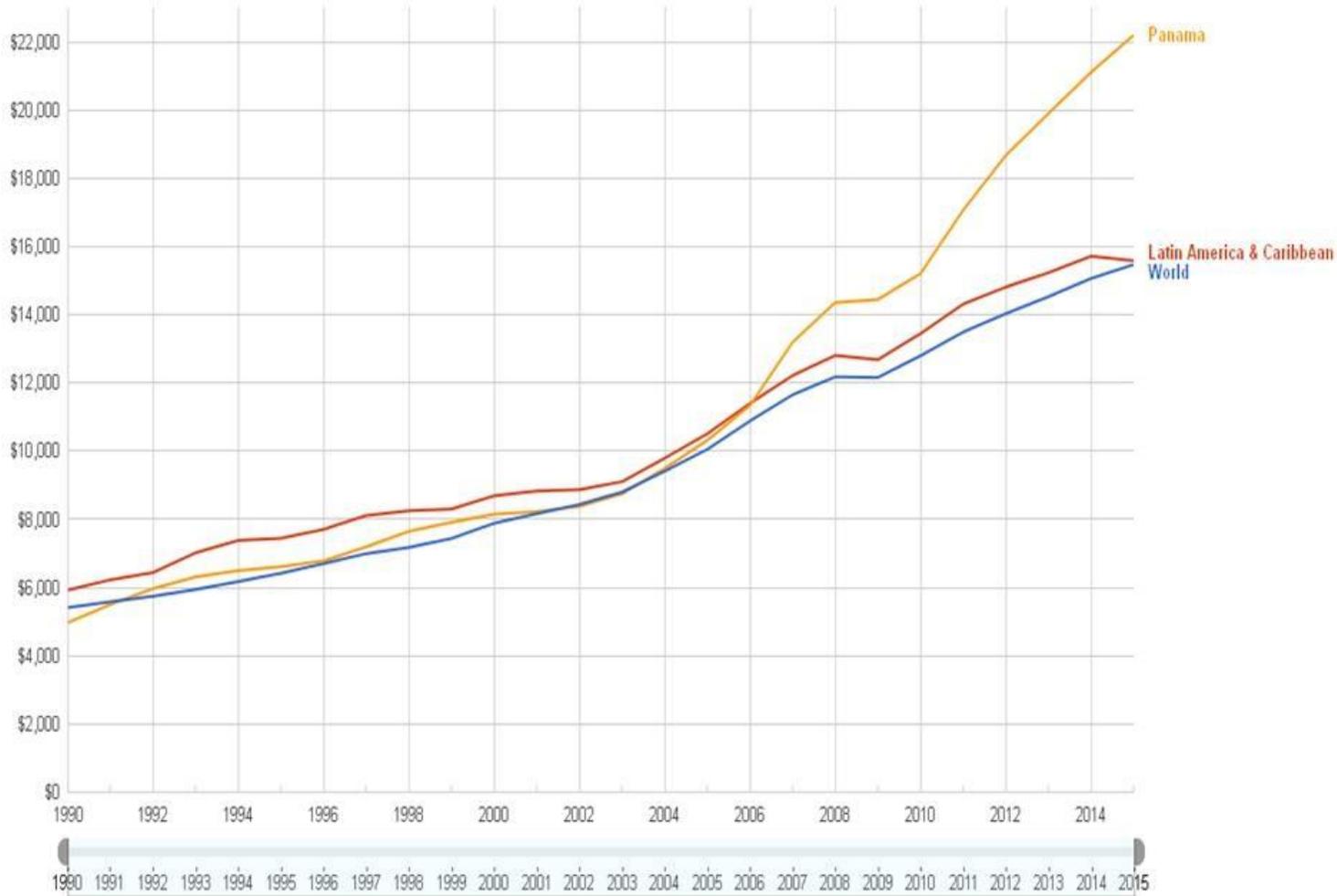
So many outside Panama see how small we are and automatically assume that our economy is small too. They also assume that Panama is nowhere near as well off as Brazil, Mexico, Colombia, and other much larger Latin American nations. They forget an important fact. It is not only how much money you make. It is how many mouths you have to feed. To compare Panama with other nations in our region, you need to look at our economy in per-capita (per-person) terms.

They say a picture is worth a thousand words. Okay, here are 2,000 words as two charts.

First, we compare Panama with all of Latin America and with the world as a whole.



