

# PANAMA

## CONNECTING NORTH & SOUTH

It's full steam ahead in the canal country, with a billion-dollar canal expansion under way that is set to double current capacity, thus guaranteeing growth. New investments are flowing in, most noticeably in real estate, tourism, and finance.



# Unlocking potential

The much-lauded U.S. \$5.25 billion canal expansion will guarantee growth for the next seven to 10 years, but the trickledown effect is already being felt.



The Panama Canal — on the verge of modernization.

The region's third largest economy, Panama, is a country full of optimism. Built around its famed canal, and led by President Martín Torrijos, the Central American republic is becoming increasingly focused on exports and manufacturing, with construction, tourism, and financial services also gaining precedence. Over the last three years, exports have grown by 7%, surpassing U.S. \$1 billion in value, showing the country is embracing globalization and, as Minister of Commerce and Industry Alejandro Ferrer points out, that its canal is "no longer the only pillar of the economy."

That said, the canal is still of major importance, contributing 20% of the gross domestic product. Its modernization will see shipping capacity doubled within ten years. As Fernando Solórzano, administrator of the Panama Maritime Authority, an autonomous state agency that oversees the maritime industry, notes: "The sector is expected to generate U.S. \$250 million over the next seven years." Nicolás Ardito, former President of Panama and chairman of the Panam Development Corporation,



Héctor Alexander,  
Minister of  
Economy & Finance

also observes how "the different sectors of the Panamanian economy are starting to integrate into a single oiled machine, with growth that is secured by the canal expansion."

Foreign investment to fuel growth is the focus of Law 41, a special regime for establishing operative seats of multinational corporations in Panama. As the country's Securities and Exchange

commissioner, David Saied, explains: "This law creates special conditions for companies that want to have their regional or worldwide headquarters here; income generated outside of Panama is completely tax-free."

"Our offshore system was in the books early in the 20th century and is one of the bases of our strong economic growth."

Panama stands as a unique example of a country that does not have a Central Bank, having dollarized its economy more than a century ago. This has worked well for the country, according to the Minister of Economy and Finance, Héctor Alexander, who notes that it has helped Panama stay out of recession and economic turbulence. Indeed, this monetary system provides certain advantages to the Panamanian economy, such as avoiding foreign exchange risks for outside investors, lowering inflation below that of major countries, freeing the movement of capital, and providing certain limitations to the size of public sector deficits.



Fernando Solórzano,  
Administrator,  
Panama Maritime  
Authority



**Nicolás Ardito**  
Chairman, Panam  
Development  
Corporation

Proof of the functionality of the Panamanian monetary system is the Grupo Mundial, founded 40 years ago as an insurance company and today the largest insurance provider in Central America, with a 12% market share. Aside from its insurance division, the group includes a banking division, which has been represented in Panama by the Banvivienda bank for over 26 years. Banvivienda specializes in mortgages and boasts the

largest return on equity of all Panamanian banks. The group also deals in asset management, a concern worth some U.S. \$2.2 billion.

Group CEO Rodrigo Díaz is optimistic as to the performance of Panama's financial sector, which is drawing big players like HSBC and Citibank into the arena. "At Grupo Mundial we see a big opportunity for us in this situation," says Díaz. "We have become one of the biggest players in the market because we know the market, and we provide quality service."

Grupo Mundial has a growth rate around 1.3 to 1.4 times higher than that of the country's GDP, and projects a 14 to 15% growth for 2007. It is currently focused on becoming a one-stop financial solution for individual clients, and expanding throughout the Central American region.

### The place to retire

Panama's real estate sector is at a 20-year high, having recorded 14% growth in the last year. The sector is opening up to new segments with the construction of corporate towers, tourism development, affluent residential communities, shopping malls, and the reconstruction of blighted urban areas.

The Panamanian Association of Real Estate Brokers and Developers (ACOBIR), representing more than 100 associate sector companies, points to "retirement tourism" as a major engine for growth.



