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Globalization and the Economic Transformation of Panama

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Abstract

In 1990, the fall of the Berlin Wall, and the opening of the Communist Block, set off unprecedented growth in global trade. China, Vietnam, and the countries of eastern Europe became new markets and sources of production. Globalization of production and markets has become a reality. Prior to 1990 the Panama Canal was the primary route between the East and West coasts of the Americas. Globalization spurred trade between Asia and the Americas as well as new routes between Europe and the West coast of the Americas. Globalization and the expansion of the canal drove significant investment in Panama. By 2023, Panama's Gross Domestic Product (GDP) per capita exceed every country in Latin America (IMF 2025).

This growth was driven by investment and income generated by post 1990 globalization, and the transfer of the Panama Canal to Panama on January 1, 2000.

Keywords: globalization, supply chain, foreign direct investment, services.

Introduction

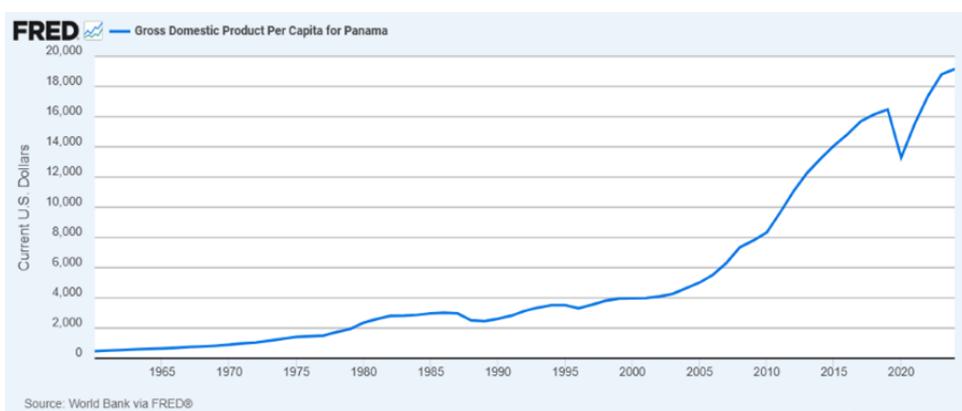
The World Bank listed Panama among developed economies (World Bank 2025a). Since 1990 poverty in Panama has decreased from 48.2% to 12.9% in 2023 (World Bank 2024). Measured in US dollars per hour worked Panama's productivity in 2024 averaged US\$45 per hour worked and Panama was the leader in South America (ECLAC 2025). Panama's productivity leaped 151% between 2005 and 2024 (Cantu 2024).

Appealing tax incentives, special economic zones, and infrastructure projects meant to improve trade flows attracted significant foreign investment.

In addition, the Panamanian government made significant investments in the canal, roads, new airport, bridges, railroads, and the metro system (World Bank 2025b)

Gross Domestic Product per Capita for Panama

The Panamanian economy has benefitted from globalization, the transfer of the Panama Canal to Panama on January 1, 2000. The GDP per capita of Panama grew steadily after 1990 until the 2020 covid outbreak but recovered in 2022. The GDP per capita reached levels higher than before the covid pandemic.



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Drivers of Growth

Panama's strategic location, transitioning from an agriculture-based economy to a dominant service-oriented hub sparked the economic transition. Services included logistics, real estate, finance, hospitality, and medical tourism.

The Panama Canal: expansion boosted shipping capacity, trade, logistics, and related services. Services account for 80% of GDP, encompassing financial intermediation, insurance, communication, and business services (IMF 2025).

Panamanian economic policies accelerated financial services, tourism, and construction growth.

Political and economic stability, as well as, a dollar-based economy, nurtured Panama's transformation.

While covid had a severe impact on the economy, GDP is now well above pre-Covid levels.

The construction of the Panamax Locks and Tocumen Airport drove infrastructure investment (IMF 2023).

Panama was the primary destination of FDI in Central America, estimated at USD 63.67 billion, and 76.4% of the country's GDP (Lloyds 2025).

The Canal contributed 23 % of the government's income and 7 % of GDP (IDB invest 2024).

The United States, China, Japan, and South Korea were the top for users of the Canal (World Bank 2021).

Unsolved Issues

Central America's largest copper mine, closed in 2023 after the government's contract with the mine's Canadian operator was invalidated. Panama's economy and exports will be stressed until the mine reopens. As a result of climate change the Canal must expand the reservoirs to have sufficient water for ships to transit in dry weather.

Current operator of the Panama ports, Hong Kong based CK Hutchinson sought to sell its operations in Panama to BlackRock. The Chinese government threatened to block the sale unless the Chinese government owned port operator, Cosco was included in any ownership transfer. As a foreign controlled company Cosco was excluded from the sale. Since 40 % of all U.S. container traffic used the Canal, the US opposed Cosco involvement in managing and owning the Panama ports. Until resolution CK Hutchinson continued to own and operate the Panama ports (Paris 2025).

Related to the ownership issue, Maersk purchased the Panama Canal Railway Company which controlled the rail link between the Atlantic and Pacific ports. Maersk planned to expand the rail link and logistic operations at both ends of the canal (Paris 2025) (Berger 2025).

As Panama grows and expanded it needed to expand its workforce. This expansion required an increased participation of women. At present women were 53% of the of the Panamanian labor force. An increased participation to 75% would provide a boost in GDP (IMF 2023).

The 2025 tariff disruptions which were expected to severely impact global trade have had little to no impact on the Canal traffic Asian, Latin American, and European exporters have found alternative markets,

The Future

With a stable political and economic situation Panama's economy was expected to maintain an upward trajectory. The growth of medical tourism, the financial sector, real

estate, and logistics were expected to provide a diversified economy.

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