GDP per capita, PPP (current international \$) ?



Data from World Bank Last updated: Oct 7, 2016

Now, let's compare Panama to several individual Latin American nations.



You can see where we all started in 1990. You can see how well we passed through the 2008-9 global financial crisis and how we have performed since then.

Panama is truly a work in progress. Every year, another bad tree disappears and a good tree is planted.

You cannot judge any forest by a single tree or even a hundred trees. You have to look at the entire forest. Every nation is a forest and every nation has its bad trees, its ugly trees, its sad trees. No nation is immune. But we still have to judge



whether a nation is a place where we want to work and live, or not. Some people will decide based on a tree, but the wise will decide based on the forest where it is found.

That brings me to my simple point. When you talk about investing your life in a nation, the smart decision is based on the forest, not on a single tree or two or three. Those charts above are only two of those that demonstrate Panama's reality relative to other nations in Latin America and the world is above-average, sometimes very far above average. This has been going on for years now and there is no indication that it is reversing or even stagnant.

Yes, our GDP grew less than we hoped for last year. The final statistic was 4.9% growth, compared to the 6% estimated when 2016 began. But everyone slowed down, so the result is that we continue to be one of the leaders in the Western Hemisphere. Just as we did better than others during the global financial crisis, we continue to do better today. More importantly, whether we are #1 or #3, we are consistently near or at the top of the list. Consistency counts. Since 2000 through last year, we had the fastest-growing economy in the Hemisphere, including the US and Canada. Another nation may have had a good year, but we have had a good decade and more.

As everyone living in Panama knows, we are a “safe haven” for many people and I am not talking about tax avoidance. I am talking about getting away from the anger and distress that so many nations face today. They have come from all over Latin America by the tens of thousands. They have come from North America by the tens of thousands. They are now coming in growing numbers from Europe, already in the thousands with more headed our way.

They do not see the charts above, but they do see the forest. We have a reputation and it is the reputation of a safe haven, as much as North America or Europe in the past, and often more so today. Their people seek a warmer, friendlier, more positive environment. They seek it as individuals, as families, as corporations, as non-profit agencies, and every other category.

Much of the world's “advanced” nations are under great stress due to failure to deal with the problems they have made for themselves. Panama deals with another kind of stress, the stress of success due to a rapidly growing, dynamic economy and the challenges such growth brings. Yes, there is a good “stress”.

