Business Elites in Panama:

Sources of Power and State Capture

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Acronyms

PAN	Panameñista Party
DC	Democratic Change (Party)
PDR	Democratic Revolutionary Party

Abstract

A well-established line of academic inquiry argues that state capture emerges in contexts of weak governance institutions. However, Panama is an outlier case featuring high levels of state capture despite strong governance institutions. To better understand state capture in Panama, this paper investigates the sources from which business elites draw their power—income control, business cohesion, political campaign contributions and revolving doors. Results show that state capture arose in Panama along with high income concentration among top elites, cohesion among a small cluster of family business groups, big businesses coordinating their electoral contributions, and appointments of businesspeople to strategic government positions. In closing, we suggest possible avenues of research to continue deciphering state capture, and provide some policy recommendations to reduce state capture in Panama.

Keywords

Business cohesion; business groups; campaign contributions; Latin America; network analysis; revolving doors

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[1] https://redelites.networksprovidehappiness.com/

Introduction

State capture occurs when state functions are modified to serve particularistic interests (Dal Bó 2006). For instance, when a regulatory public agent who has been appointed to act in defense of public interests operates instead for the benefit of a group of firms or industries, state has been captured (Hellman et al. 2003). Similarly, large corporations might capture the state as a regulatory agent when those corporations influence policies intended to regulate them (Innes 2014; Acemoglu and Robinson 2012). When the state has been captured, it operates as a vehicle for a narrow set of private interests.

Panama is a puzzling example of state capture that combines high state capture with strong regulatory institutions. According to the World Bank Governance Indicator "control of corruption", which measures the extent to which public power is exercised for private gain (used as a proxy for state capture), Panama ranks far below the mean of Latin American and Caribbean countries, where lower values indicate higher levels of state capture (World Bank 2018). Since Juan Carlos Varela became President in 2014, Panama fell from the 46th to the 36th percentile rank. Moreover, judicial independence in Panama is among the weakest in the region according to the Global Competitiveness Report 2016-2017 (World Economic Forum 2017). Further, former Panamanian President Ricardo Martinelli (2009-2014) came third on a worldwide ranking of the most corrupt political leaders (Transparency International 2016).

Most literature on this topic points to institutional weakness as one of the main macro-level explanatory conditions of state capture (Hellman et al. 2003; Innes 2014). States are more likely to be captured when governance institutions are weak. However, in the worldwide classifications that measure the degree of institutional development and stability, Panama performs relatively well. Whereas Panama is above the 60th percentile in voice and accountability, government effectiveness, political stability, and regulatory quality (where higher rankings indicates better performance), in the control of corruption it falls below the 35th percentile (World Bank 2018). This puzzling divergence between strong regulatory institutions and high state capture in Panama indicates that other theoretical approaches might be necessary to understand state capture.

To address this puzzle, we turn to theories of business power that have largely agreed that business elites occupy a privileged position in the policy process, and that political influence is exercised through several sources of power.[2] "Elites' sources of power" encompass all means and mechanisms that strengthen elites' bargaining position and influence. In accordance with elites theorists, having access to valuable resources, belonging to influential networks, and occupying strategic positions constitute the main sources of power (Domhoff 2013; Mills 1956). Moreover, the unequal distribution of sources of power generates unequal access to the state and, thus, an unequal influence over politics (Durand 2019).

This paper uncovers the sources of business elites' power in Panama to better understand this particular case of state capture in a context of stable regulatory institutions. Specifically, we study income concentration in the wealthiest decile, business cohesion through a network analysis of interlocking directorates, campaign contributions in presidential elections, and appointments of businesspeople to government positions (a phenomenon known as the revolving door). Despite the burgeoning interest in studying business elites in Latin America, there are very few empirical

[2] Fairfield 2015; Culpepper 2010; Bernhagen 2007.

studies on Panamanian elites (Hughes and Quintero 1987). Therefore, this paper constitutes a benchmark for future research on Panamanian business elites.

The paper is organized as follows. Section 1 develops the analytical framework, focusing on business elites' sources of power. In Section 2, we describe the political context of Panama. Methods and data are outlined in Section 3. In Section 4, the configuration of power structures that characterize Panama are presented. The last section discusses the findings, suggests avenues of future research and offers policy recommendations.

