EN (/en/pubblicazione/panamas-maritime-business-and-evolving-strategic-landscape-32047)

IT (/it/pubblicazione/panamas-maritime-business-and-evolving-strategic-landscape-32047)

Commentary

Panama's Maritime Business and the Evolving Strategic Landscape

R. Evan Ellis (/it/bio/r-evan-ellis) | Eddie Tapiero (/it/bio/eddie-tapiero)

27 ottobre 2021

Panama's maritime business is being transformed by the **complex interaction between multiple factors**. These include the **growing economic and political power of China and US-China competition**, the long-term structural impacts of **Covid-19** on both the region and global trade, US policies to contain immigration from the Northern Triangle, climate change, the rise of leftist populism in the region, the **China-Taiwan competition**, technology trends, evolution of regional infrastructure, and the restructuring of the maritime shipping industry itself. Demand for the Canal and associated ports will likely remain strong, but the composition of that traffic, the routes, the operators, and the role of complementary and competing facilities elsewhere in the region will likely transform dramatically in the coming generation.

Panama: the new battlefield between the US and China?

The US-China competition, short of a possible, but unlikely major war between the two countries, will not directly decrease transpacific maritime commerce and the use of the canal, but will impact it in a variety of indirect ways.

Most significantly, **the movement to nearshoring** will likely strengthen, driven by the possibility of sanctions, tariffs and other interruptions arising from the U.S.-China dispute and the increased need for creating **new sourcing options for US companies**, although for some countries such as Brazil and Argentina, trade disputes may increase their business with China at the expense of the US and Europe. Prior to the **January 2020 "phase 1" agreement (https://www.piie.com/research/piie-charts/us-china-phase-one-tracker-chinas-purchases-us-goods)** temporarily resolving the trade dispute between the PRC and the US, China's substitution of soy purchases from the US with soy purchases from Brazil hurt the Panama Canal business, since much of the China-bound US soy had come down the Mississippi river to the Gulf of Mexico, then through the Panama Canal to China across the Pacific. The Panama Canal estimated this loss at around US$30 million (https://www.panamaamerica.com.pa/economia/guerra-comercial-provoco-que-el-canal-de-panama-dejara-de-percibir-30-millones-mas-lo). The **Brazilian soy**, by contrast, generally traveled in an easterly direction, around the horn of Africa to China. **US LNG shipments**, by contrast, increasingly important to the PRC (and Japan), were relatively unaffected by the dispute as their volume through the Canal continued to increase through the pandemic (https://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/071321-panama-canal-lng-transits-jump-12-through-three-quarters-of-current-fiscal-year), although a strategic decision by the PRC in the future to source more LNG from countries such as Qatar, instead of the US and Trinidad and Tobago, could hurt this increasingly important source of canal business. However, **the US will remain an important source of the gas**.

Although the current container shipping crisis along with the **instability of the global value chains** will eventually be resolved, compliments incidents such as the blockage of the Suez Canal, and the closure of the PRC early in the Covid-19 pandemic, will continue to elevate **consciousness of risks to transport between the region and Asia** and about the problems of having localized value chains as companies make supply chain decisions **moving from a "Just in Time" inventory strategy to a "Just in Case" one**. The **consolidation of the global shipping industry into three major alliances**: 2M (MSC, Maersk and HMM), Ocean Alliance (CMA-CGM, COSCO, OOCL, and Evergreen), and THE Alliance (Hapag-Lloyd, NYK, Yang Ming, MOL and K-Line) will likely facilitate decisions that maintain freight rates and profits high. The entry into service of a new wave of large container ships, ordered in 2020 and to be delivered in 2023, may bring some relief once ports invest and learn to load and offload them effectively, although the impacts will principally be felt in import-export terminals rather than transshipment hubs like Panama.

Nearshoring: a viable option?

While important, the **move to nearshoring will be only partial**, due to established existing supply relationships, cost incentives that continue to favor Asian suppliers and the use of **established large hub port infrastructure** over the long term. Indeed, during the pandemic, the principal shift was not a significant increase in sourcing in Asia to sourcing from Latin America, but rather, **some expansion of warehousing and some light manufacturing** in places like Panama to manage risks of supply chain disruptions. While warehousing, the possibility of adding value to products in free trade zones, and ultimately substituting regional for Chinese suppliers could ultimately reduce some imports from Asia, **yet Panama's high labor and electricity costs, and its distance from major markets like the US or Brazil, arguably limit the long-term potential for such dynamics**. Other relevant factors include talk in the US and EU of a coordinated **"global minimum tax,"** which could undermine the economic benefits of using free trade zones or special processing zones such as the ones in Panama. In addition, the growing presence of Chinese companies in Latin America will fuel the impetus to source their products from Chinese, rather than local suppliers generating, possibly, additional frictions.

In addition, **imports from China are only half of the equation for trans-pacific trade**. China and others are likely to continue to demand significant amounts of commodities and agricultural products from Latin America, for which the Panama Canal, and other routes, will continue to play a key role. Panama's maritime and air connectivity will continue benefit global trade and exports from the region.

