

**“Panama, Hub of the Americas: Its Impact On The Economy”**Kevin Li<sup>1</sup>**Recibido: 24 de agosto de 2016**  
**Aceptado: 3 de septiembre de 2016****Resumen**

Este proyecto se enfatiza en la función que Panamá ejerce como el hub de las Américas; a la vez se investiga en los impactos económicos que las infraestructuras del país como el Canal, el aeropuerto y los puertos panameños han traído a la economía local y extranjera. Adicionalmente, debido a la creciente demanda por los servicios logísticos del país, el gobierno ha realizado ambiciosos proyectos expansivos tanto en el Canal como en el Aeropuerto de Tocumen para maximizar la productividad de dichas entidades, colocando a Panamá como un centro logístico mundial y el “hub” para las Américas.

**Palabras clave**

*Cabotaje, Hub, TEU, NeoPanamx, Panamax, Panama Canal*

**Abstract**

This research highlights the function that Panama serves as the hub of the Americas. The report also explains how the infrastructures of the country, for instance, the canal, Tocumen International Airport, and the ports have impacted the economy of the Isthmus and of neighboring countries. Furthermore, the up-growing demand for the country's services has resulted in expansion projects for both the Canal and the airport, maximizing the productivity of said entities while easing transportation for the world, and thus converting Panama as a logistic center for America.

**Keywords**

*Cabotage, Hub, TEU, NeoPanamax, Panamax, Panama Canal.*

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Ever since the Isthmus of Panama emerged millions of years ago, the country has served as a bridge for the world, and has forever changed the world's climate while allowing floral and faunal migration across the continent, which resulted in the Great American Interchange. Fast-forward to the present, Panama is still connecting the world through the country's geographical position and modern infrastructures, such as the Panama Canal, Tocumen international Airport, and the modern port system of the country.

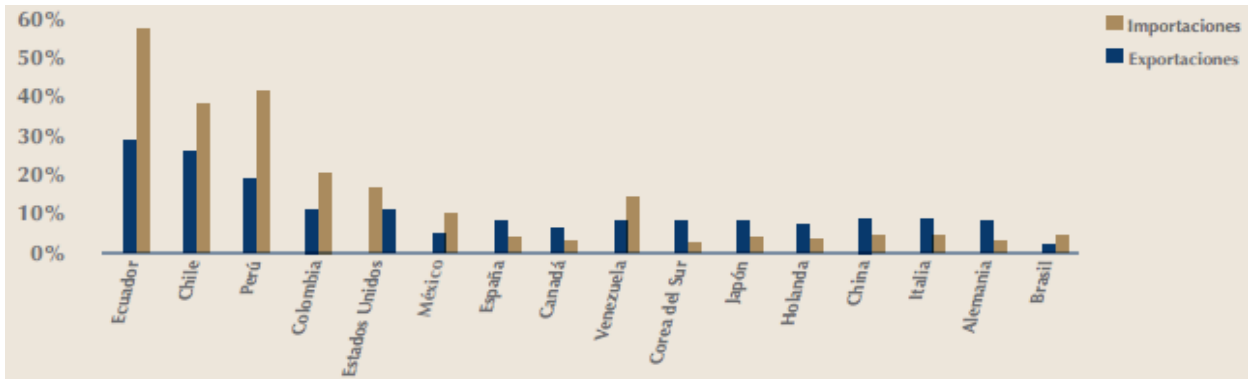
Each of these infrastructures has placed Panama as the hub of the Americas, and played a big role in creating the wide logistic network that the country possesses. The contributions of the Canal, for instance, are seen in the social improvements it has created in both the country and other nations. Not only that, but since the beginning of the construction of the canal back in the XIX century, it has always provided economic help to the Isthmus and neighboring countries through the generation of job opportunities. On the other hand, the Tocumen International Airport is considered as the number one airport across Central America and the Caribbean for the high amount of passengers that transit in the airport, the tonnage of cargo mobilized at Tocumen, and the wide range of airlines operating in Tocumen International Airport. Additionally, the port system in Panama is known for its modern and wide capacity for servicing vessels and ships, as well as a broad range of services to containerized cargo, bulk, liquid and general cargo, and for being a terminal for passengers of the cruise ships. In order to understand the function that Panama serves as a global logistic country, this paper will explain more in detail said infrastructures in the following pages.

## **1. The Panama Canal**

### **1.1 Global and domestic gains provided by the Canal**

Since the construction of the Panama Canal first started, the Canal has been providing wealth and social improvements across the country and the world. According to an article published in BBC News, since the beginning of the Panamanian Canal, it has benefited the economy on a global scale. In Barbados, for instance, around 19,900 Barbadians were hired to work on the construction of the Canal, which resulted in prospering the local market of the Caribbean island. This led to an increase in salaries, women were incorporated in the workforce, and the sugar industry, which is the main economic activity of the island, arose. Consequentially, the "money from Panama" helped to consolidate the social security system of Barbados in 1921, covering 94% of the population, and served to significantly raise their educational level, transforming the island forever (Wallace, 2014).

