ARTICLE

BUILDING UNDER POLITICAL SHIFTS :

The Impact of Panama's 2019 Government Transition on China-Led Infrastructure Projects

Sebastian Naranjo Rodríguez [1]

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Abstract

This paper investigates the impact of Panama's 2019 government transition on China-led infrastructure projects, focusing on the evolving political dynamics and their direct influence on public tenders and project execution. Using the Foreign Policy Analysis (FPA), it builds a theoretical framework that traces the entry of China-based enterprises into Panama's construction sector and examines their involvement in four significant infrastructure projects: the Amador Convention Center, Amador Cruise Terminal, Fourth Bridge over the Panama Canal, and the Panama-Chiriqui Train. Through these case studies, the paper highlights how shifting political leadership affected timelines, project designs, and funding mechanisms, delaying the delivery of intended benefits to local communities. This analysis shows that these delays were driven more by shifting domestic political priorities and external geopolitical influences, than by any predatory practices from China-based companies. Lastly, strategic recommendations are provided to navigate future political transitions and ensure the continuity of infrastructure development.

Keywords

Infrastructure projects; diplomatic relations; foreign policy analysis; case study.

1 Renmin University of China; Beijing, China. https://orcid.org/0009-0006-5351-7267; sebastian@naranjo.com

A R T I C L E

CONSTRUÇÃO SOB MUDANÇAS POLÍTICAS: O IMPACTO DA TRANSIÇÃO GOVERNAMENTAL DO PANAMÁ EM 2019 NOS PROJETOS DE INFRAESTRUTURA LIDERADOS PELA CHINA

Resumo

Este artigo investiga o impacto da transição governamental do Panamá em 2019 nos projetos de infraestrutura liderados pela China, com foco nas dinâmicas políticas em evolução e sua influência direta nas licitações públicas e na execução dos projetos. Usando a Análise de Política Externa (FPA), constrói-se um quadro teórico que rastreia a entrada de empresas chinesas no setor de construção do Panamá e examina sua participação em quatro projetos significativos de infraestrutura: o Centro de Convenções Amador, o Terminal de Cruzeiros Amador, a Quarta Ponte sobre o Canal do Panamá e o Trem Panamá-Chiriquí. Através desses estudos de caso, o artigo destaca como a mudança de liderança política afetou os cronogramas, os projetos e os mecanismos de financiamento, retardando a entrega dos benefícios planejados para as comunidades locais. A análise mostra que esses atrasos foram mais impulsionados por prioridades políticas internas em mudança e influências geopolíticas externas do que por práticas predatórias das empresas chinesas. Por fim, são fornecidas recomendações estratégicas para lidar com futuras transições políticas e garantir a continuidade no desenvolvimento da infraestrutura.

Palavras-chave:

Projetos de infraestrutura; relações diplomáticas; análise de política externa; estudo de caso.

CONSTRUCCIÓN BAJO CAMBIOS POLÍTICOS: EL IMPACTO DE LA TRANSICIÓN GUBERNAMENTAL DE PANAMÁ EN 2019 SOBRE LOS PROYECTOS DE INFRAESTRUCTURA LIDERADOS POR CHINA

Resumen

Este artículo analiza el impacto de la transición gubernamental de Panamá en 2019 sobre los proyectos de infraestructura liderados por China, centrándose en las dinámicas políticas cambiantes y su influencia directa en las licitaciones públicas y la ejecución de los proyectos. Utilizando el marco del Análisis de Política Exterior (FPA), se construye un enfoque teórico que rastrea la entrada de empresas chinas en el sector de la construcción en Panamá y examina su participación en cuatro proyectos clave: el Centro de Convenciones Amador, la Terminal de Cruceros Amador, el Cuarto Puente sobre el Canal de Panamá y el Tren Panamá-Chiriquí. A través de estos casos, se destaca cómo los cambios en el liderazgo político afectaron los cronogramas, diseños y mecanismos de financiamiento, retrasando la entrega de beneficios previstos para las comunidades locales. El análisis revela que estos retrasos se debieron más a prioridades políticas internas cambiantes e influencias geopolíticas externas que a prácticas depredadoras de las empresas chinas. Finalmente, se ofrecen recomendaciones estratégicas para afrontar futuras transiciones políticas y garantizar la continuidad en el desarrollo de infraestructura.

Palabras clave

Proyectos de infraestructura; relaciones diplomáticas; análisis de política exterior; estudio de caso.

INTRODUCTION

In the twenty-first century, China's role in infrastructure projects evolved from a labor provider to one engaged in design, construction, and financing. At the same time, Panama introduced favorable regulations to attract Multinational Corporations (MNCs) to establish this regional headquarters in its territory, capitalizing on its strategic location and connectivity. This synergy enabled China-based construction firms to expand internationally while Panama welcomed their involvement, developing a complementary framework governing infrastructure company and their projects. Following the establishment of diplomatic relations in June 2017, Chinese infrastructure companies significantly increased their participation in Panama's public tenders. Nonetheless, the 2019 governmental transition impacted these projects due to a shift towards a more cautious approach regarding China-based companies (Chacón, 2019). This paper argues that these political shifts, rather than any inherent dominance or predatory practices by China-based companies, were the primary factors impacting the infrastructure project's progress in Panama, delaying the delivery of intended benefits to local communities. Furthermore, it also offers strategic recommendations for stakeholders to navigate the challenges posed by these shifts.