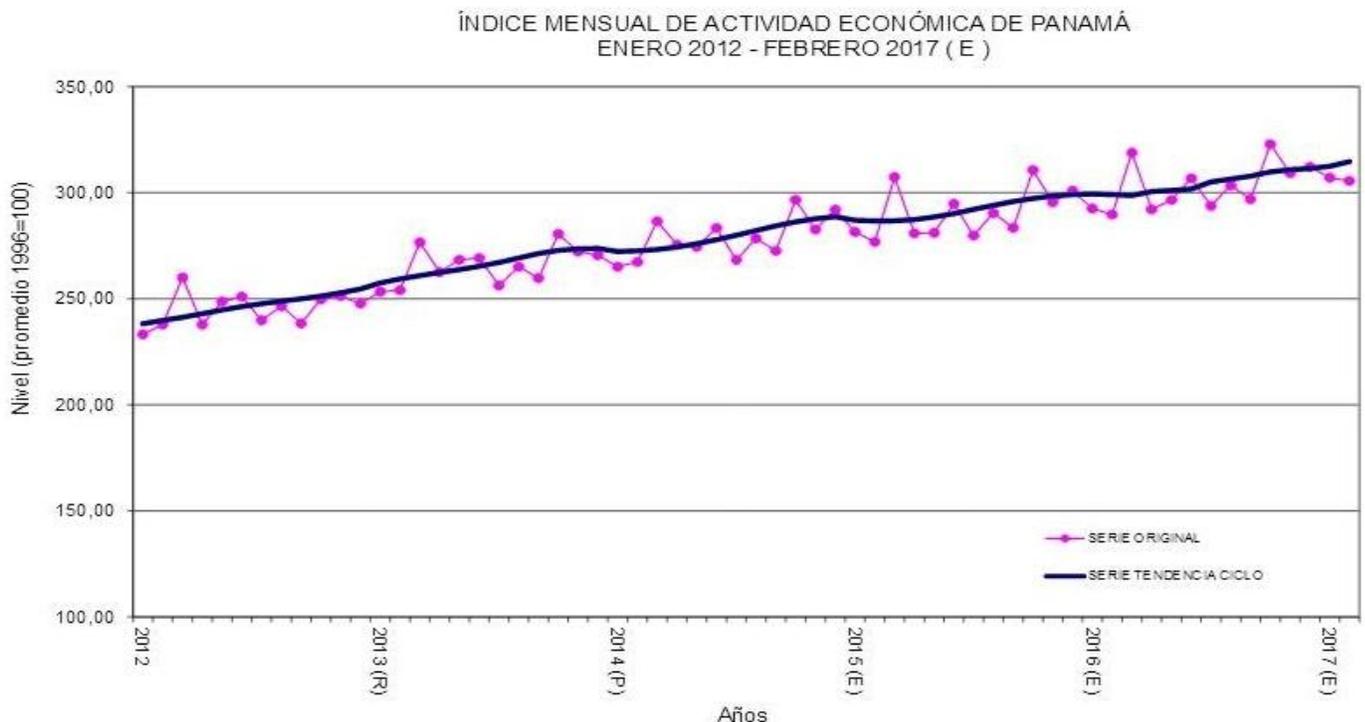


IMAE – The Panamanian Economy

Now, if I forget to add this, someone will write! It has been a standard part of the reports for years. IMAE is the Spanish acronym (initials) used for the English, “Monthly Indicator of Economic Activity”. It does not include all activity (that is why it is called an “indicator”), but it includes most of the total economy which is called GDP (Gross Domestic Product), but GDP is reported on a quarterly basis, not monthly, and takes a long time to put together. IMAE represents the majority of the GDP information and does a very good job of providing the direction that will eventually show up in the GDP.

The IMAE also takes time to collect and prepare, so this is the latest which covers January of 2012 through the end of February of 2017.

The pink line shows the movement each month. The blue line shows the trend over time. If the lines go down, it does not necessarily mean that the growth is negative, only that it is slower than in the past. If we actually have negative growth (and Panama has not for a very long time), the lines will fall sharply and very obviously





Nothing especially exciting to see. The current administration in office since July of 2014 has kept spending under strict control to maintain a low debt burden in relation to national income, less than half that of the US and the great majority of so-called “advanced” economies. This has been accomplished despite completion of the Canal expansion, the expansion of our new Metro system, the expansion of the international airport, the construction of a new convention center, and many other projects that will have a long-term positive impact on the Panamanian economy.

On the other hand...

Are things perfect in Panama? Of course not. This remains a human society with all the strengths and weaknesses of one.

Panamanians tend to be conservative in how they spend their own money, especially on major investments. In real estate, for example, they will build where everyone else is building and continue to do that, even when that local market “plateaus” and eventually softens. At that point, they tend to pull back and wait to see where the next growth opportunity lies. Unfortunately, that becomes a problem when everyone is waiting for someone else to take the first step!

But it can open opportunities for expatriates who arrive and go to areas where prices are cheaper because they are not especially popular and make them popular. That is the story of the islands off Bocas del Toro, the area in the west associated with Boquete and Volcan, and the area around Pedasi on the Azuero peninsula. But each of these three areas has been “done”, so to speak. The sharp initial growth is over, but identifying *new* opportunities and building them is tough work.

Yet too many expats, on the other hand, expect the opposite. I was speaking with a European friend I have known for more than a decade in Panama. She runs a very successful restaurant. I asked her if she noticed more Europeans arriving. She said, yes, but they come, and then many go. She shared her comments.

I sat with a Panamanian friend of mine who advises small businesses and writes regularly on the economy and we discussed my European friend’s comments. He



had the same response I and my European friend had, but independently, before he knew ours. Here it is.

There is a tendency among North Americans and Europeans to think they can “understand” Panama and its various market segments via the Internet. They hear about its strong economic growth and mistake that for a “bubble”. Indeed, some seem to have some kind of “bubble mentality”, even though Panama did not suffer from the global financial crisis that resulted from bubbles in northern economies. They had one. We did not. But they are convinced that money must be flowing much more easily here than in their own nations whose growth is much slower.