State Capture and Business Elites' Sources of Power

The study of sources of power has been extensive and varied. Since Max Weber's work (1978[1922]), there has been a constant effort to define and identify the elements that strengthen power, influence and authority. More recently, Fairfield (2015) divided economic elites' sources of power into two broad categories: structural and instrumental power. Structural power refers to the fact that states depend on business elites to invest and generate growth, employment and prosperity. Instrumental power allows business elites to carry out political actions through different sources such as campaign finance, revolving doors, partisan linkages, technical expertise and media capture. These political actions and state dependencies grant business elites the power to intervene in the political arena and influence policy outcomes (Bril-Mascarenhas and Maillet 2019).[3]

Regarding structural power, a well-established line of inquiry argues that state capture is deeply rooted in inequality (Acemoglu and Robinson 2019; Durand 2019). High levels of income inequality weaken organized civil society such as trade unions and social movements that could veto state capture (Durand 2019). Put simply, when business elites are strong and civil organizations are weak, state capacities to regulate business elites are limited (Acemoglu and Robinson 2019). As a result, politically powerful business groups create obstacles to the emergence and development of redistributive political projects that can threaten their privileged position.

Regarding instrumental power, previous studies on state capture have pointed to two sources of power: business-politics connections and business cohesion (Fairfield 2015). Business-politics connections materialize in two ways: i) recruitment of businesspeople into government posts, and ii) business contributions to political campaigns (Carpenter and Moss 2013; Dal Bó 2006). First, the movement of businesspeople into politics, also known as revolving doors, can become a transfer of business efficiency to government, but also a source of conflicts of interest, cronyism and corruption (Aragón-Falomir and Cárdenas 2020; Brezis and Cariolle 2015). Further, contributions to presidential elections can be a mechanism for business elites to enforce political parties' dependency and build relationships of reciprocity with parties and presidential candidates (Segovia 2005). This is especially true when there is little transparency on electoral financing, which is the case in most Latin American countries (Casas-Zamora 2005).

In addition to business-politics connections, the literature on business power and tax politics argues that business cohesion is one the most efficient resources to influence politics. When business elites form a united front, prospects for influencing policy tend to be stronger than if each faction acts independently (Castañeda 2017; Fairfield 2015). However, other scholars

3 Elites' sources of power must be differentiated from actions, such as kickbacks, bribes or extortions, which represent the capture itself or the immediate inducements.

disagree and show that business cohesion can allow the state to have control over business and give rise to more inclusive policies (Cárdenas 2020; Schoenman 2014). Whether business elites are organized cohesively or fragmented does not only provide information about the internal organization of business but also about the structure that enables business elites to influence the state. While previous studies inferred the extent of business elite cohesion on the basis of the existence of business associations,[4] this paper analyses networks among large business corporations to uncover to what extent business elites form cohesive structures.[5]

The extent to which top corporations are connected is uncovered by examining the presence or absence of interlocking directorates and the configuration of corporate networks. Interlocking directorates refers to the practice of members of a company serving on the board of multiple corporations. When corporations create an interlocking directorate, they share information and common practices, minimize conflicts and restrict outsiders (Cárdenas 2016; Heemskerk 2007). If corporations are highly interconnected through board members, a cohesive corporate network is configured. If corporations are poorly connected to each other, a fragmented or non-cohesive corporate network arises. Although business elites can connect through other means—family ties, membership to exclusive clubs, school attendance and business associations—board interlinkages involve the top-echelon leaders of the business sector. Moreover, research on corporate networks has broadly demonstrated that interlocking directorates are fundamental for organizing corporate political unity (Mizruchi 1992; Murray 2017). Cohesive corporate networks facilitate knowledge and information transfer among businesspeople, reduce transaction costs, and thus increase the probability of collective action by business. A large number of studies explore business elite networks via interlocking directorates, especially in North America and Western Europe. Research on Latin American countries is burgeoning, but until now it has focused almost exclusively on the large nations of the region: Brazil, Mexico, Chile, Peru and Colombia (Cárdenas 2016; Salas-Porras 2017). This is the first inquiry on networks of interlocking directorates in Panama.