**Iván Carlucci,**  
President, ACOBIR

"Panama is a very popular place for foreign people to retire to —the baby boomer generation is just beginning to retire and is attracted to our competitive mortgages and legal security," says ACOBIR president Iván Carlucci.

One ACOBIR member company that has taken notice of the tourism surge is Grupo Corcione, a private construction group that provides an integrated service covering design, construction, delivery, and sales. Company president Nicolás Corcione says: "We are currently focusing on urban and city developments, but by 2008 we will be developing more beach and tourism projects as the sector grows and opens to the

**"We know the market and provide a quality service."**

European market."

Corcione is confident that the Panamanian market will withstand the current international real estate turbulences, relying on the market to make the necessary adjustments without major side effects. This view is shared by Alfredo Alemán, vice-president of Grupo Los Pueblos, Panama's largest real estate developer in square footage, which focuses mainly on unique tourism and commercial developments.

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"Tourism is the future," says Alemán. "We have a lot to offer, so it's time to attract more of it and catch up with our neighbors."

Grupo Los Pueblos is ready to take on developments in any segment. As Alemán says: "We jump at any opportunity, as long as it's of considerable size and unique. That's what makes the sector fun."

For tourists and second-residence owners, Panama is more than just an attractive location with beaches and year-round sunny weather. Retirement properties are cheaper than Florida, the climate is as good or better, and the cost of living is lower. Residential communities are being constructed to meet the demand of affluent retirees from all over the world.

But it's not just retirees who have taken notice of Panama. Tourists are also flocking to the country, spending U.S. \$841.4 million in 2006, a 20% increase over 2005. The number of tourists increased by 15% in the same timeframe. Air Panama has taken advantage of this growth, capturing almost 60% of the domestic market in less than four years of existence. While most of its clients are business travelers, the increase in leisure travel is significant, with the airline incorporating flights to San José in Costa Rica, to cater to tourist demand.

For Air Panama's general manager Eduardo Stagg: "Panama is being discovered as a dynamic transportation hub. It is the new Singapore or Hong Kong, a natural place for global transportation to grow and to flourish."

Tourism also drives Destiny Real Estate Sales & Marketing, devoted to the branding and marketing of real estate projects. For 10 years it has worked on residential tourism developments, including the prestigious Playa Blanca Beach Resort and the newly branded Nikki Beach. "Our slogan for Nikki Beach is 'The Sexiest Project in Panama.'"

It is a young, fun, sexy yet elegant experience, to be spread by word of mouth to maintain its exclusivity," explains company president Maru Galvez.

## Getting ship-shape

The Panama Canal is the source of the country's high-growth auxiliary maritime industry sector, and preparing the qualified professionals of the future is the mission of Captain Orlando Allard, dean of the International Maritime

University of Panama. The University was founded in December 2005 to meet the domestic demand for highly trained maritime engineers, and was an immediate success, as university enrolments skyrocketed.

"We know exactly what it is the industry needs and that is what we will provide," says Allard.

The expansion of the Panama Canal also represents an increase in business opportunities for companies such as Macosnar Corporation, a family-owned business that offers its services as part of the Auxiliary Maritime sector, with a wide range of technical marine surveys to the international shipping community. Captain Luis Velásquez, general manager of Macosnar, explains: "We are certified by the Panamanian government, guaranteed by the U.K. through the International Service Management Certification and internationally through the ISO 9000 certification."

## Meeting energy demands

With the economy growing at an unprecedented rate, energy demand is on the increase, and an interconnection of the power grids of Panama, Costa Rica, Honduras, Nicaragua, El Salvador, and Guatemala, is planned to meet future demand. "The creation of the Central American Electric Interconnection System (SIEPAC) is an important move to connect 37 million consumers," says Domingo Latorraca, president of the Chamber of Commerce, Industry and Agriculture.