They tend to arrive with their business idea already chosen. Let’s say a restaurant as that is a popular investment for foreigners arriving from many nations and it certainly has been popular here. Within a few months, sometimes weeks, they have leased space and begun purchasing equipment and furnishings for a nice new restaurant. They struggle through all the steps that need to be taken because they do not know the system here, but they finish, open their doors, and expect people to rush in, or so it seems. It does not work that way. This is especially a problem for people setting up a business for the first time, but you can see it in others who have years of experience, but not here. Every market is different and if you forget that, you will be reminded....wherever you are.

Folks, Panama’s growth has been going on for well over a decade. When you look at the charts earlier in this report, you will see that Panama has been steadily growing. If it was a “bubble”, there would be a sharp jump up over a short period of time, but that is not the case here.

The key word to understanding the economic growth in Panama is **consistency**. It rises and falls like any economy, but always near or at the top of the list in the Western Hemisphere so, over time, we pass other nations as the charts show.

If you are interested in setting up a business here, that is fine. No problem, but you have to understand that this is not a bubble economy where you can expect profits quickly. The potential for profits is here and there are many businesses that demonstrate that, but it takes time, hard work, and enough money to keep you going in the process.



If I had one piece of advice to give you on this topic, it would be *come down, live here and get to know the market first-hand, then make up your mind what makes sense for you, if anything.*

Coming down with your mind already made up and assuming success in a year or two is not the way to set up a business in any nation and Panama is no exception. If it happens, be happy! But do not expect it in advance.

American retirees and Panama

This is another chart members have come to expect annually, so here it is again.

Every once in awhile, someone claims that retired Americans are no longer coming to Panama. Indeed, they are going home and their number is falling. This is never backed by any hard statistic, just opinion, usually from someone unhappy.

What difference would it make to someone who is not American? Americans and Panamanians have more than a century of experience with each other and, despite some difficult times in the past, they have been good friends. If Americans were leaving Panama, that would be news. We would all want to know why.

Okay, are there any statistics that are “hard”? The US does not require its citizens to register if they leave the US, but retirees who want their Social Security payments deposited to an overseas account do need to register for that. As a result, we have a real statistic reported annually by nation of residence.

This statistic does not include those who have their checks deposited in the US or who have not yet claimed their payments, but there is one fact that makes this statistic useful. It is very “sensitive” and will quickly reveal a trend, if there is any. If Americans receiving Social Security in Panama go back to the US or anywhere else, you can bet they change their bank fast! So anyone having it deposited electronically in Panama is definitely living in Panama.

To see a trend over time, we need statistics for more than one year. Fortunately, these statistics are available to us for 2002 and every following year through 2015. The statistic for 2016 will not be ready for a few more months.



But I want to do a little more. I want to compare Panama's results with two other nations, Mexico and Costa Rica, and with global statistics for all those Americans claiming residency outside the US for Social Security, the global total.

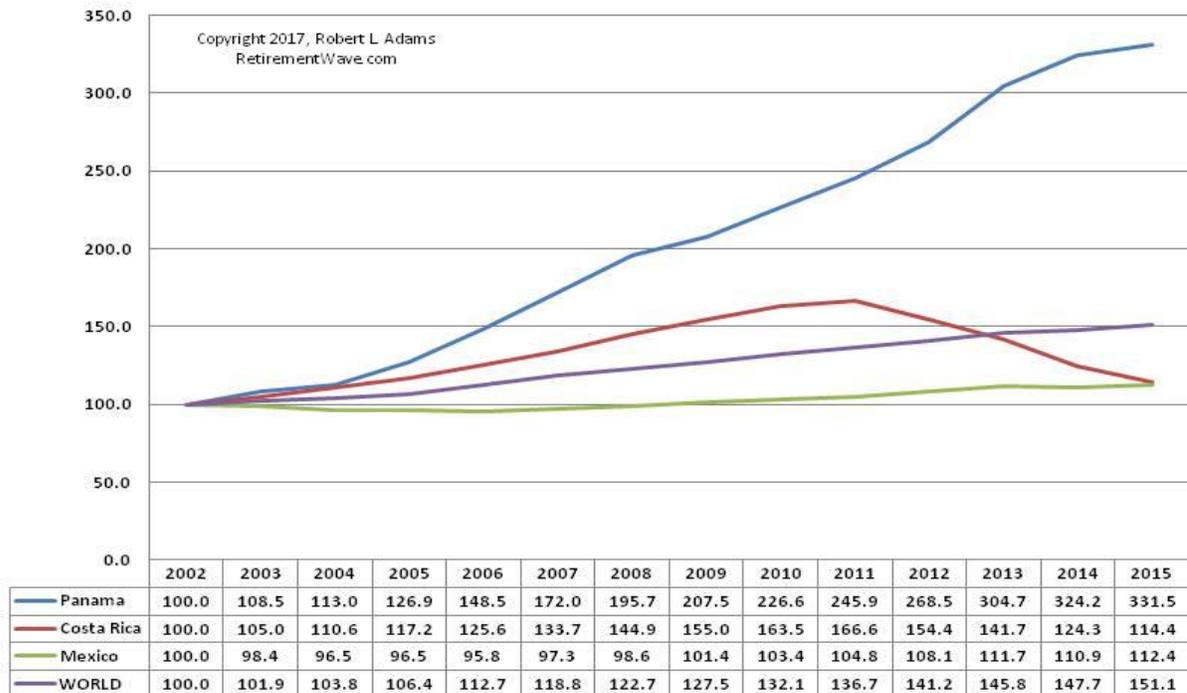
We do not want to use actual numbers as obviously the global total would be far more than any one nation, and Mexico has always had a very large American resident community (over 1,000,000) since it is a next-door neighbor to the US. So how can we compare them?