Political Context of Panama

The US invasion of Panama in 1989 marked the end of two decades of de-facto rule by a military junta (Luna and Sánchez 2009; Pérez 2011). The invasion allowed the development of an institutional framework based on two main principles: demilitarization of government and political parties, and strengthening of an autonomous electoral committee (Casas Zamora 2003; Pérez 2011). The demilitarization consisted of a constitutional prohibition of the establishment of armed forces that were in control of defense, political parties and public security. This achievement was possible thanks to the crucial role played by the United Nations Development Programme in promoting a dialogue among different powerful groups, including Panamanian business elites. The new institutional framework combined with the handing back of the Panama Canal from the United States to the government of Panama in 1999 created a positive scenario for business elites with incentives to promote and develop a liberal regime in the country (Pérez 2011). Seven different presidential electoral processes considered fair, free and competitive have taken place in Panama since 1989. Currently, Panama comes in fourth among the most democratic Latin American states in the Freedom House ranking (Freedom House 2020).

4 Fairfield 2015; Castañeda 2017; Durand and Silva 2000.

5 Business associations are a traditional mechanism for building political cohesion among business elites in Latin America. Nevertheless, due to the higher economic transnationalization, big business groups have reduced their participation in these traditional national business associations.

But along with the strengthening of economic and political institutions, Panama has also been the epicentre of various global corruption scandals. The perception that the highest levels of the state are captured by private interests has spread widely in Panamanian society. The Latinobarómetro, a large-scale survey which measures public opinion throughout Latin America, reflects that there has been a marked increase in the social perception that the state is concerned primarily with the interests of a few dominant groups. In 2009, 44 percent of the Panamanian respondents agreed with the statement that the country is governed for the benefit of a few powerful interests rather than for the good of everyone. This proportion increased considerably to 69 percent in 2015, and to 85 percent in 2018. In the same survey, trust in private companies decreased from 56 percent in 2009 to 43 percent in 2015. Moreover, 66 percent of Panamanian respondents indicated in 2018 that they believe that everyone, or almost everyone, among the political elite (president and his officials) is involved in corruption, a rate 10 percent higher than the average in Latin America (Latinobarómetro 2018).

Several reports for Panama raise serious concerns about corruption, state capture and impunity which directly affect the justice system and the highest levels of government (Freedom House 2020). For instance, millions of leaked documents from the Panamanian law firm Mossack Fonseca, known as the Panama Papers, revealed the country's role in global tax evasion and corruption schemes (Obermayer and Obermaier 2016). Also, the Odebrecht case, a massive corruption scheme centred on a Brazilian construction firm that bribed politicians in several Latin American countries, implicated more than 80 top politicians, lawyers and businesspeople in Panama, including former presidents Ricardo Martinelli (2009-2014) and Juan Carlos Varela (2014-2019). Martinelli was accused of accepting around 56 million US dollars from Odebrecht to grant the Brazilian company public contracts. Varela admitted in November 2017 to having received donations for his 2009 vice-presidential campaign from an individual with ties to Odebrecht. Further, two cabinet members from the administration of former president Martinelli were arrested in September 2017 for alleged money laundering in connection with the Odebrecht case.

Looking closer at events that took place during the administration of these two former presidents might help to reveal the prevalence of abuses of power and the effect it has had on the country. In addition to being president, both Martinelli and Varela were prominent businessmen in Panama. Martinelli was the owner of a large retail chain, Super 99, and Varela's family is the largest producer of alcohol in the country (Quintero 2014). Ricardo Martinelli founded the party Democratic Change (DC) and became President in 2009 in a political alliance with the pro-business right-wing Panameñista Party (PAN), led by Juan Carlos Varela. The coalition between Martinelli and Varela implied the incorporation of prominent figures of PAN and business leaders into Martinelli's cabinet. The pact also included the agreement that Varela would follow Martinelli as presidential candidate in the 2014 elections. But the alliance between Martinelli and Varela eroded and ended in 2011. Martinelli passed a fiscal reform that directly taxed businesses and the properties of Panamanian tycoons in order to fulfill his campaign promises of significant investment in infrastructure and monetary transfers. When many business elites felt threatened by those policies, the pact among elites that had been set up after the US invasion was broken. Varela denounced Martinelli's reforms publicly and as a reprisal President Martinelli expelled Varela and several business leaders from the government. In this regard, the presidential elections of 2014 represented a new dispute among powerful elites to control the state. Some elites supported Martinelli's candidate, José Domingo Arias, while others backed Varela. In the end, Varela won the elections, and Martinelli, who faced accusations of political espionage, was arrested in 2017 in the United States and extradited in 2018. He was found not guilty by a Panamanian court in 2019.

