

INSIDER VIEW

Panama

TUESDAY, JUNE 25, 2002

Land of promise and opportunity

SINCE HER ELECTION IN 1999, PRESIDENT MOSCOSO AND HER ADMINISTRATION HAVE TAKEN GREAT STRIDES IN EDUCATION AND I.T. NOW SHE IS APPEALING TO FOREIGN INVESTORS TO HELP BOOST PANAMA'S ECONOMY

JUST A FEW MONTHS before Panamanian President Mireya Moscoso begins her third year in office, the country's first female head of state is more concerned with a different anniversary celebration that kicks off in 2003, the Republic of Panama's 100th birthday, as she knows it will be a time of reflection.

The U.S. handover of the Panama Canal in 1999, the same year President Moscoso began her leadership, was the final chapter to Panama's turbulent past and signaled to the world that true democracy at long last had taken root on the isthmus.

There was a 22-year transition period from the signing of the treaty to the actual handover on December 31, 1999, in what was perhaps the most important act of diplomacy in the hemisphere in recent memory and an event that will surely be among the country's highlights during the centennial celebrations.

"The impact that the canal has had on the world economy is without precedent. The canal radically changed trade and the world's geographic integration. It brought continents together," recalls President Moscoso.

She is also quick to point out other ways Panama has contributed to progress in the rest of the world. "We have provided the world with great lawyers and scientists. Artists, intellectuals and sportsmen have transcended our borders to become true citizens of the world."

And while there will be good cause to celebrate, Panama is presently going through a challenging economic period.

The country depends heavily on investments from abroad, and its economy is closely linked to that of the U.S. Panama's Colon Free Zone has been hit hard by the economic problems in its export markets, namely Venezuela, Colombia, Ecuador and most recently, Argentina, and the nation's banks are just now recovering to their pre-Asian-crisis strength.

Despite the setbacks, however, the Moscoso administration has spent far more money and effort on education, health, housing, security and agriculture than any other Panamanian government in more than a decade.

"We have reconstructed at least a third of the national edu-



MIREYA MOSCOSO President of the Republic of Panama is confident that once investors are more informed of opportunities, the economy will warm up.

cation infrastructure and we have brought information technology and the Internet to dozens of communities," President Moscoso points out.

Panama's overall growth last year was about 1%, and the Moscoso administration hopes to increase that to 3% this year, although a lot will depend on the strength of the world economy and the local investment climate. U.S. investors have been called upon and have shown great interest in Panama's most robust sectors: telecommunications, transportation and tourism.

The President says she has no doubt that once investors become more informed of the opportunities that exist in her country, the economy will quickly warm up. And if anyone was wondering whom Panamanians prefer to do business with, she leaves no doubt: "The relationship between Panama and the United States is very special. U.S. presence in Panama since the very moment we emerged as a nation has given us access to a level of life that is far more advanced than that of any of our neighbors. That fact is highly valued by a wide majority of Panamanians who feel this relationship in a very special way. We want that feeling to grow and strengthen. By a simple matter of destiny, the paths of the United States and Panama have been intimately joined, and we want it to stay that way."



FACTS & FIGURES

POPULATION

2.8 million
(July 2001 est.)

AREA

52,100 sq. miles

CAPITAL

Panama City

ECONOMY

Panama's economy is based primarily on a well-developed services sector accounting for 80% of GDP

RESOURCES

Copper, mahogany forests, shrimp, hydropower

INDUSTRIES

Construction, brewing, cement and other construction materials, sugar milling

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Panama City View

A continuing history of healthy relations

FEW COUNTRIES CAN BOAST HEALTHIER RELATIONS WITH THE U.S. AND PANAMA'S DOLLAR-BASED ECONOMY AND SPECIAL AGREEMENTS EASE THE WAY FOR U.S. INVESTORS

WHEN THE MILITARY bases closed following the handover of the Panama Canal, most American servicemen packed their duffel bags and returned home or were transferred to another base, knowing they would miss Panama greatly. But David J. Hunt couldn't tear himself away, so he retired from the U.S. Air Force to build a new life on the isthmus.

Today, the executive director of the American Chamber of Commerce and Industry of Panama is just as keen on the country as ever, and his mission is to help U.S. companies and other foreign firms find their own niche in Panama and turn a profit as well.

"Panama is the perfect destination for U.S. investors because it has the possibilities, interest, disposition, laws and means of communication

and transportation that are necessary to minimize costs and maximize earnings for investments made by U.S. businesses," Mr. Hunt stresses.

The Charge d'Affaires at the U.S. Embassy, Frederick A. Becker, who had previously served in Panama

and jumped at the first opportunity to return, agrees that there has never been a better environment for U.S. companies to do business in Panama.

"We have sought to help Panama improve conditions favorable to international business. In 2000 we signed an Overseas Private Investment Cooperation (OPIC) agreement with Panama. It was one of the only three countries in Latin America with which we did not have an OPIC agreement, the other two being



FREDERICK A. BECKER
Charge d'Affaires
of the United
States Embassy
in Panama

Mexico and Cuba," Mr. Becker points out.