Previous studies have characterized China-based companies as predatory and dominant, particularly in Central American countries, with a focus on resource extraction and projects tied to Chinese loans with strict conditions (Ellis R. E., The Future of Latin America and the Caribbean in the Context of the Rise of China, 2018, pág. 33; Ellis R. E., China Engages Latin America Distorting Development and Democracy?, 2022; Wong, 2018; Melendez, 2024; Kotschwar, 2014). These studies emphasize the social and environmental risks posed by such projects and the need for policies to manage these impacts effectively (Gransow, 2015), particularly projects financed through loans provided by China policy banks (Mendez & Alden, 2021). While these critiques are valid in certain contexts, this paper contests the blanket application of this rhetoric in Panama's case; instead, it formulates a complementary framework through Foreign Policy Analysis (FPA), proposing that China-based companies "go-out" to engage in Latin American infrastructure development, while also encouraging them to "come in" to Panama to establish regional headquarters and invest under Panama's favorable regulatory environment.

This framework is developed by using China's two policy papers on Latin America and the Caribbean (LAC), the "go-out" strategy and the Belt and Road Initiative (BRI), Panama's foreign policies under the administrations of Juan Carlos Varela (2014-2019) and Laurentino Cortizo (2019-2024), and its regulatory framework to attract foreign investment and national fiscal responsibility laws. Within this framework, the papers use a case study methodology, focusing on four major infrastructure projects in Panama with variations in their levels of participation by China-based firms—the Amador Convention Center (takeover by a China-based infrastructure firm), the Amador Cruise Terminal (joint venture between a China-based and foreign firm), the Fourth Bridge over the Panama Canal (constructed fully by a China-based consortium), and the

Panama-Chiriqui Railway (suspended)—to argue that it is not the “predatory” behavior of China-based companies that affects the progress of projects and the benefit to local communities, but rather the change in government attitude towards China adopted by the Cortizo government in 2019, demonstrated by ministerial pronouncements, which resulted in delays and cost overruns.

The research aligns with the mutual economic interests that exist between China and LAC nations within each other's markets, where both parties are driven by substantial motivations to strengthen bilateral relations (Yi, 2018; Hongying, 2015). Panama’s well-established institutions and regulatory frameworks limit the extent to which any single foreign actor, including Chinese firms, can dominate (Bersch & Koivumaeki , 2019). Under the administration of Varela, Panama strategically pursued its domestic and international goals by establishing diplomatic ties with China in June 2017, leveraging this relationship to attract multinational corporations and facilitate Chinese involvement in public infrastructure projects (Chen & Qiang, 2023). However, the subsequent administration under Cortizo adopted a more cautious stance, aligning with the United States' narrative of China as a "predatory" actor. This shift in policy led to delays in infrastructure projects involving China-based companies, significantly increasing costs, and postponing the delivery of expected benefits to local communities (Chen & Qiang, 2023, p. 15; Gransow, 2015). Moreover, these projects—primarily financed by the Panamanian government with multilateral support—demonstrate that domestic political dynamics play a more pivotal role in project outcomes than external financing conditions imposed by Chinese entities (Mendez & Alden, 2021).

This study begins by employing FPA to develop a governance framework that facilitates the participation of China-based infrastructure firms in Panama’s infrastructure development. The subsequent section offers a chronological case study of four key infrastructure projects, examining how governmental policies and pronouncements affected project timelines, budget overruns, and overall progress. The final section provides strategic recommendations for stakeholders, emphasizing the need for agility in navigating shifts in governmental approaches to ensure the successful execution of infrastructure projects amid evolving political landscapes.

THEORETICAL FRAMEWORK

This paper employs FPA to develop a theoretical framework tracing the establishment of China-based infrastructure companies in Panama and their subsequent participation in public tenders. FPA, as a subfield of international relations, analyzes how individual, state, and structural dynamics interact to shape state behavior and decision-making processes (Smith, Dunne, Hadfield, & Kitchen, 2024). It emphasizes the agency of state leaders and decision-makers within the structural constraints of the international system, making it particularly useful for examining both Panama's and China’s strategic calculations.

By using FPA, this paper highlights how both, Panama and China, developed distinct foreign policies towards each other based on their own domestic priorities and global ambitions. China, with its "Go-Out" strategy and BRI, sees Panama as a gateway to broader influence in LAC, following Panama's endorsement of the "One-China" Policy. Simultaneously, Panama's strategy to attract foreign corporations through its Headquarters of Multinational Companies (SEM) regime of 2007, the Public-Private Partnerships (APP) framework of 2019, and the Special Regime for Multinational Companies providing Manufacturing-Related Services (EMMA) of 2020 are aimed at maximizing foreign investment and infrastructure development opportunities, especially as a service economy with global logistical significance.

CHINA'S POLICY TOWARDS PANAMA

China's engagement with Panama must be understood within the broader scope of its internationalization strategy, which includes both diplomatic and economic elements, as seen in the 2008 and 2016 Policy Papers on Latin America and the Caribbean. China's primary goal is to isolate Taiwan diplomatically while securing strategic advantages in Central America. Despite the region's lack of critical raw materials, which China typically seeks in its other engagements in Latin America, the Panama Canal offers a unique geopolitical and commercial foothold, making Panama a critical partner within the BRI (Portada III, Lem, & Paudel, 2020).