The disputes among elite factions represented by Martinelli and Varela weakened the post US invasion agreements. Playing within democratic rules of the game, elites fought for the control of the state seemingly with the aim to use public office to serve particularistic interests. In this context, it is necessary to analyse business elites' sources of power to understand how state capture became entrenched in Panama.

Methods and Data

Building on Fairfield's typology that distinguishes between structural and instrumental power, we selected sources of power to cover both types. For structural power, we selected income control (measured in terms of income concentration). Income concentration was measured by the share in total national income held by the richest 10 percent, and the Gini index. These indicators are estimates based on household surveys conducted by government agencies and the World Bank. Additionally, we use the progressive tax index built by Oxfam to calculate the tax burden of businesses and the very rich. This index measures the progressivity of the tax structure, the incidence of tax on inequality, tax collection efficiency, and the extent to which countries enable tax dodging (Oxfam 2018).

For instrumental power, we examined business cohesion, political campaign contributions in the 2014 presidential elections and recruitment into government. Although other measures could have been included, the availability of data on elites in Panama is very limited, which may explain why there are only a few studies to date.

Business cohesion was examined through the network of interlocking directorates among the largest corporations in Panama. When directors sit simultaneously on several boards, this creates interlinkages between the corporations to which directors belong. In order to analyse these corporate ties created by Panamanian executives, we employed social network analysis. This methodological approach allows for measuring the degree of cohesion of the entire network, detecting internal clusters, and identifying central actors (De Nooy et al. 2011). First, overall network cohesion measures reveal to what extent the largest corporations formed a national cohesive community. Second, the existence of internal clusters is revealed through the analysis of components, that is, groups of connected nodes. Finally, central companies were spotted using centrality measures to identify the business groups with a prominent linking role in the network. To put the features of the Panamanian corporate network in perspective, we compare our results with those obtained for five Latin American economies: Mexico, Chile, Peru, Brazil and Colombia (Cárdenas 2016).

Data collection and processing on directorship of large corporations was carried out in three stages. First, the 90 largest corporations were selected. The sample size built on previous studies on corporate networks (Cárdenas 2016). This selection included state-owned, national private and foreign-owned corporations. Since there was no single ranking, a classification of the largest companies was made based on the 2015 export and import rankings from Legiscomex, a business intelligence platform that analyses the data of the National Institute of Statistics and Censuses of Panama. Moreover, top corporations in the banking, insurance and pension sectors from the 2015 ranking of the 500 largest Central American companies were included (Revista Summa 2015).[6] The second stage involved listing the members of the boards of directors of these large corporations. This information was taken from OpenCorporates in 2016 or, if not available there, from the companies' annual reports. Thirdly, those directors who belonged to several boards were identified. All of these data were processed using UCINET network analysis software (Borgatti et al. 2002).

Regarding business-state connections, we used several sources of information: the Electoral Court (*Tribunal Electoral*), and disclosures of donations by candidates and journalist reports (Aparicio 2017; Tribunal Electoral 2017) to uncover financial contributions made to all political parties in the context of the 2014 presidential campaigns. The lack of transparency and public data on the funding of political parties in Panama makes it challenging to cover all aspects. For instance, one of the challenges was to identify how much money a person contributed during the campaign. Finally, recruitment into government posts was identified using public data and journalistic reports about biographies of ministers who were appointed to Varela's government in 2014. It was reviewed whether the ministers were or had been directors or owners of large corporations, and which economic sector those firms belonged to.