He explained that OPIC provides risk insurance guarantees for U.S. investors. He also noted that an addendum was signed and ratified last year concerning the two countries' business and investment treaty that provided additional assurances for U.S. businesses, particularly with respect to resolution of commercial disputes. According to Mr. Becker the three most ripe sectors for U.S. investment in Panama are telecommunications, transportation and tourism.

"A major U.S. interest in Panama is promoting U.S. exports and investment, in part by encouraging open markets and practices favorable to business," Mr. Becker says.

"In this hemisphere we are negotiating a Free Trade Area of the Americas (FTAA) agreement, with a target completion date of 2005. Panama is the temporary site for the FTAA secretariat for 2001-03, after which it will move to Mexico City. But Panama is already lobbying to become the permanent site for the secretariat, and I must say the country is providing very good administrative services to all the delegations that come here," he concludes.

A major U.S. interest in Panama is promoting U.S. exports and investment



PANAMA IN PROFILE There has never been a better time to do business.

The Canal has become the driving force behind Panama's growth and progress

JUST A LITTLE more than two years have gone by since the transfer of the Panama Canal to the Republic of Panama, and despite initial concerns in the global transportation industry about the management abilities of the Canal's new owners, the Panama Canal Authority (ACP) has succeeded in not only keeping the gates open to the shipping community, but has also turned the waterway into a major driving force of Panama's progress and growth.

"There was a lot of doubt about whether Panama had the ability to run and operate this route efficiently, safely and conscientiously. More than two years have passed since the handover and the country has shown the world that it can," notes Alberto Alemán Zubieta, Administrator of the Panama Canal Authority.

Mr. Alemán says it has been a proud accomplishment for ACP and especially for the 9,000 Panamanians who work at the Canal. "We feel that we have not only done what was expected of us, but much more. It's not that we want to blow our own horn, it is just a simple fact that we have met the needs of our clients and the representatives and leaders of other countries who have acknowledged our accomplishments publicly."

One of the most important changes has been the Canal's transition from a government-structured, break-even management system. Today it is a state company using a more



ACP

ACP has been successfully running the Canal since the handover.

business-minded management model.

"We have a board of directors that names the Canal's administrator and operates to make a profit, just like any other business. We are very aware that we have to compete and provide excellent service to our clients," Mr. Alemán explains.

Since 1996 a \$1-billion development plan has modernized and continues to improve the Canal's capacity—20% more to be exact—by always using the best and most up-to-date technology.

"Panama is the only port in the world that has terminals on two oceans," says Mr. Alemán. "The terminals are intercommunicated, privatized and efficient, giving them a clear advantage at a passageway where 141 international trade routes converge."

The United States is the largest user of the Canal in terms of cargo tonnage, although Asian countries are beginning to close the gap. About 12% of U.S. sea-borne international trade, in terms of tonnage, passes through the Panama Canal annually.

Investing in Panama's Future



ESTI HYDROELECTRIC PROJECT-120 MW
Chiriqui River Dam



BAYANO HYDROELECTRIC PLANT EXPANSION-110 MW
Unit 3 Spiral Casing

AES Panama is investing \$400 million in the construction of the Esti Hydroelectric Project and the expansion of the Bayano Hydroelectric Plant. These projects will generate 230 MW and 672 GWH per year of clean hydroelectric power for Panama's energy market.

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Securing a place in the world economy

AS THE WORLD'S CROSSROADS, PANAMA IS SEEKING TO TAKE ADVANTAGE OF ITS STRATEGIC LOCATION TO BECOME THE REGION'S LEADING INTERNATIONAL COMMERCE HUB. BILATERAL AGREEMENTS ARE UNDER NEGOTIATION TO ACHIEVE THIS GOAL

IN A BID TO GET the most from its best-known asset, Panama is busy reinventing itself as a 21st century hub for Western Hemispheric trade. But it will not be starting from scratch. For over half a century, the Colon Free Zone has functioned as the largest merchandise distribution center for Latin America and the Caribbean, the world's second largest after Hong Kong. In 2000, total imports rose 6.4% to \$4.3 billion while exports were up 3.8% to \$5.1 billion. "We have a series of advantages that need to be consolidated and developed. That is the basis of our plan to transform the zone into the multimodal logistics center of the Americas, and help reposition Panama in the world economy," says Colon Free Zone's General Manager, Jorge L. Fernández. By integrating two or more modes of transport to move goods from origin to destination, the economies of scale achieved and the possibility of just-in-time delivery are sure to attract new industries to join the 1,800 international companies already doing business there.