Fast forward to the present, the Canal is still vital for many other countries around the world, since it supports exports to other countries and promotes global trade; therefore, it stimulates the economic development of said countries. This can be seen in the following graph extracted from the ACP annual report, which shows the relative importance of the canal for the maritime commerce of sixteen different countries.



Source: Transitos y Cargas

In the previous graph, it is shown that Ecuador is one of the leading countries whose maritime commerce relies on the Panama Canal, with a rate of exports of nearly 30% and imports of 57%; the list continues with Chile, and it ends with Brazil, whose nearly 5% of the country's maritime commerce relies on the Canal (Transitos).

On the other hand, the benefits provided to Panama are seen on the annual revenue that the Canal grosses, since it is one of the main sources of income for the country. As it is reported in *America Economica*, the Panama Canal has generated multiple billions since it was turned over to Panamanian management in 1999 (Canal). Furthermore, throughout the years, the canal has created thousands of jobs in many fields, specifically in engineering (including maintenance and management of the Canal) and the maritime fields. Among other indirect contributions of the Canal in the Isthmus, it helps promote tourism and contributes to the national maritime field, as well as professional training, environmental protection and communication system improvements.

## 1.2 Transits in the Canal

The canal is one of the main contributors to placing the country as the hub of the Americas, since a big percentage of the goods produced in the world are handled through the Panamanian Canal. Moreover, it is estimated that annually, nearly 14,000 vessels loaded with over 300 million tons of merchandise, which represents 5% of the global trade,

transit in the Canal of Panama (Canal). Furthermore, according to the annual report published by ACP, the transits of merchant vessels were 12,036 (excluding small commercial ships), and grossed USD 1.8 billion in 2013 alone, and in the following year, the number increased to USD 1.9 billion (Reporte).

### **1.3 Expansion of the Canal and its benefits**

In order to maximize the productivity of the Panamanian Canal, the government proposed to expand the canal, claiming that it would increase the capacity to meet the growth in demand and improve customer service, thus maintaining the competitiveness of the Canal in the global market. As a result, in 2007 the national referendum made the project tangible and the expansionary work began in September, 2007. Since then, the expansion of the Canal has become an important source of employment opportunities; according to the Panama Canal Authority (ACP), the project has generated nearly 30,000 jobs distributed in the design, management, operating of the expansion, and 19,000 of which are in the construction field alone (Preguntas).

It is claimed by experts that the expansion project will put Panama in one of the leads in the logistic field worldwide, and the ACP has forecast that, thanks to the expansion, the total tonnage will rise from 280m tons to 510m by 2025, an increase of 82%, since NeoPanamax vessels (ships with a dead-weight capacity of about 120,000 tons) will be able to transit in the Canal. Furthermore, the ACP has also predicted that the container traffic should triple its current capacity, thus placing Panama into a higher place for logistic in the world (Plan).

## **2. Tocumen International Airport**

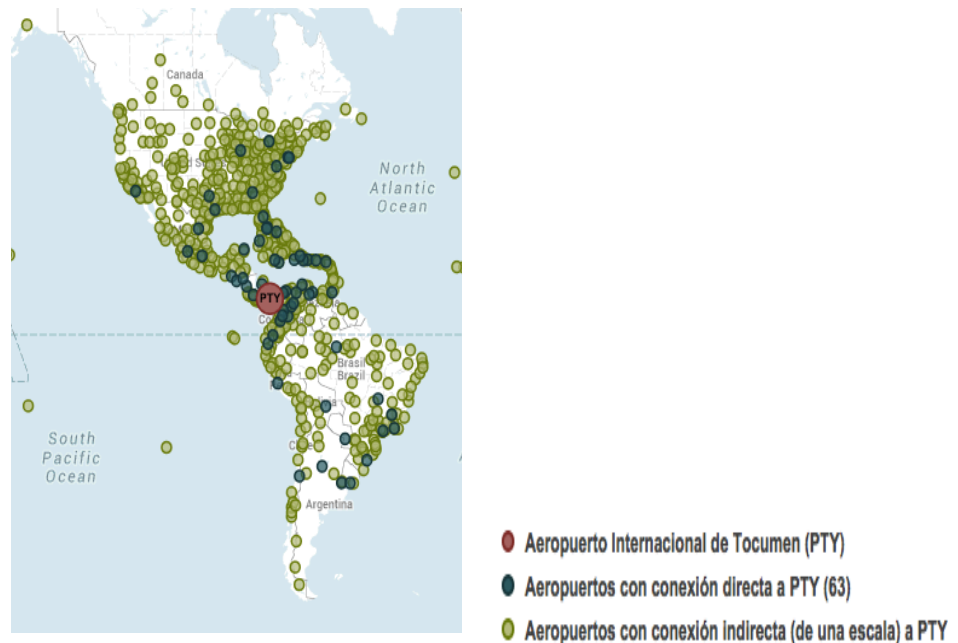
Tocumen international Airport is considered as one of the most saturated airports of the region. In 2014, SkyTrax World Airport, named Tocumen International Airport as the best and most important airports of Central America.

