Development of Panama as a logistics Hub and the Impact on the Latin America

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Summary: *The feasibility of developing a logistics hub in Panama was studied by analyzing the key characteristics of Singapore and Dubai's successful development of logistics hubs. We then used these key characteristics to determine the short-term effects of a Panamanian logistics hub on the Latin American port system.*

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KEY INSIGHTS

1. **The development of a logistics hub requires long-term commitment with structures action plans to address key developing factors.**

2. **Panama's long –term development as a major logistics hub is feasible if it reduces corruption and develops human resources.**

3. **Panamanian Canal and Port expansion's will cause a decline in container transshipment volumes in the Caribbean network's major players: The Bahamas and Jamaica.**

Introduction

A hub development impacts other ports in the region and changes the importance of ports in shipping networks (Robinson, 1998), it also shifts trade patterns and infrastructure needs in the region (Fujita & Hisa, 2004).

Panamanian government is strategically transforming Panama into a regional logistics hub. The main elements of the Panamanian strategy are the expansion of the Panama Canal, the development of the Panama Pacifico logistics park, and the container ports expansion. Panama's expected development will impact the Latin American shipping network. This thesis looks at the short-term impact in Latin America and the long-term development of Panama as a hub.

To determine the short-term effects of the development of Panama, field research and qualitative analysis were used to determine the effect on the ports of the region. Taking into consideration interactions between governmental agencies, regional positioning and private container port operators, we determined where the real changes will happen.

To really understand the long-term implications of the development of Panama we studied Singapore and Dubai using Michael Porter's cluster methodology to compare all of them. Singapore and Dubai are chosen as reference hubs because they are relatively small countries with similar characteristics to Panama. Singapore is the busiest container and transshipment port in the world. Dubai on the other hand is a perfect example of a government led development of a logistics hub.

Detailed analyses of all the key elements were used in the benchmark of Panama and their developing plan. The case studies allowed us to determine critical factors for the success of a logistics hub and the proper sequence for their development.

Finally we conclude with the summary of the benchmark and the recommendations for a faster hub development. The effects on the Latin American port network describe the ports that will be directly affected.

Effects on the Latin American port network

Ports directly affected by Panama are those whose traffic is directly related to the Panama Canal or container transshipment routes. After interviewing multiple industry experts it was determined that the types of ports mainly affected are those whose purpose is to provide transshipment services instead of being origin or destination. Main transshipment ports in Latin America are located in the Caribbean (Figure 1) and some of them have same port operators like Panama and Freeport, operated by Hutchison Port Holdings.

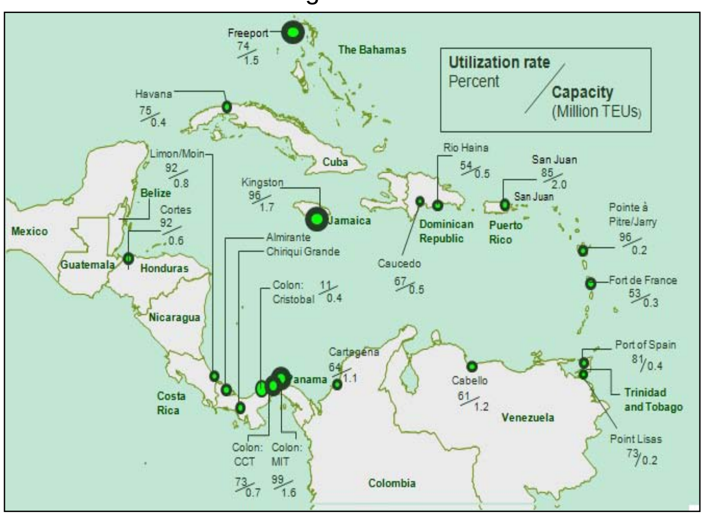

Figure 1 Main transshipment ports in the Caribbean

Panama's strategic position in the middle of the Asia- East United States route allows Panama to attract a lot of transshipment cargo and provide services for shipping lines that already use Canal services. On the other hand, port operators can provide joint services in different ports, thus leveraging their different terminals. Panama's growing base of logistics service providers creates an advantage against other countries in the Caribbean, which will attract further transshipment traffic to Panamanian ports and will decrease the use of other ports in the Caribbean, mainly Kingston and Freeport. (Figure 2) Smaller ports do not provide infrastructure services required for large container vessels.