We can "index" the statistics. Briefly, we can use 2002 as our base year and represent each group as "100". Then if one area goes up 8% the next year, the index number is 108. If it goes down 8%, the index number is 92. In other words, we are showing the percentage gains and losses, but since each group is set at 100, they can be shown in direct comparison in a graph. After all, we are not really concerned with the numbers, we are only concerned with the trend and this will show up quickly on a graph using this approach.

Fine. Let's see the results, taken directly from US Social Security Administration reports.



**US Social Security Recipients (Index)
2002 through 2015
2002=100**



Let's start at the bottom with Mexico, the green line. It has grown very slowly for several years now, some years falling. There are still many more American retirees living there than in Panama, but their growth is certainly not impressive.

Next up is Costa Rica, the red line. Here we see a fall in 2012 and another in 2013, and another in 2014, and now another in 2015. The trend in Costa Rica in this regard is very clear. The statistic is lower today than it was in 2005. That is significant, the sort of thing we would expect in Panama, if Americans were leaving in large numbers.

Above it is a purple line that represents the number for the entire planet. You can see that continues to rise modestly, but steadily.



Finally we have Panama, the blue line. Notice how it started out at about the same level of Costa Rica in early years, but then sped up and increased much faster. As in Costa Rica, the trend is clear, but in the opposite direction. Although it slowed a little in 2015, it is still growing faster than the others as the index numbers at the bottom demonstrate.

Why compare Panama only to Mexico and Costa Rica? This is not a “contest”, but these two nations provide us with a comparison with similar nations in a key respect. Mexico and Costa Rica have attracted American retirees for decades. They are very well-established as attractive to American retirees over time and thus provide a good comparison. That was why I chose them and I think I was as surprised as anyone that they both have had real difficulties in the 21st century. Certainly, they are fine nations and happy homes for many retirees. I wish them well.

Remember, these are **trends**. They do not predict the future, but they do show what has happened in the past and they make a legitimate comparison of Panama with two other nations and with the total, world-wide. This is a statistic that can be accepted as accurate and “hard”, as opposed to someone's guess. I think the trend is as clear as it can be and it is definitely positive. So much for rumors.

Panama – A Few Details

In past Reports from Panama, I have always included a list of things that are happening in the economy and the society. I only select a few and I will not go into detail, but they give you an idea of where we are and where we are heading.

- ✚ The fascinating Biodiversity Museum which demonstrates the incredible plant and animal life of Panama is constructing two towers, roughly the height of a two-floor building, that will be circular and surrounded by a clear material like glass that will allow visitors to look at the real, living marine life inside each tower. One will include a sample of the life found in the Pacific Ocean off our coast and the other will show life found in the Atlantic Ocean at the other end of the Canal. At \$18 million, this is going to be beautiful and a great addition!
- ✚ Construction of one of the world's largest copper mines continues in one of the least densely populated regions of Panama without problems to date.



This is not a small project. At \$6 billion (\$6,000 million), it will cost more than the expansion of the Panama Canal.