Analysis and Results

Income concentration

Although Panama has the fourth highest GDP per capita in Latin America, most of the income is concentrated among the wealthy few. Income concentration in the richest 10 percent of the population is one of the highest in Latin America and the world (see Table 1). In fact, the richest 10 percent of the population earns around 39 percent of the total national income, while the poorest 20 percent accounts for only 21 percent of it, and the poorest 10 percent for 1.1 percent. The fact that strong economic performance has not translated into broadly shared prosperity is also reflected in the Gini index, featuring Panama as the country with the fourth worst income distribution in the region. Countries with a similar GDP per capita, such as Argentina, have a much lower concentration of income among the richest households.

Regarding tax politics and redistribution, Panama is the country with the least progressive tax legislation in Latin America (Oxfam 2018), while Argentina is one of the most progressive, according to the indicators in Table 1. Fairfield (2015) argues that Argentinian business elites lack sources of power and tend to be much weaker, therefore, Argentinian governments have been able to pass laws that tax the rich. Panama is globally considered a tax haven due to the fact that there are no taxes imposed on offshore companies engaged in businesses outside of the Panamanian jurisdiction. Moreover, there are extensive laws to protect confidentiality and bank secrecy of offshore firms. This economic and political landscape has favoured Panamanian business elite's wealth accumulation, especially for those linked to the banking sector, exports and law firms.

[6] One of the main constraints on studying elites in Latin America is the lack of basic public basic data about the largest corporations. In order to bypass these limitations, most studies use information from business journals such as Revista Summa, Eka, América Economía, and Forbes, due to their privileged access to business information, elites and financial reports.

Table 1: National income held by the richest 10 percent, GDP per capita, GINI index and progressive tax index

	Income held by the richest 10% *	GDP per capita (constant 2010 USD) *	GINI index *	Progressive tax index
Brazil	41.5	11,499	52.6	0.572
Colombia	41.2	7,176	52.3	0.590
Honduras	39.8	2,012	52.3	0.701
Panama	39.0	10,028	51.0	0.351
Paraguay	38.8	4,762	49.2	0.453
Chile	38.2	14,196	47.3	0.579
Guatemala	38.0	2,982	48.3	0.483
Nicaragua	37.2	1,740	46.2	---
Costa Rica	37.1	8,933	48.6	0.610
Mexico	36.0	9,814	45.0	0.377
Dominican Rep.	35.9	6,306	46.3	0.452
Ecuador	34.9	5,137	46.0	0.694
Bolivia	33.9	2,230	46.2	0.700
Peru	32.9	5,837	44.0	0.563
El Salvador	32.1	3,228	41.4	0.600
Uruguay	30.5	13,441	40.8	0.567
Argentina	30.0	10,539	41.7	0.614

Source: Authors' own elaboration based on World Bank (2019) and Oxfam (2018)
*Notes: *Average values for the period 2010-2018*

Business cohesion: The network of interlocking directorates

Our findings show that Panamanian business elites do not form a nationally cohesive network. Compared to other Latin American countries (Cárdenas 2016), the values for network cohesion measures (density, average degree, compactness, ratio of components) are considerably lower (see Table 2 for definitions and interpretation). Only 27.7 percent of the 90 largest corporations are connected through interlocking directorates (shared directors), while in other countries, like Chile or Mexico, more than 80 percent of the top corporations are interlocked. The density indicator, which accounts for the number of existing ties out of the total possible, shows that Panamanian firms barely interlock, that is, they do not share directors. Whereas on average, firms in other Latin American countries have directorship ties within a range between 7 and 1 corporations, in Panama these are around 0.5. Therefore, only a small set of top corporations connect with each other in Panama.

Table 2: Definition and interpretation of network cohesion measures

Network measure	Definition	Interpretation
Connected nodes	Proportion of nodes that are not isolated	- Connected nodes - Cohesion
Density	Number of existing ties out of the total possible	- Density - Cohesion
Average degree	Number of total ties divided by the total number of nodes	- Average degree - Cohesion
Compactness	Harmonic mean of all distances between nodes	- Compactness - Cohesion
Component ratio	Number of components minus 1 divided by number of nodes minus 1	- Component ratio - Cohesion
Main component size	Proportion of nodes that belong to the main component (set of nodes and ties where all nodes are connected by a path)	- Main component size - Cohesion