### **2.1 Flights and Connections**

It is reported that the airport connects passengers and mobilizes cargos to more than 30 countries and over 80 destinations worldwide. In 2014, the airport reported that around 8.5 million passengers transited for flight connections in Tocumen International Airport, (two times more than the Panamanian population); additionally, this air terminal handled 110,086 tons of cargo, thus positioning Panama as the country with the most cargos and flights of the region handled in an airport (Aeropuerto). Furthermore, the report points out that from 2012 to 2014 the transit of passengers in the airport increased 12%, which is

above the average growth of the airport. Additionally, according to Joseph Fidanque III, General Manager of Tocumen S.A, the increase of passengers are the result of an increase of new direct flights to South America, United States, Canada, the Caribbean, and Europe, which impacted positively the amount of passengers traveling from-and-to Panama (Tocumen).

The map shows the direct flights and connections flights of Tocumen Airport in America alone. Light green represents flights connections, while dark green projects direct flights.



Source: Aeropuerto de Tocumen

## 2.2 Expansion of the Tocumen International Airport

The main airport of the Isthmus of Panama, Tocumen International Airport, is currently under an expansion project. Said enlargement of the airport's structure is targeted to cover the demand of the market, since in the past five years, many airlines have opened new flight destinations involving transits in Tocumen Airport, and by 2016, three new airlines are settling in the Panamanian territory (Lufthansa, Turkish Airlines and Emirates Airlines); these companies intend to use the country's aerial hub to operate flight

connections. Thus, the increase of users has led Panama to increase the airport capacity in order to meet the demand and remain competitive, and according to an article published by La Estrella, the airport expects to receive 18 million passengers by 2017 when the airport expansion project is completed. If the calculations projected are accurate, all this will represent an increase of nearly 10 million passengers per year.

### **3. Ports in Panama**

#### **3.1 Type of ports in Panama**

Panama has a wide network of ports across the country that provides a broad range of services to containerized cargo, bulk, liquid and general cargo as well as passengers on the cruise terminals. According to the National Port System (SPN), the ports in Panama are divided into two groups: state ports and private ports. The private ports are concessions granted to private firms, while the state ports are operated and managed by the state, under the supervision of the Maritime Authority of Panama (AMP), which provides berthing and cabotage services (Puertos).

#### **3.2 Ports and development**

The economic reform in the mid 90s granting concessionary treaties has stimulated the economic growth of the country, placing the ports of Panama as a crucial asset for the national logistic sector. Furthermore, the treaties gave origin to the growth of the ports in Panama, and according to the National Port System, since 1997 the ports mobilized 319,707 Twenty-foot Equivalent Unit (TEU), and increased to 5,592,865 TEU in 2010, an average increase of 21% annually (Potencial). Consequently, the numbers of ports in the country increased throughout the years, and are distributed across de Isthmus, 17 of which are segmented into 10 port complexes granted to private investors, while 14 ports are owned by the state (Autoridad).

According to data provided by the Economic Commission for Latin America (CEPAL), the port complex in Colon, where Mazanillo International Terminal, Panama Ports, and Colon Container Terminal Evergreen operate, was positioned in 2010, as the principal port of Latin America, for mobilizing 2,810,657 TEU. Not only that, but also the Balboa Port was positioned in second place for mobilizing 2,758,506 TEU. As a result of possessing two of the main and most important ports of Latin America, Panama is now placed as a logistic center for America and the world; the complex logistic features and infrastructures of the country are formed by the Panama Railway, highways, a modern airport, and the Canal, and together have attracted foreign investors and multinationals to settle in Panamanian territory to benefit from the logistic quality of the country, while placing their distribution center for Latin America in the Isthmus (Potencial).

Panama has come a long way in the logistic field, and along with the Canal, the Tocumen International Airport and the ports, the Isthmus has accomplished a great deal across the world in said field, while being renowned as the hub of the Americas. However, this was not an overnight accomplishment; for the country to be renowned across the seas, Panama has worked for over a century, and has fought and overcome obstacles in order to remain relevant in the logistic field. In the case of the canal, for instance, in order to meet its demand, the government proposed to expand its infrastructure, thus maximizing its capacity, while providing services for vessels and ships. Furthermore, the position where the country's main airport stands is very similar to the case of the Canal; due to the increase of flight traffics and passengers transiting the airport, an expansion project was introduced as well and it is currently under work, thus doubling the airport's capacity. Moreover, the policy reform in the mid 90s has stimulated positively the port system in Panama, leading the country to have the two most important and main ports in Latin America and the Caribbean, the Manzanillo International Terminal, and Balboa Port. Thus, when combining all of the facilities that the country has to offer to the world, it places the Isthmus as a world-class logistic center while being renowned as the Hub of the Americas.

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