But it isn't all just a matter of location, location, location. "Nobody can match our experience and comparative advantages in the international service sector," says Minister of Foreign Relations José Miguel Alemán. His government has been busy negotiating bilateral free-trade accords and channeling investment into infrastructure updates that complement an already wide-ranging offer of foreign commerce related support services including banking, insurance, state-of-the-art telecom access, cargo

handling and warehousing facilities, plus a partly bilingual workforce.

Companies have come from as far away as Russia, says Minister of Commerce and Industry, Joaquín E. Jácome D. "We have the re-



JOAQUÍN E. JÁCOME D.
Minister of
Commerce and
Industry



JOSÉ MIGUEL ALEMÁN
Minister of
Foreign Relations



JORGE L. FERNÁNDEZ
General Manager
of Colon Free
Zone

gion's lowest tariff regime, enviable political stability and an open, dollar-denominated economy," he says, noting that Panama last year became the first country in the region to pass enabling legislation to promote e-commerce.

Apart from its role as a reception and distribution hub, Panama is an exporter of no small impor-

tance in its own right, having last year shipped out \$890 million worth of goods, up by 7% from 2000. The United States, Central America and Mexico are Panama's main trading partners and the Moscoso administration is negotiating hard for bilateral accords with all of them.

Any one-on-one trade arrangements, however, will eventually be subrogated under the forthcoming Free Trade Area of the Americas (FTAA), the hemispheric version of NAFTA that is expected to be just as successful as its three-nation precursor. Panama is not only committed to the project but lobbying actively to make sure that the FTAA's permanent administrative center is located there when the 34-country common market is up and running sometime in 2005.

"Panama is an interesting place", says Nivia Rossana Castrellón, Executive Director of the presidential commission set up to nail down permanent venue status. "Historically we are South American, geographically, we're Central American, and culturally, Caribbean. Apart from that, we have these close historic ties with the U.S. dating back a century and a half." As pro tempore venue for the complex FTAA negotiations, Panama has already hosted almost 4,000 delegates from 34 countries attending nearly 70 meetings held since 2001. Making Panama the permanent seat of the FTAA might be appropriate payback for the country that can claim, with justification, to have divided itself in order to unite the world.

International giant with a social conscience

EVER SINCE Switzerland-based Nestlé—the largest food company in the world—instituted its first dairy production plant in Nata, Panama in 1938, the company has constantly contributed to both the economical and social well-being of the nation and has been an important source of nutrition for the entire region.

"Nestlé has played a pioneering role in the development of dairy production and its industrialization in Panama. The company played a similar role in the development of the country's tomato-growing industry and other vegetable crops," explains Ricardo Ramos G., President and General Manager of Nestlé Central America Region.

"These developments show that Panamanian agriculture offers opportunities and that the



RICARDO RAMOS G.
President and
General
Manager of
Nestlé Central
America Region

company contributes to the livelihoods of the rural populations. It is also worth noting that a good part of the output is exported and therefore contributes to the country's trade balance."

The bulk of Nestlé's exports from Panama are earmarked for countries in Central America and the Caribbean, regions of great strategic importance for the company, Mr. Ramos says.

"Panama occupies a privileged place in the Central American context, for both its geographi-

cal location and for the quality of services it offers the region, such as transportation, communication and financial services.

"Nestlé's headquarters for the whole of Central America is in Panama City, and that is due to the easy access to specialized and highly-educated personnel."

However, Mr. Ramos notes that despite its proximity to the U.S., Panama is still relatively unknown to the majority of Americans.

"Any investor considering doing business in Central America should seriously consider the opportunities Panama has to offer. Whether it be an industrial, commercial or logistic enterprise, one should also keep in mind that Panama is the vertex where the great routes between Asia, America and Europe converge."

WE TRANSMIT ENERGY



ETESA (Empresa de Transmisión Eléctrica SA) is one of the eight private companies that were created with the privatization of the Panamanian Electric Sector in 1997. The company is responsible for transmission infrastructure to ensure that all of Panama's generators and distributors can meet the booming demand of the country's consumers.

ETESA is a dynamic, growing company, that is fully aware of the potential of the electric sector in Panama and other countries in Central America. ETESA is currently building 600 km of parallel transmission line spanning the whole country, to add 450 MVA to existing capacity. Additionally the company is connecting a 230 kV line along the Atlantic coast to Costa Rica, and a third line parallel to the Panama Canal.

Through the growth of its traditional business, ETESA is also promoting investment in new businesses. Electricity demand in Panama through 2015 is expected to double, requiring an extra 1,000 MW, while an integrated market from Panama to Guatemala will require some 5,840 MW of additional capacity. ETESA is developing an extended grid to attract the investment in hydroelectric and thermal power generation required to meet this demand.



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Panama

Extending the network: infrastructure gets boost

TRANSPORT IS AT THE TOP OF THE GOVERNMENT'S AGENDA AS A TARGET FOR DEVELOPMENT. IF PANAMA IS TO BECOME A

REGIONAL TRADE HUB, ROAD NETWORKS MUST BE EXTENDED AND IMPROVED—AND PROJECTS ARE ALREADY UNDERWAY



HEAVY INVESTMENTS are being made to improve infrastructure in Panama.

