



WHY PANAMA?

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February, 2015

Singapore. Rotterdam. Shanghai. Panama. When we talk about global logistics players these are some of the first places that come to mind. Our nation has earned a privileged position as an essential component in the ever-evolving global trade system, a position it has been able to leverage into a competitive advantage over neighboring (and larger) nations and also into a motor for sustained economic growth.

However, the trend towards economic openness that drove globalization at the end of the previous century, coupled with accelerated innovation in the transportation and technology sectors, has gradually closed the gap granted by our natural geographic position –usually considered our biggest asset—and put pressure on our evolution from being a natural transit point to becoming a competitive global logistics gateway.

The case for Panama

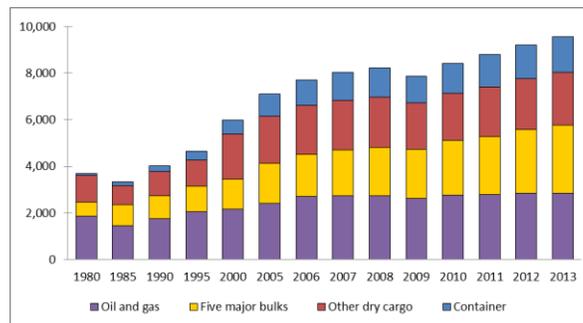
Why does a firm choose Panama as a regional logistics hub? History will surely tell us that our geographical position was a primary factor in defining our calling as a nation: serving as a bridge for trade. Still, it would be naïve to assume our natural location is what drives our role as a global logistics player today. It is an underlying asset, but not the “be-all and end-all” of the Panama advantage. What has made the difference for us has been how we have exploited this position for developing a set of components that provide value to global consumers and make us a destination of choice for cargo operations. Michael Porter probably said it best in his seminal article *The Competitive Advantage of Nations*¹, when he states “National prosperity is created, not inherited.... A nation’s competitiveness depends on the capacity of its industry to innovate and upgrade.”

The main physical element of the Panama advantage would be, of course, the Panama Canal. The waterway, which just last year celebrated a century of service to world trade, allows a shorter connection between the Atlantic and Pacific oceans. The expansion project to be completed in 2016 will nearly triple the capacity of the vessels that can transit the waterway, providing access to a larger (and growing) segment of the global Post-Panamax vessel fleet. This new wave of larger vessels transiting the Canal will represent a great opportunity (and also a challenge) for our country’s strategic positioning.

¹ Michael Porter, *The Competitive Advantage of Nations*, *Harvard Business Review*, Vol. 68, No. 2, March-April 1990, pp. 73-93.

Beyond the Canal our network of seaports represents one of our principal assets. In 1990, cargo moved through containers represented barely 6% of total seaborne trade². A quarter of a century later this share has nearly tripled to 16%, with containerized cargo and dry bulk volumes growing steadily in the current decade (see Figure 1). The volume of cargo moving through our port system has also increased dramatically since the privatization and concession of port facilities began in the mid-1990s, growing from slightly over a half million TEUs in 1996, to 6.7 million TEUs in 2014.³ Container movement is split nearly evenly between the Caribbean and Pacific port clusters, with Balboa accounting for almost all the movement on the Pacific side. Five out of every six TEUs entering the national port system, and nine out of every ten entering Balboa, is part of a transshipment operation.

Figure 1: International seaborne trade, millions of tons loaded⁴



This stresses the importance of Panama’s role as a transshipment port (and I will refer to the entire port cluster surrounding the Canal as a single port, without isolating a particular terminal). And this is precisely where one of the biggest opportunities lies for us as a nation, as efficient ports are not a sufficient condition for a successful transshipment operation: you need proper mechanisms to transfer cargo within and between port terminals in a seamless and safe manner, and you need regulations that facilitate the efficient movement of this cargo.

This brings us to the main concept that defines our strength as a logistics hub: our **connectivity**. This connectivity was built over time using our location as a cornerstone, by extracting value from the traffic generated by the Canal and the rapid growth of the Asia-U.S. East Coast trade route. These factors have led to a well-developed network of liner services making stops at Panamanian ports (see Figure 2), providing us access to the world’s most important markets. A study by the Inter-American Development Bank measured the connectivity of the ports of Central America, Mexico, Colombia and the Dominican Republic, with four Panamanian ports leading the regional ranking.⁵

² United Nations Conference on Trade and Development (UNCTAD), *Review of Maritime Transport 2014*, United Nations Publication UNCTAD/RMT/2014.

³ Based on preliminary data from Panama Maritime Authority (AMP), accessed at <http://www.amp.gob.pa>.