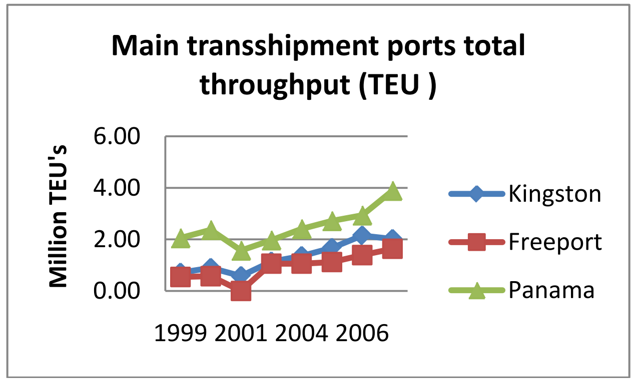

Figure 2 Main transshipment ports throughput

Panama's Benchmark as a Logistics Hub

Compared to Singapore and Dubai, Panama still has some areas of improvement to address. The development of a Hub is a long-term commitment and requires concurrent development of key success factors. We developed a framework to analyze the development of Panama using the critical success factors found in the development of Singapore and Dubai.

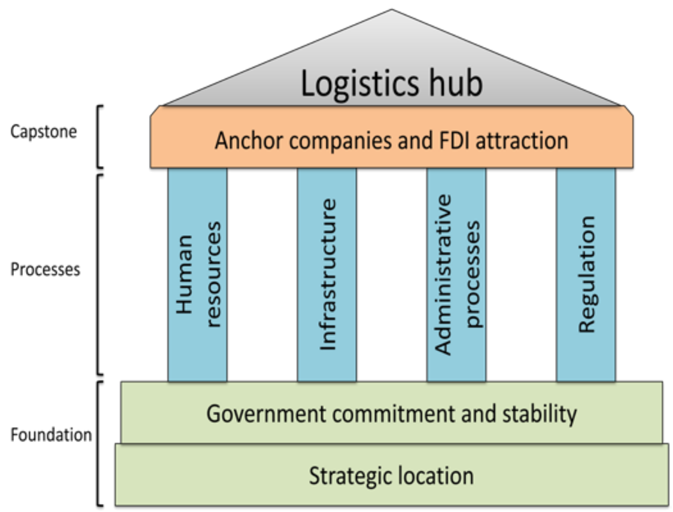

Figure 3 Critical factors for development of logistics hubs

Using this framework of factors we developed a score-card and provided a detailed assessment of Panama's current situation versus their future development. These analysis takes into consideration plans to expand both the Canal and port infrastructure and the effects of Law 41, designed to encourage foreign direct Investment in Panama Pacifico. Table 1 provides the summary of the analysis on each one of the critical factors for the development of the logistics hub.

Table 1. Benchmark Singapore, Dubai, Panama and Panama Planned.

SUMMARY	Singapore	Dubai	Panama	Panama Planned
Strategic location	Strategic position in the north south corridor in Asia.	Strategic position between Europe and Asia.	Strategic position in the Asia-US East Coast corridor.	Expansion of the Canal will provide access to larger volumes and more capacity for connectivity.
Political Stability	Committed and stable government. Unique party.	Committed and stable government, Monarchy.	Committed government. Multiple political parties, potential opposition.	Long term policies and laws to protect investors.
Human capital	Emphasis on logistics and technical education, world class labor force.	Incentives to bring labor from other countries and provide world class labor force.	Inadequate labor force, lack of technical knowledge.	Investments in logistical education and technical training.
Infrastructure	World Class infrastructure and intermodality.	World Class infrastructure and intermodality.	Good Ports, lack of proper intermodality.	Expanded canal and ports. Improvements in road connectivity.
Administrative processes	World Class customs, and other relevant business processed.	Investor friendly legislature.	Denoted as corrupt, and not as efficient.	One-stop-shop type of entity new business creation.
Regulation for attracting FDI	Clear vision and incentives plan. Economic and labor incentives at the beginning, later value proposition.	Clear vision and development plan, Economic and labor incentives. Some value proposition.	Lack of a long term plan (10yrs>). Rely on economic and labor incentives. No value proposition defined.	Creation of entities like AAEEPP and Laws to support them. Plan relies on economic and labor incentives. No value proposition clearly defined.
Anchor Companies	Several logistics, manufacturing, transportation companies attracted.	Several logistics, manufacturing, transportation companies attracted.	Some logistics and transportation companies attracted.	In the future AAEEPP will play a major role to attract new Anchor companies.

Conclusions

We discuss in detail each of the success factors in the development of Panama and provide a visual representation of the efforts to become a world-class logistics hub, using Singapore as the highest score in each one of the factors and Dubai as comparison. We use a scale from 0 to 5 to represent the assessment of each country in term of the seven critical elements (Figure 4).