Additionally, the FPA framework is useful for understanding how China uses its diplomatic relationships as an extension of its economic policy. For instance, Chinese construction firms have been strategically positioned to benefit from Panama's infrastructure gaps, focusing on projects that align with both Panama's national development goals and China's global trade expansion. The development of state-level relations between China and Panama under the "1+3+6" and "3x3" frameworks, as articulated in the 2016 Policy Paper, reflects a bilateral approach designed to maximize economic opportunities in both nations while reinforcing China's regional presence.

POLICY PAPERS ON LATIN AMERICA AND THE CARIBBEAN

China's involvement in Central America represents a well-considered strategy predominantly executed through bilateral relations and aligned with the principles of the "South-South" cooperation framework. As highlighted in the 2016 Policy White Paper regarding Latin America and the Caribbean:

> China is ready to deepen South-South cooperation with Latin American and Caribbean countries, consolidate multilateral trading systems, promote global governance reform, and build an open world economic system (The State Council of the People's Republic of China, 2016).

One significant factor contributing to this situation is that several states within the region have yet to endorse the "One-China" policy, thereby lacking the requisite of diplomatic channels to facilitate the establishment of collaborative projects. Additionally, it is worth noting that, akin to the neighboring Caribbean region, the enhancement of bilateral relations tends to yield more fruitful outcomes than the pursuit of multilateral relations through alternative regional integration frameworks, such as the Central American Integration System (SICA) (Jules, Arnold, & Smith, 2023). Furthermore, it is crucial to acknowledge that Central America presents a diverse landscape characterized by varying degrees of economic development; therefore, China has devised a customized strategy for each individual state, as reflected in the profiles presented by the Ministry of Foreign Affairs of the People's Republic of China (中华人民共和国外交部, 2024).

In line with the 2016 policy paper, part III delves deeper by establishing a connection between the development of state-level relations based on the "1+3+6" framework, which aims to bolster mutually advantageous collaboration between China and Latin America as well as the Caribbean region. The "1" signifies the overarching plan (the 2015–2019 China-LAC cooperation plan); while the "3" represents the trio of trade, investment, and financial cooperation engines; lastly, the "6" pertains to the six key sectors of energy and resources, infrastructure development, agriculture, manufacturing, scientific and technological advancements, and information technology.

Authors suggest that the increase in foreign investment directed towards Latin America by construction companies based in China can be understood through the demand-supply theory (Jiang, 2016, p. 516). This theory posits that China seeks external sources of raw materials, while Latin American nations possess abundant natural resources to meet this demand. This dynamic is particularly evident in South America, where the commodities market has fostered the establishment of China-based extractive enterprises, such as those in the energy and mining sectors, during the economic boom from 2000 to 2010, especially in countries like Venezuela, Brazil, and Peru. However, Central America's service-oriented economies and the lack of diplomatic relations until 2007, initiated by Costa Rica, and subsequently in 2017 by Panama, resulted in the "Go-Out" strategy manifesting in firms engaging in hard infrastructure projects in the region, notably in bridges, stadiums, ports, railways, and convention centers. Through the lens of supply and demand theory, it becomes evident that China's aspiration for a maritime network to facilitate the efficient and secure export of goods aligns with Central America's pressing infrastructure needs, coupled with its capacity to issue debt in developing nations.

FPA provides insight into how China's external economic policies are deeply intertwined with its diplomatic objectives, particularly in regions like Central America, where the lack of raw materials means that the focus is on securing strategic infrastructure. Consequently, for Central American nations, the BRI represents a logical progression of the underlying motivations that informed the "Go-Out" strategy, particularly regarding the Maritime Silk Road (MSR), as all countries in this subregion are integral to significant maritime trade routes. The Panama Canal stands out as a critical artery for global commerce.

ARTICLE

THE BELT AND ROAD INITIATIVE

Emerging from the concept of a comprehensive global infrastructure development strategy, both at a political and commercial level, Panama and China signed an MoU on Cooperation within the Framework of the Silk Road Economic Belt and the twenty-first Century Maritime Silk Road Initiative on November 17, 2017 (Ministerio de Relaciones Exteriores de Panamá, 2017). This agreement positioned Panama as the inaugural nation within the region to endorse the development of this initiative, thereby highlighting its leading role in the BRI (Mendez & Alden, 2021). The maritime component of the BRI extends further than its terrestrial counterpart, impacting regions beyond China's immediate Eurasian vicinity.

Academic discourse posits that this initiative poses a direct challenge to US influence, particularly within the Western Hemisphere (Mendez & Alden, 2019). However, in the case of Panama, there have only been two projects within this framework. The initial undertaking was the feasibility study of the Panama-Chiriqui Railway, conducted by China-Railway Design (Ministerio de Relaciones Exteriores, 2019). In conjunction with this feasibility study, the Chinese Government incorporated the assignment of the public tender project, New Mata de Nance – Frontera Lt 230kv Transmission Line, to China CAMC Engineering for US$34 million, as part of the BRI (Belt and Road Initiative Portal, 2023). The MoU, initially signed in July 2021, was automatically prolonged until 2024, according to paragraph IV (Government of the Republic of Panama and Government of the People's Republic of China, 2017).