SINCE THE construction of the Panama Canal in the early years of the last century, the country has learned just how important transport is to its economy and to its standing in the world. With increased globalization and regional trade agreements, Panama's role as a world transport hub will continue to expand. The country's public and private sectors are preparing for such a future.

At the same time, the administration of President Mireya Moscoso has ambitious plans to improve transport for Panamanian citizens, especially in Panama City itself where traffic congestion has long been a concern of the government.

"We are planning our two most important projects for the capital: a second bridge over the Canal and a light rail network," explains Public Works Minister Víctor N. Julio Gelonch. "Two lines, the blue line and the red line will cross the city and of the two, the 13-kilometer-long blue line,

which has been budgeted at \$200 million, will carry the most passengers," he continues.

"Our other project, the second bridge over the Panama Canal, will reduce the existing overload of traffic which now uses the Bridge of the Americas by 50% and help lower transport costs, ease congestion and boost productivity of businesses," he adds.

The canal itself is also undergoing major improvements, according to Alberto Alemán Zubieta, Administrator of the Panama Canal Authority that operates the strategic waterway.

"The current modernization program will be wrapped up by the end of 2004," he says. "We



VÍCTOR N. JULIO GELONCH
Minister of Public Works

recently began deepening the navigable section of Lake Gatun and that will ensure there is more water in the canal for its future operation.

"Over the past several years we've been carrying out a study for a series of capacity-enhancing projects which includes plans for damming new water sources, building hydroelectric plants, new locks and widening and deepening some of the channels."

Complementing the canal's maritime activity is the Panama Canal Railway Company, which has been operating freight and passenger service for the past two years between the Atlantic and the Pacific.

The Panama Maritime Authority (AMP), was created in 1998 and merged four other maritime bodies and agencies under one roof. For anything that has to do with shipping or maritime services in Panama, AMP will surely be involved.

"We made the construction of the Panama Canal Railway possible," AMP Administrator Jerry Salazar says proudly. "And that was a major success in the transportation of cargo from the Balboa port to the ports on the Atlantic sector, and also in the transportation of passengers from the many cruise lines that stop in Panama."

Along with land and maritime transport, air transport is also key to Panama's development and Copa Airlines is the leading air carrier in the country. In 1998, it signed an agreement with Continental Airlines as a shareholder and has since doubled in size.

Generating energy for greater development

PANAMA'S ENERGY SECTOR WAS REVAMPED IN 1998, BRINGING IN CAPITAL TO IMPROVE SERVICES. SPLIT INTO THREE

SECTIONS, THE SECTOR NOW OPERATES IN PRIVATE HANDS, EXCEPT FOR THE STATE-OWNED TRANSMISSION DIVISION



ETESA At work in the control room of the new Panama II sub-station.

IN A COUNTRY like Panama, which is focusing its economic future on the industries of transportation, telecommunications and tourism, it makes good sense to have one strong regulatory agency overseeing the most important infrastructure services on which those three sectors greatly depend.

This is exactly why in 1996 the government created the Public Services Regulatory Entity, commonly referred to simply as "ENTE" in Panama, with the task of regulating the electric power sector as well as the telecommunications, gas, water, radio and television sectors.

"Part of ENTE's work involves setting norms and arbitrating disputes in these sectors," ENTE President Director Alex Anel Arroyo explains. "The most active sector recently has been telecommunications as it has opened up to competition in two

stages, first for non-basic, and then for basic services. Panama wants as much competition as possible in the telecommunications sector."

In 1998 the government took on the major task of restructuring the country's electricity sector and its three main divisions: transmission, generation and distribution.

Sales from restructuring brought in some \$600 million and guaranteed further investment in the sector.

"The transmission division was assigned to one company, which is 100% owned by the State but is run like a private en-



ALEX ANEL ARROYO
President
Director of the Public Services Regulatory Entity (ENTE)

Sales from restructuring the electricity sector brought in some \$600 million

terprise. Generation isn't regulated and prices are fixed according to the market. Distribution and retail fell under regulation and that division was assigned to three companies operating within three different areas of the country," explains Mr. Arroyo.

The Electric Transmission Company, known as ETESA, is the state entity that took control of the sector's transmission division. ETESA only deals with this particular division and is in charge of the maintenance and construction of public infrastructure for the transmission of electricity.

By law, it is ETESA's responsibility to make sure that all generators and distributors of electricity are able to transmit and receive the electricity they need for their businesses. Currently, two of its most important tasks are building a new parallel line of transmission along the existing line and setting down new lines in areas not receiving the service.

"Just like any other company in the sector, we are guided by what is happening in the market. So ETESA has to get involved and operate in a private environment and function like a private company with the only shareholder being the State," explains ETESA General Manager José Ignacio Quirós Ponce.

