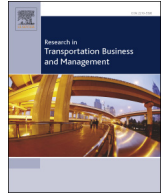




Contents lists available at ScienceDirect

## Research in Transportation Business & Management



# The governance of intermediacy: The insertion of Panama in the global liner shipping network

Jean-Paul Rodrigue

*Dept. of Global Studies & Geography, Hofstra University, Hempstead, NY, United States*

### ARTICLE INFO

#### Article history:

Received 5 September 2016  
Received in revised form 30 October 2016  
Accepted 12 November 2016  
Available online xxx

#### Keywords:

Panama Canal  
Transshipment hub  
Port governance

### ABSTRACT

The paper investigates the emergence of Panama as a major intermediary location in the global liner shipping network and the associated governance changes. From its initial function of a point of transit, Panama became a tollbooth with the setting of the Panama Canal mostly servicing intercoastal networks. Then, with the growth of transpacific trade and increasing ship sizes Panama became a major transshipment hub, a process facilitated by reforms of its port governance with setting of a landlord port authority model and concessions to private terminal operators. With the emergence of Panama as a logistics platform, governance has gone beyond the realm of the port. The setting of a national Logistics Cabinet in 2014 is illustrative of that trend aiming at coordinating the operations of the Panama Canal (with its expanded locks), port activities focusing on transshipment and the setting of port centric logistics zones. Still, the intermediary location of Panama is facing some risk in the post expansion era since shipping lines are no longer forced to use Panama and could elect for other transshipment hubs. In light of the emerging commercial context, it remains to be seen how the connectivity of Panama will fit within global supply chain strategies.

© 2016 Published by Elsevier Ltd.

## 1. Introduction

Specialization and the exploitation of comparative advantages have been important drivers in the setting of global value chains (e.g. Cattaneo, Gereffi, Miroudot, & Tagliioni, 2013). The outcome has been a highly fragmented manufacturing landscape requiring substantial logistical services such as transportation, transshipment, transloading and warehousing. As the global manufacturing system became increasingly dependent on logistics, its landscape started to be modified by logistical capabilities and the locations at the core of global distribution became increasingly attractive (Sheffi, 2012). This tends to blur the distinction between manufacturing and logistics since both processes are interdependent. Future technological developments in manufacturing and transportation may favor a convergence taking place over two dimensions.

First, there could be a convergence in functions. The processes that have favored specialization and fragmentation of supply chains could be counterbalanced by new manufacturing technologies providing more integrated outcomes, namely because of the possibility to provide a more completed product (if not a final good) at one location. It is thus possible to shorten value chains depending on the complexity of the product. For simpler goods, this convergence could lead to a single fabrication process only requiring raw or processed materials. In this

context, accessibility to material inputs and markets becomes a core locational factor, which underlines its dependence on logistics.

Second, there is a geographical convergence. Because of the previous dimension and because of the need to access a variety of material inputs and markets, locations of improved freight mobilities offer a higher value proposition for manufacturing. This favors a convergence of manufacturing and distribution in logistics zones. Further, the development of mass customization strategies for an array of consumption goods incites performing customization at suitable intermediate locations between suppliers and final markets.

The above questions as to what extent intermediary locations in the global shipping and trade networks can develop an advantage and to what extent governance can play a role in attracting, retaining and expanding logistical activities. This is particularly relevant since intermediary locations usually do not have specific comparative advantages outside their accessibility and the investments improving this accessibility. For instance, many transshipment hubs have been set on accessibility considerations, mainly low deviation from major shipping lanes (Notteboom & Rodrigue, 2010). Still, they remain highly contestable. To limit this contestability, effective governance enables key actors such as terminal operators, shippers and logistics service providers to establish stakes in the operation of terminal assets and support activities. Clusters of maritime activities are emerging (Wilmsmeier, Cullinane, Notteboom, & Sánchez, 2012).

The case of Panama is illustrative of such a cluster since the country depends on the Panama Canal as a factor of revenue generation and its

*E-mail address:* jean-paul.rodrigue@hofstra.edu.

indirect impacts on related value added activities such as logistics. Since gaining control of the Panama Canal Zone in 1979, Panama has substantially reformed its transport and logistics sector and invested massively in new transport infrastructures, including the expansion of the Panama Canal, planned port terminals and logistics zones. It is argued that Panama went through four main development phases in the governance of its maritime assets (Fig. 1). Through path dependency, each phase conditioned the developments of the following phase. Simple geographical factors incited the setting of transport and commercial infrastructures which implied increasingly complex governance strategies.

The first part of the paper investigates the main stages in the evolution of the governance of Panama's maritime assets. The second part will provide a synopsis of the role of Panama in the global shipping network, particularly as a transshipment hub and the role of terminal operators in the governance of Panamanian ports and the emerging function of Panama as a logistics platform. The paper then concludes about the main challenges that Panama is facing to secure transshipment and logistics activities in the post expansion era.