PANAMA'S FOREIGN POLICY TOWARDS CHINA

Panama's foreign policy choices, especially under Presidents Varela and Cortizo, have oscillated between leveraging the economic benefits of closer ties with China and maintaining strong relations with the United States. This divergence in policy strategies can be analyzed through FPA's lens, particularly by exploring the role of individual leaders in shaping state behavior. Varela's administration took a proactive approach to engage with China, prioritizing infrastructure development, while Cortizo's administration recalibrated the balance by strengthening ties with the United States, even at the cost of scaling back Chinese-led infrastructure projects.

This shift illustrates how small states like Panama must navigate asymmetric power dynamics, balancing economic opportunities with geopolitical pressures (Gigleux, 2016). The FPA framework sheds light on how leaders' perceptions and external influences, particularly from the U.S., impacted Cortizo's decisions, including the suspension of the Panama-Chiriqui Railway and changes to the fourth bridge over the Panama Canal project.

VARELA'S FOREIGN POLICY

During the latter stages of his presidency, Varela introduced the "falcon" policy. This new strategic direction was unveiled during his official visit to the United Arab Emirates (UAE) in February 2018, aimed at fostering connections with non-traditional regions like Southeast Asia, the Middle East, and Africa. These regions are not only geographically distant, but also lack substantial political and commercial interactions with Panama. The primary goals included a diversification strategy emphasizing enhanced political dialogues, the creation of new investment opportunities, and trade exchanges. This strategy also focused on bolstering logistic and maritime infrastructures, boosting tourism, and forming cooperative alliances. These core principles were in line with the decision to establish diplomatic ties with China, a move seen as beneficial for promoting connectivity, logistics, and tourism initiatives. Varela considered the establishment of diplomatic relations with China as one of the major achievements in his foreign policy agenda (Ministerio de Relaciones Exteriores, 2018).

CORTIZO'S FOREIGN POLICY

On the contrary, Cortizo, the successor to Varela, distinctly articulated three principal objectives pertaining to the foreign policy of his administration: the promotion of closer relations with the United States, which he identified on multiple occasions as a strategic partner, the foremost commercial ally, and the second most significant source of foreign investments (Orgaz, 2023; Ministerio de Relaciones Exteriores, 2022), the withdrawal from the non-cooperative category in the ongoing struggle against money laundering as designated by the Financial Action Task Force (FATF) and the European Union (EU) (Ministerio de Relaciones Exteriores, 2023), and Panama's candidacy for a non-permanent seat on the United Nations Security Council for the 2025-2026 term (Ministerio de Relaciones Exteriores, 2023). An assessment of the outcomes of his foreign policy reveals that his strategy was indeed efficacious. On November 21, 2022, Mari Carmen Aponte presented her letters of credence to President Cortizo, thereby officially recognizing her as the Ambassador Extraordinary and Plenipotentiary to the United States in Panama. This event held considerable significance, as the United States had not appointed an ambassador to Panama since March 9, 2018, which suggested a deterioration of political relations. Furthermore, Panama was removed from the FATF grey list in October 2023 (Moreno & Hilaire, 2023) and received a majority vote to become a non-permanent member of the Security Council in June 2024 for the upcoming cycle (UN News, 2024).

Shortly after assuming office, the Cortizo administration communicated that the focus on strengthening diplomatic relations with China had previously resulted in a neglect of ties with the United States, perceiving the situation as a zero-sum game. He recognized that to fortify relations with the United States, it was necessary to recalibrate the balance away from China. In his early interviews and inaugural address, he unequivocally stated that negotiations with China would be approached with prudence, a sentiment he operationalized by suspending commercial agreements (Herrera, Montenegro, & Torres-Lista, 2021). Concerning infrastructure initiatives spearheaded by Chinese enterprises, Cortizo established a clear position by asserting that his administration would not endorse investments financed with Panamanian resources that employed foreign labor; this policy applied not only to China but to all nations (Chacón, 2019).

Consistent with this position, alterations were implemented to the design of the fourth bridge spanning from the Panama Canal, thereby decoupling it from the Metro Line 3, and the Panama-Chiriqui Railway project was effectively suspended (Herrera, Montenegro, & Torres-Lista, 2021). Mon Pinzón (2022) suggests that this shift was a response to pressure from the United States of America, exemplified by the attendance of Secretary of Commerce Wilbur Ross at Cortizo's inauguration (Coriat, 2019). While his predecessor, Varela, also faced warnings from the then-Secretary of State Mike Pompeo about engaging in business with China due to concerns regarding China-based enterprises engaging in unfair economic practices, the impact of these warnings on Varela was not as pronounced as the noticeable actions displayed by Cortizo (Wong, 2018).

ATTRACTING INVESTMENT AND MULTINATIONAL CORPORATIONS

From the perspective of Panama's foreign policy, its legal frameworks for Foreign Direct Investment (FDI), such as the SEM, APP framework, and EMMA. These frameworks leverage Panama's strategic location and transport infrastructure while aligning with global business standards (Ministerio de Comerio e Industrias de Panamá, 2021).