Beyond such dynamics, **the nature of a partial move to nearshoring on Panama and its ports is unclear**. While it could slow growth in the demand for ever larger container ships for transpacific routes such as the Maersk EEE class, it could expand the demand for **smaller container ships**, only some of which would use the canal. These will be more regional or feeder vessels that will serve regional markets. Some of the interregional business could go through Panama's hub port Colon, but for smaller ships and certain industries, local regional ports such as Limon (a new Maersk hub for agricultural cargo), La Union (if developed by the Chinese as currently proposed). **Land routes may also become more competitive** for certain cargoes, particularly if associated infrastructure improvements are made, whether funded by China, or by the US and Western institutions such as the Interamerican Development bank (https://www.iadb.org/en/about-us/overview) or the BCIE, as part of efforts to support development in the region. These could include the **widening of the Inter American highway**, improving connections of producing regions to major ports and a possible railway connection from Mexico to Panama through the new Mayan railway (https://www.railway-technology.com/projects/tren-maya-railway-project/). Last September, Canadian Pacific Railway Ltd, acquired Kansas City Southern, connecting Canada, the US and Mexico (https://qz.com/2060274/a-railway-connecting-us-mexico-and-canada-could-transform-trade/) (Kansas City operates the rail concession in Panama connecting the ports in Panama City to the city of Colón).

Perspectives for the region around the Canal

In the medium term, the **growth of interregional trade**, and any substitution for transpacific trade, will be impacted by the lingering structural effects of Covid-19, in combination with the political shifts playing out in the region. The pandemic has temporarily displaced a portion of the region's commerce-generating middle class and small businesses and the rise in freight rates is decreasing local purchasing power of consumers. Moreover, **governments have been left with expanded debt and fiscal constraints** that may make spending on economic stimulus and major infrastructure projects difficult. Furthermore, the **spread of populist governments**, including Venezuela, Nicaragua, Cuba, Bolivia (with the return of the MAS), Argentina (November 2021 midterm elections notwithstanding), and Peru, could mire the already suffering region in years of protests and class warfare, appropriation of property and capital flight, that derail the development of markets and infrastructures that support greater interregional trade. Chile's current Constituent Assembly Process, the prospect of a LIBRE party victory in Honduras' November 2021 elections, the election of Gustavo Petro or other leftist president in Colombia in May 2022, and the return of Lula and the Workers Party in Brazil in October 2022 suggests that a **new interregional trade** that displaces transpacific patterns may be some time in coming.

On the other hand, that populist wave may support patterns of export and infrastructure that reinforce China-Latin American ties. With the withering of the democratic opposition in Venezuela, **China National Petroleum Company is already ramping up its China-oriented petroleum production** with the de facto Maduro regime. Populist governments will likely mean more loan-based infrastructure projects that strengthen the region's ties to the PRC, such as the port of La Unión in El Salvador, the Chancay minerals port in Peru, the modernization of the Belgrano-Cargas rail system in Argentina, or the expansion of port, rail and road infrastructure in Brazil for the export of that nation's soy and iron to the PRC, or even the resurrection of interoceanic "dry canals" across Mexico (Veracruz to Port Salinas Cruz), or Colombia**.** **The continuation of the PRC-Taiwan "diplomatic war" may lead to recognition of the PRC by Honduras, Nicaragua, Guatemala and Belize**, among others, in the not distant future. That, in turn, could lead to further **China-oriented infrastructure and trade relationships**, including a possible upgrade of the Honduras dry canal from the Gulf of Fonseca to Ceibo. Yet transformational projects such as a Nicaragua canal will likely continue not to be viable in the short term. Moreover, while high Panama labor costs could shift some port business from Panama to other terminals in the region, ongoing infrastructure projects at those ports, or connecting them to the region, will not overcome the economic logic of the Canal or the business relationships that position Panama as a transhipment hub. In the last year, many shipping companies have restructured their networks to **take advantage of Panama's connectivity**.

Ironically, some of the biggest impacts on regional patterns of trade may come from beyond it. With sustained high freight rates, for example, new routes enabled by **Chinese "Belt and Road" investments** and promotions, such as the China-Germany-US East Coast shipping (and supporting train) route opened up by OOCL could make that connection between China and the US East Coast, which does not use the Canal, as economically viable as the current trans-Pacific transit which does. Moreover, faster global warming cycles and bigger investment by Russia, China and European countries in the **Arctic region could increase the usage of the Arctic route**, which, in the future, could expand to connect Asia and Europe to the East Coast of the US with larger ships. Similarly**, adoption by the EU of a new "carbon tax" and its broader implementation by the Biden administration in the US** or others, could fundamentally impact the economic logic of sourcing, benefitting new actors from areas like Africa and perhaps Latin America, thus changing global logistics patterns involving Panama.