- ✚ Also near the Biodiversity Museum, work is moving along on the completion in 2018 of a new convention center which will allow Panama City to compete with Miami, Las Vegas, and other cities for business. This project has been delayed and no one will be happier to see it finished than the hotels! Until then, we enjoy cheaper hotel rooms.
- ✚ Line Two of our Metro is under construction and 40% done. The first line is a huge success and everyone is impatiently waiting for the second line.
- ✚ Good news! The government approved an additional \$30 million to its \$900 million Line Two budget for the creation of a “spur” (a short branch) to connect the Metro directly with Tocumen Airport. We will be able to step from the terminals onto a platform and into an elevated train. The airport is a good distance from the city and the taxi fare is typically \$30. Now there will be a cheaper alternative that does not get stuck in traffic jams.
- ✚ With funding in place, Panama has begun the initial stages of contracting for Metro Line Three, a very extensive \$2.6 billion (\$2600 million) project that will carry passengers to and from the western side of the Canal and the city. This includes a more than \$1 billion (\$1000 million) fourth bridge across the Canal that will also carry road traffic.
- ✚ Initial studies developing the Metro’s Master Plan will focus on the construction and integration of Lines Four and Five.
- ✚ A second terminal at Tocumen International Airport that looks big and beautiful is well under construction, 73% completed as I write, and opens next year. It will greatly increase the capacity for flights and likely lead to initiation of direct flights from Asia, as well as other nations. Air traffic is expanding so rapidly that planning for a third terminal and an additional major runway for the 2020s is already underway.
- ✚ The Panama Canal’s expansion is complete and fully operational. It had been hoped that the Canal would see at least 500 of the “big ships” make reservations to transit the new locks by the end of the year. Well, we passed



that easily. We finished 2016 with more than 600 of these ships using the expanded locks and recently passed 1,000. It has functioned without incident and is greatly increasing national income.

✚ I have no new statistics beyond those I shared in the last Report, but there is no doubt that we are continuing to attract growing numbers of Europeans as residents, especially in the Panama City area. I sometimes divide arrivals into “waves”. The First Wave was the Americans and Canadians in the early years of the century. The Second Wave was from other nations in Latin America, particularly Venezuela’s “refugees” fleeing from the economic, social, and political disaster back home. The Third Wave now appears to be Europeans and we will see that “wave” grow in 2017. You can understand why we keep expanding Tocumen International Airport. And with the second terminal allowing the big wide-body planes from Asia to land and unload comfortably, a Fourth Wave may come in the future. Fine! All our welcome.

✚ Every two or three years, the Roman Catholic church sponsors a World Youth Day. These are huge events and typically held in major population centers. The two in Latin America so far have been in Brazil, the most populous nation, in 2013 and in Argentina, the third most populous and the first Spanish-speaking nation, in 1987. Others have been held elsewhere in the world. So when it was time for another WYD in the Americas, most people expected it to be in our next-door neighbor, Colombia, the second most populous nation in South America whose 49 million citizens outnumber Panamanians 12 to 1. Well, we are sorry to disappoint our neighbors, but Panama will host the 16th World Youth Day. A very experienced and professional team from the Vatican has been working here for months with Panamanians in preparation and that will continue non-stop until January 22 through 27 of 2019 when WYD opens here. 400,000 to 500,000 young adults are expected, but the final mass is performed by the Pope himself and will draw a much bigger crowd. Regardless of our religious views or lack thereof, Panamanians and expat residents can view this with great pride. It will be the most significant public relations event in Panamanian history since the inauguration of the Panama Canal in 1914. As just one item, the old convention center will be dedicated to the support of the 7,000 global media representatives who will be covering activities. A “huge” event indeed.



As I suggest in a video at the YouTube channel, I see 2017 as a year of construction, 2018 as a year of opening major new facilities (air terminal, metro 2, convention center, etc.), and 2019 as a year of super-activity, beginning with World Youth Day's huge crowds, followed by national elections in May and the inauguration of a new administration in July ("new" because a sitting President cannot run for re-election).

In addition, there will be a major celebration here in Panama City (which I like to call the Big Mango) as the city celebrates the 500th anniversary of its formal founding as the first European city on the entire Pacific coast of the Western Hemisphere from Alaska and Canada to Chile and Argentina. When the British *finally* got around to setting up their first small permanent settlement in Jamestown, Virginia in 1607, Panama City had already been here for 88 years, almost a century.