Regulated by Laws 41 and 159 issued in 2007 and 2020, respectively, the SEM regime offers tax, immigration, and labor provisions to ensure that regional headquarters of MNCs, whether national or foreign, can conduct their activities from Panama and provide support services to their affiliated entities worldwide (Ministerio de Comercio e Industrias, 2020).

Similarly, established under Law 93 on September 19, 2019, the APP framework serves as a catalyst for investments, social progress, and job creation. This system governs the formation of contracts lasting up to 30 years, with a minimum value of US$15 million, between one or more public bodies and private enterprises to design, develop, enhance, and manage public infrastructure for public service delivery. An attractive feature for international firms is the ability to recoup their investments by charging users for the services or facilities they have provided. From the governmental viewpoint, this framework encourages construction firms to finalize projects swiftly for investment returns. This reflects the increasing engagement of Chinese construction firms with alternative Public-Private Partnership (PPP) models, as delineated in the 2016 Policy Paper on LAC (The State Council of the People's Republic of China, 2016).

Finally, envisaged within Law 159 of August 31, 2020, the EMMA framework provides various fiscal, migratory, and labor advantages to enterprises that establish their regional headquarters in Panama for delivering services related to manufacturing, assembly, remanufacturing, conditioning, maintenance, and repair of goods. Additionally, it encompasses logistical activities like storage, deployment, and distribution centers for components or parts essential for manufacturing and product development, as well as research or innovation services, including analysis, laboratories, and testing.

It is evident that China-based corporations are recognizing the potential benefits associated with these frameworks. Before the establishment of diplomatic ties between Panama and China, three Chinese construction and engineering companies were leveraging the trade advantages provided by the SEM regime (Ministerio de Comercio e Industrias de Panamá, 2023). After the establishment of diplomatic relations, three additional companies were registered. Thus, China is positioned as the second country demonstrating the largest number of registered corporations, totaling 18, after the USA, which records 36 registrations. Nonetheless, the success of these frameworks also depends on their alignment with broader geopolitical shifts, such as the USA-China rivalry, which creates both opportunities and constraints for Panama as it tries to balance these relationships.

FINANCING AND FISCAL RESPONSIBILITY

Infrastructure development in Panama is not just an internal economic necessity but also a reflection of the country's foreign policy dynamics. As Panama strives to improve connectivity, foster development, and generate employment, it's the decision-making in infrastructure projects that is shaped by both domestic needs and international influences. According to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), a recommended investment of 6.2 percent of GDP in infrastructure is necessary to sustain growth in the region (Comisión Económica para América Latina y el Caribe (CEPAL), 2017). In line with this guidance, Panama's 2024 State Budget exceeds the target, allocating 7.12 percent of GDP to infrastructure development (Gaceta Oficial, 2023).

However, this allocation is not solely a domestic decision—it is shaped by Panama's strategic positioning in the global financial system. The FPA helps frame the influence of Panama's external relations, particularly with international financial institutions and emerging powers like China. Panama leverages its favorable credit ratings—BB+ from Fitch, BBB from S&P, and Baa3 from Moody's—to secure financing at competitive interest rates. This external financing plays a crucial role in shaping the country's infrastructure policies, as it allows the Ministry of Economics and Finance to fund large-scale projects through loans with manageable repayment terms. As of March 2024, 48.13 percent of Panama's public debt carried interest rates between three to six percent, while 42.04 percent of the debt was tied to higher rates between six and nine percent (Ministry of Economics and Finance, 2024).

Panama's long-dating relationship with multilateral banks, such as the Inter-American Development Bank (IDB), the Development Bank of Latin America (CAF), and the International Bank for Reconstruction and Development (IBRD), provide critical financing, often at terms more attractive than those offered by Chinese policy banks. Although China's policy banks, including the China Development Bank (CDB) and the Export-Import Bank of China, offer competitive rates—ranging from four to six percent (Malik, et al., 2021)—Panama's strong credit profile allows it to secure financing from traditional multilateral lenders at more favorable terms.

Moreover, Panama's foreign policy towards China, as seen through its strategic engagement with Chinese construction companies, also reflects broader considerations about debt sustainability and geopolitical alignments. While Chinese banks offer infrastructure financing, Panama's ability to pursue these loans is informed by its fiscal responsibility laws, which ensure that borrowing is limited to 1.5 percent of GDP annually (Gaceta Oficial, 2008). These legal constraints, shaped by a broader foreign policy commitment to maintaining economic stability, restrict the government's ability to take on additional debt, regardless of external offers.

PANAMA'S TWENTY-FIRST CENTURY PROJECTS WITH CHINA-BASED FIRMS

The first major infrastructure project awarded to a China-based company in Panama occurred before formal diplomatic relations were established. The construction of the Amador Convention Center illustrates the favorable business environment fostered under the Varela administration. However, it is essential to highlight that these projects were primarily financed by the Panamanian government and loans from multilateral financial institutions, with China-based firms acting as subcontractors rather than taking a leading financial role (Bersch & Koivumaeki, 2019).

