What Will the Canal’s Expansion Mean for Panama?

The expansion of the Panama Canal, pictured in 2012, is intended to double the waterway's capacity. // File Photo: Panama Canal Authority.

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The $5.3 billion expansion of the Panama Canal, a project that has been beset by contractor disputes and cost overruns, will open in late June, although there is still much work to be done, Canal Authority Administrator Jorge Quijano said March 23. How important is the canal’s expansion for Panama’s economy and for the companies that would use it? How long will it take for the expansion project to pay off, given the economic slowdown in China and other emerging economies and the recent fall in the level of global trade?

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Robert McMillan, retired attorney and former chairman of the Panama Canal Commission: “First, it is important to remember that the United States had as many glitches in the construction of the Panama Canal, more than a century ago, as Panama has had in the canal's current expansion. For example, it took the United States years to realize that there was a tidal difference between the Caribbean and Pacific sides of the canal. There is little doubt that the Panama Canal’s expansion will benefit the people and economy of Panama. As for the shipping companies using the expanded canal, it depends mostly on the price for fuel used by ships transiting it. With the current volatility in fuel prices around the world, this issue must be watched carefully. Very low fuel prices could mean vessels traveling farther to avoid tolls at both the Suez Canal and the Panama Canal. As for the current decline in global trade, that will change sooner rather than later, and I do not feel that it will have a long-term impact on the future of the Panama Canal. There is one other issue which deserves attention.

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POLITICAL NEWS

Brazil Justice Orders Congress to Pursue VP’s Impeachment

Brazilian Supreme Court Justice Marco Aurélio Mello on Tuesday ruled the country’s Congress must open impeachment proceedings against Vice President Michel Temer, making it possible now for the country’s two top elected officials to be ousted from office, The Wall Street Journal reported. The decision throws into uncertainty who would succeed President Dilma Rousseff if she is removed from office. Temer could now face the same accusations as Rousseff, that he used accounting tricks in order to obscure a growing budget deficit. Rousseff has denied wrongdoing, and a spokesman for Temer declined to comment on the ruling. The full Supreme Court could vote, however, to overturn Mello’s ruling, BBC News reported. The accusations were initially filed late last year but were put on hold by Cunha, who is a member of the same political party as Temer, the Brazilian Democratic Movement Party, or PMDB. The impeachment request was filed by attorney Mariel Marley Marra, who has said he is acting on his own as a private citizen, The Wall Street Journal reported. “If Cunha accepted the [impeachment request] against Dilma, he should accept one against Michel Temer too,” Marra said, arguing that as a key member of Rousseff’s administration, Temer shares responsibility for the alleged accounting scandal.

ECONOMIC NEWS

Colombia’s Inflation Rises to Highest Rate Since 2001

Colombia’s rate of inflation has risen to its highest level since 2001 due to higher food prices and a fall in the peso, which has driven up the cost of imports, Bloomberg News reported Tuesday, citing the country’s central bank. Consumer prices increased 7.98 percent as compared to a year earlier, twice the upper limit of the central bank’s target. Food costs increased 12.35 percent as compared to a year earlier due to the lack of rain caused by the El Niño weather phenomenon. Policymakers have boosted interest rates at their seven most recent monthly meetings in an effort to curb inflation. The increase in consumer prices mean more tightening is likely, analysts say.

BUSINESS NEWS

Ford Building $1.6 Bn Factory in Mexico

U.S. automaker Ford Motor Co. on Tuesday announced plans to build a new $1.6 billion auto assembly plant in Mexico, shifting small-car production from the United States to Mexico, the Associated Press reported. The plant will be built in San Luis Potosí state, the company said, though it did not specify what models of cars would be built there. The new factory will create about 2,800 jobs in Mexico. The United Auto Workers union, which had signed a new four-year contract with Ford last year, said the contract guarantees new vehicles for the company’s Wayne, Mich., assembly plant in 2018 and 2020 and a $700 million investment that will preserve the plant’s 3,924 jobs. Outsourcing jobs to Mexico has been a major campaign issue for the U.S. presidential race, though Ford said the announcement has nothing to do with the race, but instead with the timing of construction, which is set to begin this summer.