The Panama government recently requested the emergency production of 100 MW, a bid that was won by Suez Energy International through its Panamanian subsidiary Bahía Las Minas (BLM). Representing 280 MW in a total market of 1000 MW, BLM is the base for the expansion in Panama and the rest of Central America. For now, Suez in Panama only produces thermal energy, but is looking to diversify its production portfolio to include coal, bunker, hydro, and wind.

"SIEPAC will play an important role. Part of our strategy is to use this transmission system to interconnect the various energy plants we have in the Central American region," says Suez



**Captain Orlando Allard, Dean, International Maritime University of Panama**



# The PIMM revolution

The Panama International Merchandise Mart is ready to take Latin American commerce to the next level.

With 566 million potential clients in Latin America, the Panama International Merchandise Mart (PIMM), brainchild of the company's president and CEO Reynald Henry Katz, has found in Panama the ideal location to establish the world's largest merchandise mart.

Merchandise marts are permanent wholesale centers with an established presence in the U.S. and Europe, but have been practically unheard of in Latin America until now. By offering a site for manufacturers to personally receive their wholesale clients, with limited access to the general public, the PIMM is set to revolutionize the region's commercial panorama, giving global access to Latin American markets for imports and exports alike.

The initial idea for the PIMM came to Katz while operating several businesses of his own in the Colon Free Zone, one of the most important free trade zones of the region associated with the Panama Canal. "I felt the need to show my products to the world and found out that showrooms in the area were not only a scarcity, but also very expensive. Looking deeper into the matter I discovered that about 2,500 companies were out there with a basic need of more showrooms. The Colon Free Zone is very popular, but unfortunately they do not have the space to extend their showroom facilities. For this reason there is a waiting list for companies to open showrooms in the region. Thus, the idea for the Panama International Merchandise Mart was born. The initial idea projected the construction of 200 showrooms, a number that was rapidly adjusted over time to 400, then 800—all of which sold out—right up to the current amount of 6,800 showrooms," explains Katz.

The PIMM project is in full development, ready to occupy a 1,300-acre terrain near the city of Colon, while a road that will put the international airport of Panama City only 20 minutes away in 2009 is also under way. Every detail of what will essentially become a small city of commerce is accounted for by Katz, who lives and breathes what he considers the upcoming economic revolution of Latin America. "The project's first phase will cost U.S. \$50 million, and the entire project will reach U.S. \$1 billion by 2012. We will be working with one national and two international construction firms to construct one building every 10 days, for a total of 34 buildings."

"There will be four development phases, one every six months. The first and second stages of the project, which will



## How the PIMM project will look.

be completed in 2009, will account for the first 800 showrooms, 150 offices, 120 apartments, a convention center, a 125-room hotel, an open-air exhibition center, initial infrastructure, and basic service implementation. The second phase will add 1,600 showrooms, 150 offices, 180 apartments, and a second hotel. The third phase is planned for 2010 and will add 3,200 showrooms, 100 offices, 160 apartments, and a third hotel of 125 rooms. The fourth and final phase of construction, to be completed in 2012, will bring an additional 1,200 showrooms, 100 offices, 160 apartments, and a five-star hotel.

"During this whole process, the basic service supply chain is implemented throughout the complex. These services include an electrical power plant, a cleaning system for the sewer, parking areas, maintenance buildings, and cooling systems for the air-conditioning," he says.

**"I want to attract investors from all regions of the world."**

The PIMM's current customer base reflects the strong interest of Asia in the markets of Latin America, with Asian companies accounting for three times more showroom purchases than their U.S. and E.U. counterparts. While this is hardly a surprise to Katz, he is committed to maintaining a healthy diversity of products and nationalities within the PIMM.

"Our current customer base shows that 60% of investors come from Asia, 20% are U.S. companies, and another 20% are coming from Europe," he says. "My vision of the project is to attract a diversity of investors coming from all regions of the world. However, with the enormous amount of applications that we get, there will come a time that we'll have to start being more selective, in order to have a healthy diversification of nationalities and products offered at the PIMM. We are

currently looking into the Middle East, Europe, the U.S., and Latin America itself to increase investment from those regions, because buying at the PIMM is cheap compared to other showroom facilities around the world. Here investors can buy a showroom for life at U.S. \$250,000, compared to other marts that offer showrooms at U.S. \$300,000 a year."