AMADOR CONVENTION CENTER: A CASE OF TRANSITION CHALLENGES

Originally commissioned by Panama's Tourism Authority to the consortium HPC-Contratas-P&V —comprised of the Panamanian construction company Hispoanomaericana, P&V, Consortium HPC Contratas, Puerto Rican Constructora Quality, Costa Rican SICSA, and Spanish construction company, Gheliopol—in 2012 for US$193.7 million, the Amador Convention Center project faced significant delays due to governmental transition and subsequent financial challenges. It operated under a turnkey financing model, where Panama's government would remunerate the consortium 28 months after initiating construction works, including the accrued interests. This setup enabled HPC-Contratas-P&V to secure financial backing from Banistmo, Scotia Bank, Caja de Ahorros, and Goldman Sachs. The Varela administration, elected in 2014, launched investigations into projects initiated under the Martinelli administration (2009-2014), including this one. This scrutiny and delayed payments led to the collapse of the original consortium, halting construction.

In January 2016, the project was reassigned to the consortium CCA-COCIGE, composed of China Construction America (CCA) and the local firm Construcciones Civiles Generales (COCIGE). CCA held a 60 percent stake in this partnership, while COCIGE with 40 percent represented the consortium in dealings with the Panamanian government. Despite a new contract promising completion by 2018, delays continued, and the project was finally inaugurated in August 2021, under the Cortizo administration, at a total cost of US$207 million, representing a 6.9% budget overrun.

The challenges encountered during this project underscore the impact of political transitions on infrastructure development. While Varela's administration resolved bureaucratic hurdles by involving a Chinese firm, the delays continued into the Cortizo administration, due to shifting political priorities and external influences, characterized by its "bandwagon" behind the interests of the USA (Chen & Qiang, 2023). Ultimately, the CCA-COCIGE partnership of a foreign and local construction firm serves as a strategic model for China-based construction firms to maneuver through infrastructure regulations amid governmental transitions.

From a foreign policy perspective, Panama's development strategy for the convention center aligns with its broader objectives of enhancing its global economic standing and competitiveness, particularly within the Meetings, Incentives, Conferences, and Exhibitions (MICE) industry. This aligns with the country's 2020 national strategy, led by the Destination Marketing Organization (DMO), Promtur, aiming to capture a portion of the US$1.6 trillion global MICE market. Such projects reflect Panama's interest in using large-scale infrastructure development as a tool for economic diplomacy and signaling its attractiveness to foreign investors and international event organizers.

The collaboration with Chinese firms in constructing the Amador Convention Center underscores how Panama strategically leverages foreign partners to meet its developmental goals. The entry of these China-based construction companies mirrors Panama's balancing act between maintaining relationships with traditional Western institutions and exploring pragmatic partnerships with emerging powers like China. In 2023, Panama ranked 53rd globally and 8th within Latin America and the Caribbean for meeting tourism destinations, according to the International Congress and Convention Association (ICCA), further highlighting how the convention center strengthens Panama's global tourism and connectivity ambitions (Hernández K. , 2024). This collaboration in the tourism sector not only serves domestic economic interests but also fits within Panama's foreign policy of diversification, engaging multiple international stakeholders while maintaining strategic autonomy.

AMADOR CRUISE TERMINAL: A STRATEGIC PARTNERSHIP FOR ECONOMIC GROWTH

The Fourth Bridge over the Panama Canal exemplifies how political changes and social challenges can disrupt infrastructure projects. The initiation of construction for the Fourth Bridge over the Panama Canal occurred twice: firstly, in March of 2018 under the presidency of

Varela (La Estrella de Panamá, 2023), and subsequently in March of 2024 under the leadership of his successor, President Cortizo, with a six-year gap between each commencement (Ministerio de Economía y Finanzas, 2024).

The Consortium Panamá Cuatro Puente (CPCP), consisting of China Communications Construction Company (CCCC) and CHEC, was awarded the initial project for a total cost of US$1.42 billion. Spanning a length of 3.5 kilometers, the bridge was conceived to alleviate the daily traffic congestion experienced by commuters traveling from the country's interior to the city for work. The initial blueprint included integration with Line 3 of the Metro, necessitating synchronization between the two major projects for simultaneous operation, involving the Korean consortium Consorcio HPH Joint Venture, comprising Hyundai Engineering & Construction and Posco E&C, which secured the bid in November 2019 (Batista, 2019).

The timing of each inauguration for the bridge's construction was strategically chosen to coincide with politically significant events. In March 2018, preparations were underway in Panama for the official visit of Chinese President Xi Jinping, scheduled for December of that year and culminating in the endorsement of 19 bilateral agreements (Moreno, 2018). Following the initial inauguration, in May 2018, labor disputes arose as 150 workers halted operations to demand proper contracts, social security contributions, insurance coverage, and alleged violations of the national labor regulations. Language barriers also hindered direct communication with the consortium, prompting grievances from the workers. The protests were spearheaded by the National Union of Workers of Construction and Similar Industries (SUNTRACS), highlighting one of the challenges encountered by Chinese construction firms in international projects (Metro Libre, 2019). Protests reached a conclusion in 2023, resulting in agreements centered around compliance with Panamanian labor regulations, a revised budget of US$1.37 billion, and the distinct delineation of Metro Line 3 from the fourth bridge. The separation of the Metro Line 3 from the fourth bridge, as reflected in the third agreement, was a consequence of the second agreement, where budget adjustments were needed due to the disconnection of the two projects. The Ministry of Public Works justified the removal of the metro line's passage by asserting that it would lead to a decrease in project costs, which was not the actual outcome (Hernández A. E., 2024).