I am going to stop here, although I could go on for several pages. Five or ten years ago when I was writing reports like this, I would have a longer list of items, some of them fairly "small". Today, there is just so much happening that I cannot even begin to cover all the "big" things. Let the above do for this report.

Panama is "boring"

All those statistics above are just part of the story of a nation that is growing rapidly and is "home" to people from all over the world, as well as Panamanians. There is nothing new in that. Foreigners have been arriving since the Panama Railroad connecting the Atlantic to the Pacific was completed in 1855 (still operating today). It was the "fast" way to get from the US and Canadian Atlantic coast and from Europe to the North American coast, specifically California. This was the period in US history when the "Gold Rush" was underway in California and for thousands of people from the east of North America and from Europe it was the fastest way and safest way to join the "Rush" and seek their fortune. It certainly was faster than taking a wagon train a few thousand kilometers or miles by land!

The building of that railroad, followed by the first attempt to build a canal by a French corporation in the 1880s, and finally followed by the Americans who completed the Canal in the early 20th century brought Panama thousands of people from China to Jamaica and a couple dozen other nations for the construction, as well as hundreds of thousands who crossed the nation for a thousand different reasons over the decades. Some would remain, some would return, and Panama



became a “nation of immigrants” as much as the US, Canada, or any other nation. Those who come today are just a continuation of a movement that has been going on for a century and a half.

In the 21st century, Panama has “come into its own”, as we say in English. In February, I completed the 13th year since I first arrived in Panama and I cannot help but notice the change, not just in statistics, but in the attitude of the Panamanian people. They are very proud of their economic success and justifiably so. They are not “nationalists” who aggressively criticize other nations. They are “patriots” who believe deeply in their own nation without malice toward any other nation. Nationalism is shouted from the rooftops. Patriotism speaks from the heart.

If you live in Panama for years and you do not recognize the powerful patriotism underlying Panama and its people, then you do not live in Panama, you are only visiting.

Why is Panama boring? Our politicians are as noisy as those of any other democracy! People debate every issue openly and sometimes loudly, but underneath, Panamanians are one people. If you want to see a nation divided by hatred and fear, if you want to see mass demonstrations of tens or hundreds of thousands of angry people, if you want to see riots and looting; if you want any of this, do not come to Panama. That is not our kind of “excitement” and we do not want it, residents and citizens alike.

Members have asked me over and over again for years why they should care about Panama’s economy. Well, in a couple months I will mark the 50th anniversary of the day I got on a plane to leave Hawaii where I was trained to be a US Peace Corps volunteer in the Philippines. I was excited, but I never dreamed that it would completely change my life. Since then, I have worked, sometimes lived, all over the world.

I can tell you one thing from five decades of experience. If you want to live in a foreign nation, choose one where the people are proud of the economic progress they have made, who do not let the shouting of politicians rule their lives, and who believe they can create a brighter future for themselves and their children. It is so much easier to build a new life in a nation where your neighbors are doing the same thing.



Some final words...

“We live in the midst of alarms; anxiety beclouds the future; we expect some new disaster with each newspaper we read.”

Abraham Lincoln, lawyer and US President (1809 – 1865)

Well, Mr. Lincoln, nothing much has changed. However, from another perspective, *everything* has changed. “Change” is what life is all about. Regardless of our various ages, we have all seen great change in our lifetimes, and there is more to come as there was a century and a half ago.

We cannot change the course of human history as individuals, but we can change ourselves. For me, moving to Panama was a good change, despite all the challenges when moving to a new nation. I have more than enough experience living in other nations to know that those challenges are just part of the journey.

I chose Panama because it was a change over which I had control and it was the right one for me. Whether it is for you is something I cannot answer. Only you can do that. But whatever you do or wherever you go, remember that this is one change you *do* control. We do not have so many of those in life, so we must do our best with what we have.

I have written these Reports from Panama for many years now. They are long and no doubt boring to many readers, but I like to think they add something to your knowledge that you are not likely to find anywhere else. If that is my only contribution, I hope it's a good one for you!

If you are someone who has read my past Reports from Panama, you know exactly what comes next. The final words are always the same from the very first report I wrote nearly a decade ago. So let us all read this together, once again.

No one knows the future. Free markets go up and free markets go down. The future is not a simple extrapolation of the present. Anything can happen. Everyone has an opinion and those words above are just opinions.