NEWS BRIEFS

Transparency Int’l Chile Head Quits After Being Named in ‘Panama Papers’

The head of the Chile office of the corruption watchdog group Transparency International has resigned from his post after being named in the “Panama Papers” data leak, the organization announced via Twitter on Tuesday, Fox News Latino reported. Gonzalo Delaveau has not been accused of any wrongdoing, but the chair of the Berlin-based group, José Ugaz, said that Delaveau’s affiliation with the group is incompatible with its goals of registering owners of shell companies in order to make it harder to conceal wealth and hide corruption.

Authorities Detain Associate of Former President Fernández

Argentine authorities on Tuesday detained a government contractor and associate of former President Cristina Fernández de Kirchner, Lázaro Báez, alleging that he transferred money abroad through shell companies, The Wall Street Journal reported. Báez’s construction company was set up days before Néstor Kirchner, Fernández’s late husband and predecessor, took office in 2003, and Báez made hundreds of millions of dollars through contracts for public projects. Officials of Fernández de Kirchner’s administration have said the allegations are politically motivated.

ICSID Reportedly Orders Venezuela to Pay Nearly $1.4 Bn for Seized Mine

The World Bank’s International Centre for Settlement of Investment Disputes, or ICSID, has ordered Venezuela to pay Canadian miner Crystallex International nearly $1.4 billion for the expropriation of its Las Cristinas gold mining project in 2008, the company said, Reuters reported. Venezuela’s oil and mining ministry did not immediately comment.
That is the effort by Chinese financial interests in trying to build a competing 170-mile canal across Nicaragua. The Panama Canal is only 48 miles long. There are serious questions about the Nicaragua Canal effort, and I have my doubts as to whether it will be successful."

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Joaquín Jácome, senior partner at Jácome & Jácome in Panama City and former trade minister of Panama: "Finalizing the Panama Canal expansion project is a matter of pride not only for Panama and the Panama Canal Authority, but for the companies that formed the consortium building it and their respective countries. Like some megaprojects, the expansion of the Panama Canal has been a nightmare for Panamanians, mainly because as the saying goes in Spanish 'Lo barato sale caro' (Being cheap can be expensive in the end). Awarding such an important contract to a consortium led by companies that were not financially solid based on the price is a mistake that Panamanians today don’t know how much it would end up costing. There are some pending disputes that have to be solved before knowing the total price tag. But we can be sure that it is more than $5.3 billion. As a consequence of this, it is hard to predict today the years required to pay off the debt. The expansion of the Panama Canal is of utmost importance to the maritime, logistic, tourism and service industries of our country, and several countries in the hemisphere that conducted the expansion of their port facilities to be prepared for this moment. Even though the world economy in general is going through true a slowdown and countries like China, Argentina, Brazil and Venezuela in our region are experiencing economic difficulties, the conclusion of one of the most important infrastructure projects in the hemisphere is a great contribution from Panama to the world."

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Rogelio Douglas, founder of Caribbean Sustainable Development Group in Limón, Costa Rica: "Since change is a constant, the challenge is adapting to the pace of change. The planned inauguration of the expansion of the Panama Canal represents a major positive change not only for the logistics sector, but in the overall Americas economy. The successful completion of one of the largest infrastructure projects in a century breeds a new level of investor confidence, not to mention increased global tourist attraction, throughout the region way beyond the country of Panama. This single change is having a direct regional impact in a variety of economic sectors, aside from marine logistics, such as cruise-ship ports, airports, railroads and vehicle roads, industrial parks, construction of hotels, resorts, commercial and office centers, complemented by an array of professional services from experienced designers, managers, advisors and consultants. Governments throughout the Americas are refining their national and regional infrastructure investments in order to attract and stimulate complementary private investors, prepare their labor force, and capture their share of a dynamic and growing economy. It would be most effective to embrace change, for new partnerships, build economic bridges and create new niches based on each country’s unique combination of natural environment, know-how, skills and creativity. Costa Rica is a major beneficiary of the Panama Canal expansion in that it motivated the modernization of the country’s aging Caribbean port complex, which services more than 80 percent of the country’s international commerce, as well as road expansions which in turn have attracted a wave of local and international investor interest in airports, hotel complex, residential developments, shopping centers, restaurants and industrial parks. Change is permanent; effective adaptation precedes success."