Whether it be hydroelectric or thermal, ETESA's general manager says no stone is left unturned when it comes to providing Panama with sufficient electrical power.

"We are spreading out our

United States power giant becomes Panama's lowest-price electricity producer

WHEN PANAMA opened up its electric power sector in 1998, the U.S. power giant AES spotted a golden opportunity and immediately put down its bid, eventually acquiring two of the four electric generation companies up for privatization. The two companies were then merged to form AES Panama, now the leader in the development and expansion of Panama's power generation capacity and production.

"AES Panama is now the proven lowest-price electricity producer in Panama. In a new round of international bids in January, AES Panama made a clean sweep in the first round, winning



POWER TO THE PEOPLE: AES Panama's Bayano hydroelectric plant.

every single contract," notes David J. Sundstrom, General Manager of AES Panama.

"We are in a very good position as the lowest-cost producer and we are fully contracted until 2005 with a large amount of our capacity contracted through 2013," he says.

The U.S.-based AES is a leading global power company comprised of competitive generation, distribution and retail supply business in more than 20 countries. The company's generating assets include interests in 173 facilities totaling more than 59,000 megawatts of capacity in 32 nations. AES also

distributes electricity in nine countries through distribution businesses and sells electric power to more than 153,000 customers through its various retail electricity supply businesses.

Mr. Sundstrom says AES Panama is more than just your average power company seek-



DAVID J. SUNDSTROM
General Manager of AES Panama

ing profits at any cost. He points out that AES is noted for helping the communities in which it operates; everything from providing medical treatment to supporting local schools.

"AES is an interesting company founded basically on four shared values that are easy to understand and identify with: integrity, fairness, social responsibility and fun. With all the things affecting the electric power sector in the United States and the world today, including the collapse of Enron, I cannot emphasize enough the importance of a company founded on those values." Mr. Sundstrom concludes.

Panama

network to wherever it is required for the well-being of the people of Panama and for the development of the country. Electricity is the element that clears the way for greater development and productivity," Mr. Quirós points out.

According to ETESA's general manager, everything is in place for the company to complete its ambitious expansion plans by the year 2003 or 2004 at the latest.

"We haven't hit a snag so far," he says. "Everything is going as planned to receive something in the region of \$170 million worth of investments. The tenders have been made and we have been fortunate in attracting the most important companies from all over the world. What's more, not only have we been able to secure their services, but we have also been able to search out the best opportunities in which to develop our activities." Mr. Quirós concludes.

Modern sector appeals to investors

OPERATING IN THE COUNTRY SINCE 1997, CABLE & WIRELESS PANAMA IS WORKING TO IMPROVE TELECOM INFRASTRUCTURE. HAVING UPDATED LINES WITH DIGITAL TECHNOLOGY, THE MOST RECENT SUCCESS IS A CALL CENTER

OF ALL OF Panama's economic sectors showing promising growth, telecommunications stole the spotlight by far at last fall's Panama Week trade-investment promotion show in Washington, an annual event sponsored by the U.S.-Panama Business Council. High-tech companies at the show were extremely enthused and pleasantly surprised by Panama's modern, growing telecommunication sector, and particularly by the fact that five international fiber-optic cables in-

tersect the country, making it a logically profitable destination for a company to set up a regional call center.

But it was by no means a surprise to the telecommunications giant Cable & Wireless, which recently inaugurated a call center in Panama which was met with immediate success. "This is exactly the type of niche that Panama should pursue to make the best use of this extraordinary advantage," asserts José Miguel García, President and General Manager of Cable & Wireless Panama.

The UK-based Cable & Wireless, which chalks up billions of dollars a year in revenue and has customers in 70 countries, is not the kind of company that is used to making unwise choices when it comes to investments on as large a scale as those it



CABLE & WIRELESS PANAMA is the country's leading telecom operator.

has made in Panama, where it is the leading telecommunications company, providing national and international fixed-voice services on an exclusive basis until 2003. Cable & Wire-

less Panama also provides the country with mobile, data, Internet access, IP solutions and other deregulated services in a competitive market.

The company won an inter-

national public bid in 1997 to obtain the concession to operate telecommunication services administered by Panama's INTEL. Cable & Wireless owns 49% of the stock, the Panamanian government another 49% and the employees own 2%. "Management and control of the company is the responsibility of Cable & Wireless, as well as the investments and the name brand," Mr. García points out.

"Over the last few years we have tried to elevate the quality of telecom infrastructure in Panama and achieve the maximum level of penetration in a country whose social development has certain limitations. When we started running the company, there were approximately 300,000 lines already present, and we updated them with digital technology," recalls Mr. García.

"Also in that time, we have been able to obtain another 200,000 lines of penetration, which has been a real achievement in an emerging economy like Panama's," he adds.