⁴ UNCTAD, *Review of Maritime Transport 2014*. Five major bulks: iron ore, coal, grain, bauxite and alumina, and phosphate rock.

⁵ Freight Transport and Logistics Mesoamerican Observatory, *Assessment of Port Performance and Port Connectivity Study in Belize, Central America and the Dominican Republic*, IDB Technical Note IDB-TN-512, edited by Pablo Guerrero and Julieta Abad, 2013. It should be noted that Kingston, Jamaica was not part of the study.

Figure 2: Liner service connectivity of Panamanian ports⁶



It is no secret our port system is a key to our success, but what happens beyond the ports might become even more critical in the future. The transshipment business relies heavily on the Atlantic-Pacific links offered by the inter-oceanic railroad and the road system between Panama City and Colon but, perhaps more importantly, on a set of procedures and regulations that allow for special treatment of transshipped cargo. The Colon Free Zone has cemented its role as a distribution center for Latin America and the Caribbean, and the new developments around the Canal –such as the Panama-Pacífico Special Economic Area and the proposed Corozal port— should be able to accommodate the growth expected from increased global trade, but they should also have the capability to adapt to a more uncertain environment. We should not understate the importance of our good air connectivity, which allows an extended offer of modes of transportation for cargo. It becomes evident we have world-class assets, but we still face significant challenges both on the physical plane and beyond.

The challenges ahead

The assumptions that drive the liner shipping business are in constant flux, and the expanded Canal and the rise of competitors in the transshipment business can alter the way our port system connects to the world. With larger vessels able to transit, we will surely see a different profile of demand for transportation services, with less-frequent but higher-magnitude spikes, and the way to remain competitive is for all cluster components to be well synchronized, with significant collaboration across sectors. We are also faced with the task of offering a wider array of value-added services to complement traditional transshipment operations.

There is also a need to improve the internal multimodal linkages on which the transshipment business relies. Improvements are not limited to the physical components of the system, but also the information and process components. We would be shortsighted in assuming that the costs associated to the physical movement of cargo are what determine the competitiveness of a hub: the value of time is becoming gradually more important, especially when considering the growing size of ocean-going vessels and the value density of cargo. Our internal procedures require modernization to allow our multiple-terminal transshipment system to compete with single-terminal operations such as the ones offered by Cartagena (Colombia), Kingston (Jamaica)

⁶ Georgia Tech Panama Logistics Innovation & Research Center, *Panama Logistics Portal – Maritime connectivity tool*, <http://logistics.gatech.pa/en/resources/maps>, accessed 20 January 2015. Only regular container vessel services are shown.

and Caucedo (Dominican Republic), all of which have well-connected terminals capable of handling the New Panamax vessels which will start transiting the Isthmus in 2016. The National Customs Authority (ANA) has been working, with the support of the Georgia Tech Panama Logistics Innovation & Research Center, in streamlining these procedures to provide such operations with greater speed and visibility.

Various assessments by international organizations show we still have significant room for improvement when it comes to our performance as a trade hub (see Figure 3), and we should see this as less of a threat and more as a positive sign of the success we can achieve if we play our cards right.

Figure 3: Country rankings related to logistics performance

Country	LPI Rank ^a	ETI Rank ^b
Germany	1	10
Netherlands	2	3
Belgium	3	20
UK	4	6
Singapore	5	1
United States	9	15
Chile	42	8
Panama	45	52
Mexico	50	61

^a The World Bank (2014), Logistics Performance Index

^b World Economic Forum (2014), Enabling Trade Index

Our competitors are not resting, and whatever first-mover advantage we had from centuries as a point of transit is fading as you are reading this, as a result of aggressive strategies by competing hubs wishing to attract cargo to their shores, and an expanded Canal presenting many opportunities for us, but also for our competitors. Good logistics infrastructure is a necessary – but not sufficient—condition for success; we also require a unified vision of providing efficient logistics services to the global community. We can achieve that through proper institutional and inter-sectoral alignment –to this regard the Logistics Cabinet, the National Logistics Secretariat, and COEL are all efforts in the right direction. More importantly, we require integration and collaboration, both of which are important attributes of a successful cluster⁷. Finally, we need to invest in the reinforcement of human resource capabilities that properly align with the needs of the sector, as well as promote research and innovation at all levels.

There are many reasons for choosing Panama as a logistics hub, but we need to keep striving to create even more. How we manage to do this as a country will be critical in maintaining (and, hopefully, increasing) our role in global trade, and will heavily influence our path of development over the next decades. It’s time to make our move.

⁷ Michael Porter, Clusters and the New Economics of Competition, *Harvard Business Review*, Vol. 76, No. 6, November-December 1998, pp. 77-90.