The diversity sought by Katz makes the PIMM open to big and small investors in sectors as varied as textiles and garments, food and groceries, health-care and pharmaceuticals, cosmetics and perfumes, household electric appliances, communications equipment, mechanical equipment, building materials and interior decoration, hardware and electrical products, and petrochemical products.

While Panama awaits the ratification of its free-trade agreement with the U.S., which would eliminate tariffs on 88% of American exports, right now it is U.S. buyers who are coming to Panama to purchase Asian goods. Katz says: "Americans are coming here to see and buy Asian goods and products instead of going all the way to Asia, so the PIMM offers Asian manufacturers access to the entirety of the Americas in a one-stop shop environment with fewer restrictions than there are now in the U.S. With an initial investment of U.S. \$125,000, they are in business. The PIMM administrators help with obtaining visas, and finding the right local employees to comply with labor laws here in Panama. The average sales per showroom



**Reynald Henry Katz — President and CEO, PIMM**

will be between U.S. \$2 and U.S. \$5 million per year, so investment is recouped rapidly."

According to Katz, a project of this scale will have a beneficial impact over the whole region. "For labor supply, I would like the majority of employees to come from the Colon area. First, because I feel as if I can give something back to society, and second, because Panama offers high quality labor. Most Panamanians are bilingual, speaking both English and

## Personal CV — Reynald Henry Katz, President and CEO, PIMM

Born in France in 1955, Reynald Henry Katz began his business career at a young age, when he helped to manufacture cosmetics at his father's plant during his summer holidays.

In college, Katz stood out as a student and as a businessman. At age 18, he became involved in the family business as the manager for the nail polish plant. Shortly thereafter, the entrepreneurial instinct began to emerge, and Katz decided it was time to build his own business. He flew to London to meet a chemist who had discovered a revolutionary anti-cracking nail polish formula. Katz and the chemist became partners in the new company.

The company was awarded the equivalent of a U.S. \$1 million grant and a manufacturing facility by the British government, and two years later Katz had an 80% share of the worldwide nail polish market. Eventually his main vendor bought the business for U.S. \$8 million, after which Katz spent a few years living life in the fast lane.

In time, he went back to business in cosmetics, becoming a pioneer in the field of cosmetic products in Europe and the Middle East, where he lived for six years. In 1986, he moved into the booming perfume sector in the U.S. to create his own line of budget price perfumes. His experience in the sector led to a request from the Chinese government to develop the perfumery areas for the new malls it was introducing.

Katz lived in China for six months, developing a cosmetics area template that was used to open more than 100 malls. He developed the link between the Chinese government and all the American cosmetics manufacturers, which included fairs and guest speaker invitations.

In 1998, he went back to Miami and developed the first Internet duty-free e-commerce business. Sadly, at the moment he was going to go public, in 2001, the business crashed, and the project was cancelled. Shortly thereafter, Katz decided to move to Panama, where he purchased a

**"I want to take this concept worldwide."**

liquor distribution company, which led to his search for a showroom at the Colon Free Zone. Discovering that there were no showrooms available for over 2,500 companies waiting in line, he began to investigate the information and confirmed that Panama needed thousands more showrooms.

It was then that the Panama International Merchandise Mart went from being a dream to becoming a reality. The sky is the limit for the man and his vision of commerce as a means to higher ends.



The PIMM provides a gateway to world markets.

Spanish, which is very important when you look at the diversity of cultures and nationalities the PIMM will be working with.

“On completion, PIMM will have created an estimated 34,000 jobs. For the relatively small city of Colon, this will be a significant stimulus to the society and will hopefully bring more prosperity and quality of living,” he says.