Intersected by five international fiber-optic cables, it's the ideal call center location



JOSÉ IGNACIO QUIRÓS PONCE
General Manager of the Electric Transmission Company (ETESA)



JOSÉ MIGUEL GARCÍA
President and General Manager of Cable & Wireless Panama

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or visit our website at www.cwpanama.com



Connect to investment opportunities in Panama's utilities and public services sectors.

As the policy of liberalization implemented in the 1990s takes root, Panama's economy is growing fast, with electricity generation and telecommunications set to lead the way in attracting investment over the coming decade.

At the heart of this process is the Ente Regulador de los Servicios Públicos, the independent body charged with stimulating competition, implementing new technology, and protecting the public interest.

Panama's electricity consumption is estimated to double over the next 12 years. With significant hydroelectric resources, the country's potential capacity is clear, as are the opportunities for investors. The opening up of the telecommunications sector means that from January 2003 all fixed line telecom services will be fully opened to competition. Within five years, cellular licenses will be issued.

Ente Regulador de los Servicios Públicos, safeguarding investment in Panama.

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Transparent banking benefits economy

PANAMA IS FURTHER DEVELOPING ITS ECONOMY THROUGH THE MOST PROMISING SECTORS: TELECOMS, TRANSPORT AND TOURISM. FOR THIS, FOREIGN INVESTMENT IS NEEDED AND A TRANSPARENT BANKING SYSTEM PUTS PANAMA IN A GOOD POSITION

FOREIGN INVESTORS hoping to take advantage of the many opportunities currently opening up in Panama should perhaps take note of one very important fact: one place where one must make a good impression is Panama's powerful Economy and Finance Ministry, through which all contracts from public institutions must be approved.

Panama's economy is based on a well-run and developed service sector, which accounts for approximately 80% of the nation's GDP. The Panama Canal, the Canal Zone, a modern telecommunications infrastructure, the Colon Free Zone and the country's booming international banking industry all contribute to form the foundation of the service sector.

"The next great push for Pana-

ma is going to be the expansion of the Canal. This is the project that is going to change the whole economic outlook of Panama," Economy and Finance Minister Norberto R. Delgado, enthusiastically. "We are only waiting for the plans from the Canal administrator to begin. The decision will be made soon, in about six months, and the cost will likely be somewhere in the region of \$5 billion."

Among other advantages, the Canal's expansion will allow the largest ships to pass through without having to first unload some of their cargo to be transported by rail to the other end of the Canal, an improvement that is guaranteed to save both time and money.

A further 12% of Panama's GDP is taken up by manufacturing, mining, utilities and construction, and all these sectors have flourished since free market reforms in 1998.

"I believe that Panama holds plenty of opportunities and its characteristics are well defined. We are very aware of our possibilities, like telecommunications for example. For this reason we have developed a call center law that has allowed the country to develop as a center of operations for international calls and this has facilitated economic activities on a large scale."

"Panama also has a very stable economy. Here, there is a bank failure every 10 years,

"With the FTAA in sight we have to be exporters and attract more tourists"

Banking system is model for the region

AFTER GETTING a wakeup call from the Caribbean Financial Action Task Force (CFATF)—an organization of Caribbean basin states that have agreed to implement joint measures to fight criminal money laundering—Panama set about strengthening its banking regulatory laws to such a degree that it is now a model for the entire region.

"As a member of the CFATF we have participated in a series of international forums to promote Panama's new banking legislation that brings us into accordance with the standards we need to comply with," explains Delia Cárdenas, Superintendent of Panama's Superintendency of Banks.

Panama introduced a new, comprehensive banking law in 1998 that uses the guidelines of the Basle Committee on Bank-

ing Supervision. The Superintendency of Banks, whose office is independent of the central government, has wide powers of regulation and supervision.

And although confidentiality is part of the new law, if funds are proved illicit, it will not protect criminals from exposure. "We have received requests from other countries, like Honduras, asking us for information about our legislation as we have earned a name in the region and many nations want to use our banking laws as a model," Ms. Cárdenas notes.



DELIA CÁRDENAS
Superintendent
of Panama's
Superintendency
of Banks

The Superintendency of Banks replaced the outdated National Banking Commission, and is organized as an autonomous state entity with a juridical personality and a separate patrimony.

"The policy of the banking sector here is 'know your client'. The Panamanian banking system is open, yet serious. It is a free-market sector and any investor can feel safe because of the human and professional quality under which our banks operate," says Ms. Cárdenas.

The new law has also tightened general controls and regulations and brought Panama's supervision more in line with the regulatory standards found in European and American banking sectors, as the Panamanian government recognizes its responsibilities as a major international banking center.