## 2. The maritime governance of Panama: from a transit country to a logistics platform

### 2.1. A point of transit

Through the colonial era Panama was a transit country enabling to connect Pacific and Atlantic trade routes through trails across the isthmus. The function of Panama City as a colonial transit hub can be traced back to the 17th century where it acted as a trade platform for the Spanish Empire, particularly for the South American west coast. By 1821, Panama became of province of newly independent Colombia, but its role as a point of transit declined with the end of colonial trade networks. Paradoxically, it is the continental growth of the United States in the 19th century that drove the most of the trans-isthmus movements since until the later part of the 19th century, it was the use of the maritime and trans-isthmus routes that were the most convenient to link the US East and the West coasts. The completion of the Panama Railroad in 1855 provided an additional impetus to the transit function with the ports of Balboa and Colon established as terminus on their respective maritime facades. This railroad was the outcome of a concession by Panama to the United States.

### 2.2. A tollbooth

By the late 19th century, the growth of global trade (particularly through intra-American trade) and the development of steamships provided an impetus for the construction of the Panama Canal. Such a project has been considered since the discovery of the isthmus but the scale of the work and engineering requirements prevented its realization. The

French were able to secure a concession and between 1881 and 1894 tried to build a canal across the isthmus. This attempt failed because the capital investment turned to be much more substantial than anticipated while engineering capabilities were lacking. In 1903, a treaty was signed between the United States and the newly established Panamanian Republic, giving the rights to administer the Panama Canal Zone, a 16 km band centered around the proposed canal path, and this in perpetuity (Lindsay-Poland, 2003). Resuming the work of the failed French attempt, but with better equipment and engineering, the Panama Canal was completed in 1914. Meanwhile, a new 47 miles (75 km) path for the Panama Canal railway was designed and began operations in 1912.

The canal set the stage for Panama to become a tollbooth country deriving revenue from canal crossings. Within decades, Panama became an important connector within the global maritime transport system and imposed Panamax (the maximal ship size fitting the locks) as a de facto standard in maritime shipping (a standard which was judged to be of ample size). However, limited local investments related to this connectivity took place since Panama remained a location where cargo was simply passing by. When a highway across the isthmus was completed in 1943, railway traffic started to decline and the Panama Railway gradually went into disuse due to the lack of investment and maintenance.

Panama was a weak intermediary location since the cargo transiting was not "touched". The Colon Free Trade Zone was established in 1947, which reflected emerging trade liberalization strategies pursued by the United States in the Caribbean (e.g. Puerto Rico) and the beginning of offshoring by American firms. However, it is not until the 1990s that the free zone will experience significant growth, but the logistics and manufacturing activities were relatively of low added value. Still, service functions such as flags of convenience and bunkering emerged. Today, Panama remains the world's leading ship registry country.

### 2.3. A transshipment cluster

During the 1990s, the Panama Canal experienced a complete reform of its governance with the Torrijos-Carter treaty that was implemented in 1977. First, most of the Panama Canal Zone was handed back to the Panamanian Government in 1979, leaving it with a substantial real estate footprint which could be developed. The treaty culminated in 1999 when the Panama Canal Authority (PCA), an autonomous agency of the Panamanian Government, took full control and ownership of the canal from the Panama Canal Commission, a branch of the US Army. This set the scene for Panama to reform its port sector (Montero Llacer, 2006).

Prior to 1995, the two main Panamanian container ports (Cristobal and Balboa) handled very limited amounts of domestic containerized cargo, in the range of 100,000 to 150,000 TEUs per year, such as for

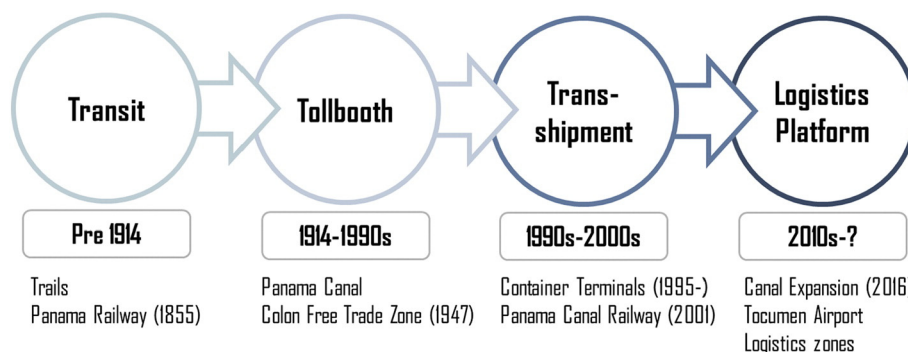


Fig. 1. Evolution of the maritime function of Panama.

Download English Version:

<https://daneshyari.com/en/article/5106668>

Download Persian Version:

<https://daneshyari.com/article/5106668>

[Daneshyari.com](https://daneshyari.com)