A final question is who will benefit from and control the evolving Western Hemisphere maritime infrastructure. For the moment, **a rough equilibrium seems to be holding** between the major shipping alliances, and the relationships between shipping alliances and port operators. There are some interesting shifts between shippers, shipping lines and owners, as illustrated by Home Depot and WalMart (owner) chartering (https://www.axios.com/shipping-retailer-ships-supply-chain-overseas-93a09101-38f4-4972-84f9-b287fd27e182.html) their own ships, as well as Amazon expanding from the warehousing to shipping business. Within Panama itself, the renewal of Hutchison's concession for the port of Balboa, Panama revocation of the operating license for China Landbridge's Panama Colon Container Port (PCCP), and the continuing improving viability of MIT and Evergreen, suggest relative stability there, although a change in any of the other dynamics mentioned in this paper could have cascading impacts on those relationships.

Contenuti correlati:

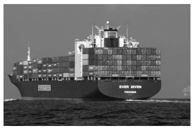
Maritime Trade: After Covid, a New Geopolitics? (/it/pubblicazione/maritime-trade-after-covid-new-geopolitics-32040)

TI POTREBBERO INTERESSARE ANCHE:

(/it/pubblicazior
trade-after-
covid-new-
geopolitics-
32040)

Maritime Trade: After Covid, a New Geopolitics? (/it/pubblicazione/maritime-trade-after-covid-new-geopolitics-32040)

Davide Tentori (/it/bio/davide-tentori) ISPI Research Fellow , Alessandro Gili (/it/bio/alessandro-gili) ISPI Associate Research Fellow



(/it/pubblicazior
ships-and-
mess-theyve-
made-32056)

Giant Ships and the Mess They've Made (/it/pubblicazione/giant-ships-and-mess-theyve-made-32056)

Marc Levinson (/it/bio/marc-levinson) Economist and Historian

(/it/pubblicazior
does-future-
shipping-look-
after-covid-19-
32123)

What Does the Future of Shipping Look Like After Covid-19? (/it/pubblicazione/what-does-future-shipping-look-after-covid-19-32123)

Oliviero Baccelli (/it/bio/oliviero-baccelli) Bocconi University

(/it/pubblicazior
canal-
perspectives-
after-ever-
given-accident-
32127)

The Suez Canal: Perspectives After the Ever Given Accident (/it/pubblicazione/suez-canal-perspectives-after-ever-given-accident-32127)

Angela Stefania Bergantino (/it/bio/angela-stefania-bergantino) University of Bari

(/it/pubblicazior
arctic-route-
maritime-trade-
geopolitical-
revolution-
32054)

The Future of the Arctic Route for Maritime Trade: A Geopolitical Revolution? (/it/pubblicazione/future-arctic-route-maritime-trade-geopolitical-revolution-32054)

Frédéric Lasserre (/it/bio/frederic-lasserre) Quebec Council for Geopolitical Studies - Laval University

Has International Maritime Trade Bounced Back? (/it/pubblicazione/has-international-maritime-trade-bounced-back-32125)

Davide Tentori (/it/bio/davide-tentori) ISPI , Alessandro Gili (/it/bio/alessandro-gili) ISPI

(/it/pubblicazior
international-
maritime-trade-
bounced-back-
32125)

TAGS

geoeconomy (/it/tag/geoeconomy) Panama (/it/tag/panama) Latin America (/it/tag/latin-america)

(https://www.ispionline.it/it/print/pubblicazione/panamas-maritime-business-and-evolving-strategic-landscape-32047)

AUTHORS

(/it/bio/r-evan-ellis)

R. Evan Ellis (/it/bio/r-evan-ellis)

US ARMY WAR COLLEGE

(/it/bio/eddie-tapiero)

Eddie Tapiero (/it/bio/eddie-tapiero)

BUSINESS LOGISTICS COUNCIL OF PANAMA (COEL)

Image credits (CC BY 3.0 (https://creativecommons.org/licenses/by/3.0/deed.en)): XEON (https://commons.wikimedia.org/wiki/File:Mule_-Train_-_Tourist_And_Panama_Flag_In_Gatun_Lock_Of_Panama_Canal_-_panoramio.jpg)

SEGUICI E RICEVI LE NOSTRE NEWS

ISCRIVITI ALLA NEWSLETTER (HTTPS://FORMS.ZOHOPUBLIC.EU/ISPI/FORM/NEWSLETTERHOMEINGPOP/FORMPERMA/6UX_B7UWYV4EX

SCOPRI ISPI SU TELEGRAM (HTTPS://T.ME/ISPIONLINE)

(https://www.ispionline.it/it/pubblicazione/il-mondo-tasca-...

(https://www.youtube.com/channel/UCqn5_o2qcIvKgtAexVqgGTw/?

(...company/ispi/)

ISPI (Istituto per gli Studi di Politica Internazionale) - Palazzo Clerici (Via Clerici 5 - 20121 Milano) - P.IVA IT02141980157