PANAMA INTERNATIONAL BANKING CENTER

Principal Accounts by Type of Bank. Year: 2001 (million Balboas)

Type of Bank	Number	% Total	Assets	% Total	Loans	% Total	Deposits	% Total
General License Banks	49	60%	31.049	82%	18.962	86%	20.935	79%
Official Banks	2	4%	4.491	14%	1.951	10%	3.422	16%
Private Panamanian Banks	19	39%	10.994	35%	6.097	32%	8.010	38%
Foreign Banks	28	57%	15.564	50%	10.914	58%	9.503	45%
International License Banks	25	31%	7.004	18%	3.085	14%	5.663	21%
Representation License	7	9%		0%		0%		0%
Total	81	100%	38.053	100%	22.047	100%	26.598	100%

Source: Superintendency of Banks

Panama

7



NORBERTO R. DELGADO
D. Minister of Economy and Finance. Along with President Moscoso, his task is to increase Panama's economic possibilities. Strengthening the banking sector—which has always been at the forefront of innovation and trends towards globalization—has been one step, by creating more transparency.

while on average a bank is going belly-up every half hour somewhere in the world. Banking fundamentals here are strong. This is the direction that the country must follow and my responsibility, along with the President, is to increase Panama's possibilities," the Minister asserts.

According to Mr. Delgado, the government's strategy is to concentrate on what it knows the country does well, namely telecommunications, transportation and tourism.

"With the Free Trade Area of the Americas in sight, it is clear that we have to be exporters and attract more tourists. We

don't want to weave fabric or make furniture; we want to transport them. Panama is a safe place to invest, and is a port nation that is going to develop what it needs to develop.

"As far as finance and banking is concerned, Panama has strengthened its laws and two years ago the country created a strong, solid superintendence of banks. Between 1999 and 2002, all Panamanian banks have to readjust to this new reality of transparency," Mr. Delgado stresses.

And that spirit of transparency is exactly what the National Securities Commission is looking for as it carries out its job of regulating and supervising the country's stock market, says President of the Commission Carlos A. Barsallo P.

"Transparency is the key word in all the agreements we dictate over. The laws are not simply applied on a whim. We have to follow a very rigorous procedure, something which several years ago didn't happen all that often in Panama. It is one of the better aspects that we have modeled on the system in the United States," notes Mr. Barsallo.

Tourism sector ripe for the picking

IT MAY SOUND CLICHÉ BUT PANAMA REALLY IS ONE OF CENTRAL AMERICA'S BEST KEPT SECRETS. TO CHANGE THIS, THE GOVERN-

MENT IS PROMOTING THE COUNTRY'S MANY TOURIST ATTRACTIONS, INCLUDING ITS NATURAL BEAUTY AND COSMOPOLITAN SOCIETY

THERE SEEMS to be no doubt as to where the current administration of Panamanian President Mireya Moscoso has chosen to place its bet among the country's three most robust sectors that are vying for the distinction as the immediate savior of the national economy.

While both the transportation and telecommunications sectors have the potential to bolt Panama into long-term economic stability, it is perhaps the inherent beauty of the country and its warm, friendly population that makes tourism the most ripe industry for development and environment-friendly exploitation.

Since the beginning of the Moscoso government there has been a strong push to develop Panama's tourism industry focusing on three main areas; training, investment in tourism infrastructure and promotion, says Liriola Pittí L., Gener-



IPAT is using Panama's natural beauty and heady cultural mix as top selling points.

al Manager of the Panamanian Institute of Tourism (IPAT).

"We have directly trained 14,000 people and invested \$4.2 million in tourism infrastructure," she says. "Our biggest effort has been in the promotional area, investing huge

amounts in advertising and public relations campaigns in the U.S., Canada, Europe and in Latin American countries or capitals with direct flights to Panama."

The promotional campaign, of which IPAT has the leading role, is part of the government's ambitious Tourism Development Plan to boost tourism.

One of the country's major selling points as a tourist destination can be traced to the Canal. People from all over the world came to build the waterway and later settled there, leaving Panama with one of the richest cultures in the region. The shipping industry brought further international influences that have made Panama "a melting pot of races and religions live together in peace and warm hospitality," notes Ms. Pittí.

"Tourism has become a state issue, and not a political party issue," Ms. Pittí stresses. "So whoever is governing the country will stick to those objectives, meaning that tourism development is here for the long term. This is a guarantee to investors that Panama is committed to the promotion and development of the sector and that commitment will remain stable for all tourism developments in the future."

Besides the Canal, in 1999 the U.S. also handed over some 364,000 acres of prime land and around 4,000 buildings and other infrastructure located in the former Canal Zone. Panama is committed to using these resources to foster the country's economic and social development.

"In a large market we are all winners"

WITH THE FREE Trade Area of the Americas (FTAA) gaining speed towards its expected kick-off in 2005, international banks are scrambling to get a foothold in strategically located Panama. The need for capital will surge as companies expand to do more business abroad, and the banks, understandably, want to be at the center of the action.

But they will have a lot of catching up to do if they hope to grab a chunk of the market share Citibank N.A. has been cultivating in Panama since it became the first foreign bank to operate in the country in 1904.