Beyond the agreements, the addendum encompassed the financing facilitated by Mizuho and Banistmo banks amounting to US$716 million, approved by the Ministry of Economy and Finance, thereby converting these loans into internal debt. Consequently, the contractual value of the project surged by 52 percent to reach a total of US$2.13 billion. Furthermore, the separation of the Metro Line 3 from the fourth bridge led to an escalation in the former's costs, as a tunnel will now be excavated for the carriages to traverse the Panama Canal underwater. HPH Joint Venture subcontracted the Chinese enterprise China Railway Tunnel Group (CRTG) for the tunnel excavation, a procurement process that was not overseen by any Panamanian governmental institution (Hernández, 2024). This underscores a specialization that Chinese enterprises possess, considering the extensive subway and tunnel infrastructure present in China.

One year later, on March 12, 2024, the recommencement of the fourth bridge construction was initiated, marked by a ceremonial event overseen by President Cortizo, alongside the Minister of Public Works, Rafael Sabonge, and the Minister of Finance, Hector Alexander (Ministerio de Obras Públicas, 2024). As of May 2024, the development of the project reached a 15 percent completion and is anticipated to reach its conclusion in 2028, a decade subsequent to the initial awarding of the project.

The situation surrounding the fourth bridge serves as an illustration of how political shifts and civil protests can postpone the anticipated benefits to local communities that should have been guaranteed (Gransow, 2015). The alterations made to the original design lacked adequate justification according to the Minister of Public Works in the Cortizo administration, Sabonge. Although he cited financial deficiencies as the reason for the previous suspension of the project, this rationale fails to account for the modifications in the design. This decision disrupted the synchronization of two major projects and significantly increased overall costs. The delays reflect Panama's political alignment with U.S. interests during Cortizo's administration (Wong, 2018), which, according to this paper, contributed to a shift in the treatment of China-based companies in Panama (Chacón, 2019).

During an interview with former President Varela, it was disclosed that the former Prime Minister of Japan, Shinzo Abe, had the aspiration to witness the Metro Line 3 train traverse the fourth bridge spanning the canal; a vision that was not shared by the Cortizo administration (Varela, Relations Between Panama and Asia, 2023).

PANAMA-CHIRIQUI TRAIN: A POLITICAL AND ECONOMIC TUG OF WAR

The Panama-Chiriqui railway, first proposed in 1913 and revived after Panama's establishment of diplomatic relations with China, represents a controversial infrastructure initiative. After the feasibility study conducted by the China Railway Design Corporation placed the estimated cost at US$4.1 billion, the initiative was suspended in 2019 due to a lack of political support and concerns about transparency and debt financing. This project has since regained momentum under President José Raúl Mulino (2024-2029), a native of Chiriqui, who has declared it a flagship project of his administration.

The origins of the Panama-Chiriqui railway can be traced back to the early 20th century. In 1913, the National Assembly of Panama authorized the government to conduct studies for a railway program, in line with the legislation from 1909 supporting its construction (Gaceta Oficial, 1909). With assistance from the US Department of State, led by William Jennings Bryan, Panama secured US$2.25 million in bonds at a five percent interest rate to fund the estimated US$18 million Ferrocarril Nacional de Chiriqui. (Baker Jr., 1966) The railway was officially inaugurated by Panamanian President Belisario Porras in May 1916, following two years of construction that began in David and extended to branch lines in Pedregal, Concepcion, Puerto Armuelles, and Boquete. Subsequent expansions reached neighboring towns but remained confined to the province of Chiriqui.

Shortly after establishing diplomatic ties with China, President Varela referenced former President Porras when presented with a feasibility study for the railway connecting David to Panama, emphasizing its "social profitability". Accompanied by the Chinese ambassador Wei Qiang, President Varela made these remarks during the International Fair of David, Chiriqui (Ministerio de Relaciones Exteriores, 2019). This feasibility study initiated the BRI framework, potentially launching various connectivity projects, as the Panama-Chiriqui route might represent the inaugural segment of a Central American railway. Nevertheless, while the feasibility study remained undisclosed, the delivery of certain details was perceived as lacking transparency. Notably, the feasibility study indicated that this infrastructure project would be funded by the Panamanian government through loans, representing an investment in domestic infrastructure. Panamanian experts stressed the necessity of a cost-benefit analysis to justify the railway project and the accompanying national debt (De Sedas, 2024). As a comparison, the expansion of the Panama Canal was initiated on July 8, 2009, with an expenditure totaling US$5.4 billion. In advance of this undertaking, a referendum conducted in 2006 disclosed a considerable public endorsement for the initiative (Canal de Panamá, 2006). Insights from a Chinese diplomat suggested that China's railway successes could inspire confidence in railway development capacities (Li, Infrastructure Projects in Panama, 2024). China's high-speed railway system improved connectivity and boosted tourism and trade in smaller cities previously lacking economic growth. This model may be replicable in Panama through a domestic railway network.