The PIMM concept goes far beyond a single geographic reference, however, as Katz outlines his vision of the PIMM

global brand. “The PIMM has created a new need and a new category in international commerce since its foundation, and is going to become a global brand. At the moment we

**“PIMM has created a new category of international commerce.”**

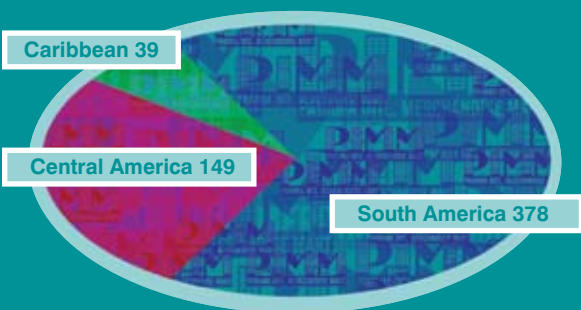
are working on a project in India. The Indian government has expressed an interest in establishing an International Merchandise Mart in Bombay worth U.S. \$500 million.

“We have arrived at a point where we don’t have to go looking for potential investors, banks, and countries anymore. They are now coming to see whether or not PIMM is interested in working with them. I am now welcoming and considering offers to invest in the company stock or to subscribe to a convertible-note private placement, and/or straight financing to raise equity via investment or debt,” he explains.

Sometime in 2008, Katz is hoping to launch an initial public offering on the U.S. or U.K. stock exchanges to raise the U.S. \$10 billion the company needs in order to finance its expansion into South Africa, India, Russia, and the U.S. So it’s full steam ahead for the PIMM revolution too. ■

## Graphs

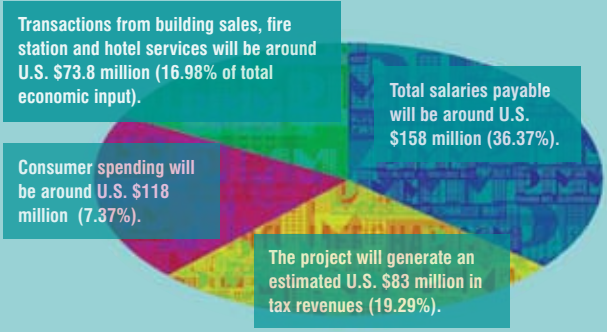
### The Latin American Market of 566 million consumers



Total 566 - Population in millions  
Source: Population Reference Bureau 2006

### Economic Activity

Estimates suggest the PIMM project, in all its phases, will generate a total of U.S. \$434 million for the Panama economy, in salaries, showroom sales and other buildings’ activities, tax revenues, and consumer spending.



### Social Activity

The PIMM project will be divided into four phases and estimates suggest it will employ around 31,195 people during this time. Of this number, 30,821 (98.80%) will be workers directly related to the project, through activities in the showrooms and office buildings.

The breakdown is as follows:

- The services department will need an estimated 30,645 workers, representing 98% of the workforce.
- The administration and finance department will need an estimated 139 people, which represents 0.45%.
- The marketing, sales, operations, and legal department will need around 37 people, which represents 0.12%.
- The remaining 374 people (1.20%) will be directly related to the construction of the project.

# PIMM

The shopping mall with 561 million customers



Imagine being able to reach a market of millions from just one location, in a place that has no visa restrictions, friendly customs laws, no quotas on textile trade, no taxes on profits and continued economic growth.

Panama International Merchandise Mart—PIMM—is offering foreign manufacturers, exporters, wholesalers, distributors, sales agents and business people from around the world the opportunity to rent or buy a permanent showroom in a unique wholesale environment. With 6,800 showrooms, ten office blocks and four hotels soon to be constructed in a prime spot close to the Panama Canal and the Colon Free Trade Zone, PIMM will be the largest merchandise mart in the world. The first phase is already sold out.

Don't miss this unique opportunity to reach Latin American buyers.



## PIMM WILL BE THE WHOLESALE SHOPPING CENTER OF THE WORLD

International companies will be received with a warm welcome. Showrooms start at only \$125,000 and your investment is 100% tax deductible.

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