"Our operation has large coverage and penetration in the local market," explains Citibank N.A. Panama General Manager Francisco Conto. "As far as products for the individual consumer are concerned, we are the leader in several areas, and we are the bank of choice of large corporations. There are few if any companies not taking advantage of the services we of-

fer, such as innovative electronic banking products and the highest quality service."

At the time Citibank moved into Panama, its main mission was to help finance companies involved in the construction of the Panama Canal. Today it is busy helping construct the foundations of regional free trade.

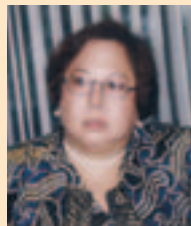
"Citibank has always played a very important role in such processes, like NAFTA, where we were one of the most supporting companies," Mr. Conto recalls. "We, Citibank, are convinced that we have to eliminate the trade restrictions that exist today. In a large market we are all winners."

But now the stakes and opportunities are even bigger as an entire hemisphere prepares to break down regional trade barriers.

"With the FTAA, businesses are going to grow, and they'll need financing. And that's something Citibank knows a lot about. Not only because we have offices in every one of those countries, but because we know how to work on an integral level; managing clients to eliminate internal disputes and treating our international business customers as corporate clients, not just as individual clients in different countries," Mr. Conto concludes.

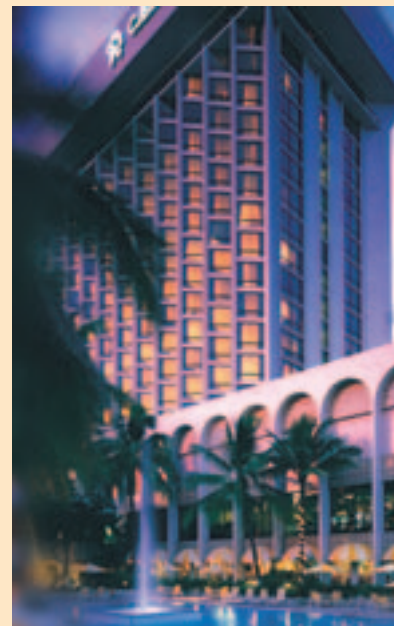


FRANCISCO CONTO
General Manager of Citibank, N.A. Panama



The Caesar Park Hotel has been one of the favorite places to stay in Panama City for 20 years. Indeed, when heads of state and royalty visit, they stay here, notes Mrs. Margarita Garcia, the hotel's general manager. "Caesar Park really started as the hotel to back up the Atlapa Convention Center," explains Mrs. Garcia, pointing out that some of the most important events to be held in the country have taken place here. Indeed, the hotel has been selected to host the Temporary Venue of the Free Trade Agreement of the Americas until 2003. "There has been a \$700,000 refurbishment of the hotel to meet the requirements of the talks," she says. Now Panama is bidding to host the Permanent Venue of the Free Trade Agreement of the Americas from 2005, a challenge Mrs. Garcia feels the country is more than able to meet. "First of all Panama is strategically located, with most of the world's major airlines serving the country. Furthermore, we are a stable, safe nation, with a stable economy to match. Panama really is the heart of Latin America." Investors looking to relocate in Panama will find a reflection of the drive for quality and modernization in the Caesar Park Hotel,

says Mrs. Garcia, pointing to the excellent service, well-trained staff, and up-to-date infrastructure. The hotel is conveniently located in the center of the city, close to the business district, the historic 16th Century ruins, as well as the colonial city later built by the Spaniards. Nature lovers will want to take advantage of the Canopy Tower National Park, Ancon Hill, and Los Pueblitos, and of course the spectacular birdlife in Pipeline Road in the Canal Zone.



"Caesar Park: an excellent host of the Temporary Venue of FTAA in Panama"

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THE PLACE TO DO BUSINESS



Panama's central location and easy access from Europe and the United States have made Panama the first choice for a growing number of US companies interested in benefitting from its active liberalization program that is opening up such key sectors as tourism, transport, and telecommunications.

Tourism

Panama's unique approach to developing its tourist potential is based on sustaining its unspoiled natural resources, a policy which has already attracted some of the world's leading players. Recent years have seen the sector top world averages for investment. Nevertheless, tourism in Panama will continue to offer potential for many years to come.

Telecommunications

With the completion of the MAYA 1, GLOBAL CROSSING, OXYGEN, AND ARCOS 1 ring systems, Panama enjoys access to multiple high-bandwidth continental fiber optic networks in telecommunications infrastructure. The country offers competitive advantages and reliability of service for providers of Internet services, e-commerce, broadband, and new media, as well as exchange traffic that few other offshore jurisdictions can compete with.

Infrastructure incentives

Panama's long history as an international banking and services jurisdiction has resulted in the availability of technical know-how in Internet and information technology, along with highly skilled human resources to install and maintain e-commerce operations.

As of 2003, the country's telecoms sector will be opened up to competition, offering opportunities in local and long distance telephone services, voice dedicated circuits, and public terminals.

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