- **Strategic location:** Panama's location provides a lot of potential for further development of logistics services and value added activities. Panama has the best location in terms of connectivity to large cargo routes.

- ***Political stability:*** one of the biggest advantages of Panama is the stability of the government and the relations of Panama with trade partners. The only reason Panama did not score a complete 5 in this area is because of the lack of long-term plans that overcome the risk of changing policies as new governments take over every five years.

- ***Human capital:*** current labor force is unskilled, inflexible and not cheap. The government plans for better educational institutions and emphasis on logistics training will require time and effort. In the mean time the government needs to provide options for companies to attract talent to the country.

- ***Infrastructure and Inter-modality:*** current projects like the Panama Canal expansion, the connection of Panama Pacifico to the Pan-American Highway and the improvements of the Panama-Coon highway will provide better infrastructure for logistics in Panama. Container ports in Panama are expanding and investing in high technological improvements to provide world-class services and this will be one of the key factors for the success of Panama in the future.

- ***Administrative processes:*** governmental efficiency can be addressed with laws like Law 41 and the creation of institutions like the Agency for the Special Economic Area of Panama. Although these are good steps towards efficiency there are still risks of corruption that need to be addressed.

- ***Regulation for FDI attraction:*** Law 41 provides several benefits in regulation and stability. However, Panama lacks a leading institution in charge of bringing FDI and coordinating a related policy throughout the different entities of the government. There is a dislocation of efforts which is yet to be resolved properly.

- ***Anchor Companies:*** companies operating in Panama currently make use of all the benefits provided by the government but it is yet unclear how much of this benefit will promote the development of the country. The way Panama will transition from transshipment and logistics services to an innovating logistics hub like Singapore and Dubai is yet to be defined.

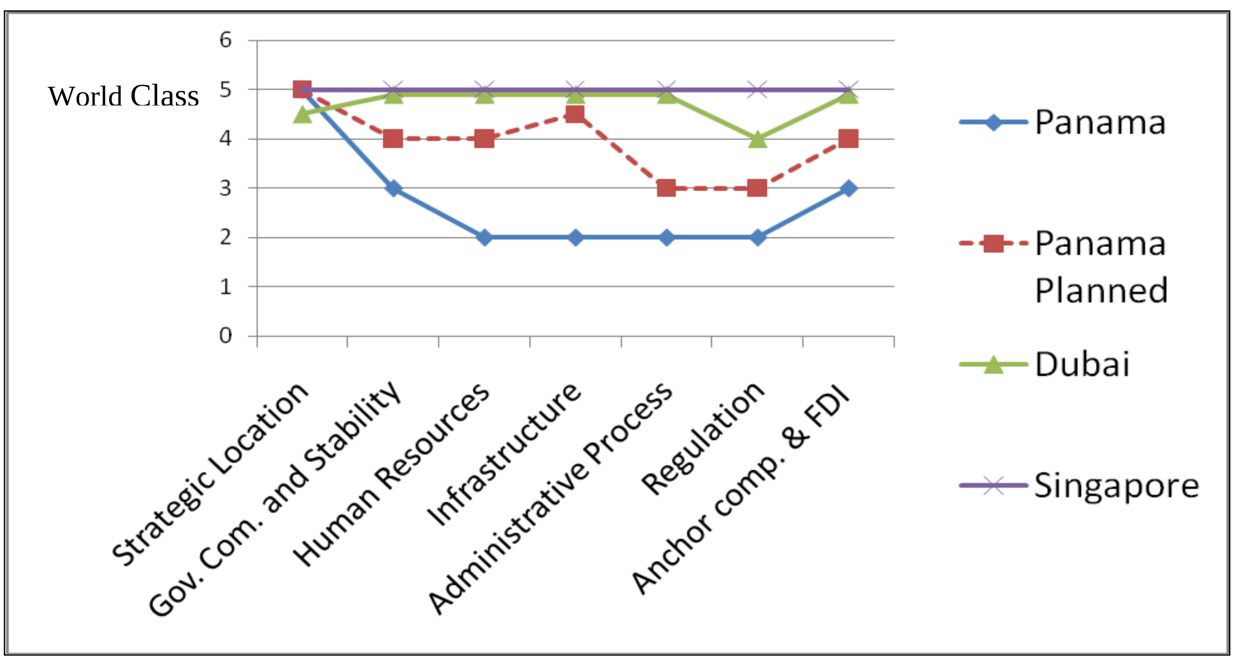

Figure 4 Results Panama's benchmark