Another factor hindering project approval was the feasibility study's alignment with the BRI. The proposed railway's extension to Costa Rica in the second phase was perceived as a means for China to enhance product distribution, with financing from Panama (Solís, 2019). The feasibility and benefits for China raise the question of why China did not propose funding the railway as foreign direct investment. With limited time left in his term and insufficient political support, Varela transferred the project to Cortizo's administration, which chose not to pursue it. However, the initiative gained momentum during the early weeks of Jose Raul Mulino's newly elected government, following his victory in the May 5, 2024, presidential election with 34.41 percent of the votes.

During one of his initial interviews as president-elect, Mulino declared his intention to establish a National Railway Secretary. In reference to the Panama-David train, he stated, "the train is moving forward, this represents our flagship project... I am not well-versed on this matter, but I am eager to learn as it concerns my province, [Chiriqui]" (Ávila, 2024). Mulino, from Bugaba in Chiriqui, frequented the historically significant train to Puerto Armuelles, highlighting his personal and political investment in the project. Mulino did disclose to local Panamanian newspapers that he had engaged in discussions with the Portuguese-Chinese entity responsible for the Tren Maya in Mexico, Mota-Engil México SAPI de C.V. (Infobae, 2020) comprised of CCCC, Grupo Cosh S.A. de C.V. Eyasa S. de R.L de C.V., and Gavil Ingeniería S.A. CCCC's previous experience in constructing the Fourth Bridge over the canal could potentially enhance its standing if it participates in a public bidding process.

An alternative strategy for the construction of the train may involve Panama's APP regime, aligning with China's PPP model for innovative collaboration. The APP regime allows organizations to enter 30-year agreements with the government, potentially extendable by ten years. Thus, within 40 years, the construction firm could recuperate the US$4.1 billion investment, informed by China Railway Design's feasibility analysis. This shift to an APP approach, may alleviate concerns about national debt while ensuring project profitability for both public and private stakeholders.

From a FPA perspective, this policy shift can be interpreted as Panama navigating its bilateral relationship with China by adapting foreign economic models to its domestic context. Such a decision would also allow Panama to engage in infrastructure development while managing the internal political debate around transparency, national debt, and long-term fiscal responsibility. This strategy positions Panama as an active agent in shaping its infrastructure policy and demonstrates the government's efforts to negotiate mutually beneficial terms while preserving sovereignty over key infrastructure projects.

CONCLUSIONS

Previous studies have labeled China-based infrastructure companies as "predatory" and dominant, particularly in small developing countries (Ellis R. E., 2018; Wong, 2018; Melendez, 2024; Bersch & Koivumaeki , 2019). These studies emphasize the environmental, financial, and social risks, especially when projects are financed by Chinese policy banks (Mendez & Alden, 2021). This paper challenges such views by developing a complementary theoretical framework using foreign policy analysis. Through case studies of four major infrastructure projects, all fully funded by the Panamanian government, this paper links the 2019 governmental shift to delays, modifications, and cost overruns in projects led by China-based firms, driven by changing attitudes toward China. The cases show that Panama has robust institutions and fiscal regulations that prevent any single foreign company or group from dominating infrastructure projects. The multi-source financing mechanisms and multiple tender processes presented in these models further support this assertion.

This paper provides a complementary framework through FPA for China-based firms to navigate the challenges posed by governmental shifts and civil society. The proposed framework aligns with China's broader strategy for increasing involvement in LAC, as seen in key policy documents like the 2008 and 2016 Policy Papers, the "Go-Out" strategy, and BRI. Panama has complemented these strategies by implementing policies to attract MNCs and foreign investment. By leveraging its foreign policy, Panama has maximized economic gains from its relationship with China, with the formalization of diplomatic ties in 2017 facilitating this growth.
However, the change in Panama's government in 2019, which opted to "bandwagon" with the U.S., resulted in projects like the Fourth Bridge over the Panama Canal and the Panama-Chiriqui Railway being delayed, altered and suspended, with limited explanation. As a response, this paper provides strategic recommendations to mitigate such challenges.

A R T I C L E

For China-based construction firms, establishing regional headquarters in Panama under the SEM and EMMA frameworks can offer strategic advantages during tender processes. The APP framework offers long-term benefits for projects that may be seen by the public as too large a financial commitment for Panama, such as the Panama-Chiriqui Railway. By leveraging this framework, stakeholders can ensure more sustainable and transparent financing mechanisms, alleviating public concerns about the country's ability to manage large-scale investments while still advancing critical infrastructure projects. Forming partnerships with local firms experienced in Panamanian projects, as seen in the Amador Convention Center and Amador Cruise Terminal, can enhance compliance with local labor laws and foster smoother project execution.

In terms of financing, Panama's fiscal responsibility laws limit its capacity to accumulate debt. With access to low-interest loans from multilateral institutions like the IDB, CAF, and IBRD, Chinese policy banks must offer more competitive financing terms or additional services, such as project design assistance, to increase their chances of being selected for projects.

The dynamic relationship between Panama and China presents substantial opportunities for mutual development. As Panama enters a new administration (2024-2029), it has the potential to further strengthen political and economic ties with China. Just as Chinese laborers once played a vital role in constructing the Panama railway and canal, which shaped Panama's economy for a century, Chinese infrastructure firms could play a pivotal role in Panama's growth in the next.

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