Source: Authors' own elaboration

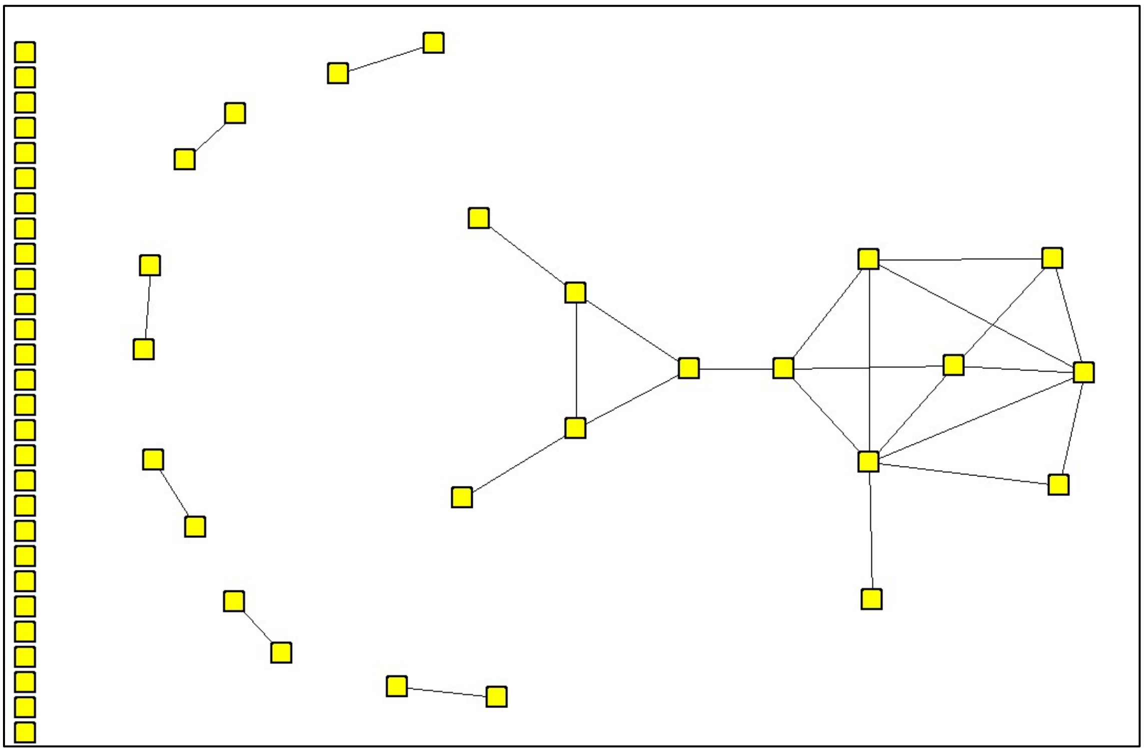
To identify the internal clusters within the corporate network, we analyse the number and size of components. A component is a collection of nodes that forms a sub-network, where nodes are all connected by at least one path. The ratio of components, which ranges from 1 to 0, measures the number of components according to the size of the network: the higher the component ratio, the more components, that is, the more sub-networks. The ratio of components in the Panamanian network was the highest (0.80) in comparison to the other Latin American corporate networks, indicating a dispersion of the Panamanian network in several disconnected parts. The Main Component, the largest cluster of connected corporations, was constituted by only 14.4 percent of the 90 top corporations in Panama, whereas in Peru 50 percent of corporations formed the main component and more than 75 percent of firms do in Mexico and Chile.

Table 3: Comparison of network cohesion measures

	Connected nodes	Density	Average degree	Compact-ness	Component ratio	Main component size (%)	Number of corporations
Mexico	80.2	0.084	7.12	0.302	0.21	77.9	86
Chile	83.3	0.040	3.53	0.216	0.19	78.9	90
Peru	67.8	0.028	2.47	0.100	0.40	52.2	90
Brazil	67.8	0.018	1.64	0.096	0.37	58.9	90
Colombia	35.0	0.015	1.36	0.035	0.48	25.6	90
Panama	27.7	0.006	0.57	0.012	0.80	14.4	90

Source: Authors' own elaboration based on Cardenas (2016)

Figure 1: Network of interlocking directorates among the 90 largest corporations in Panama

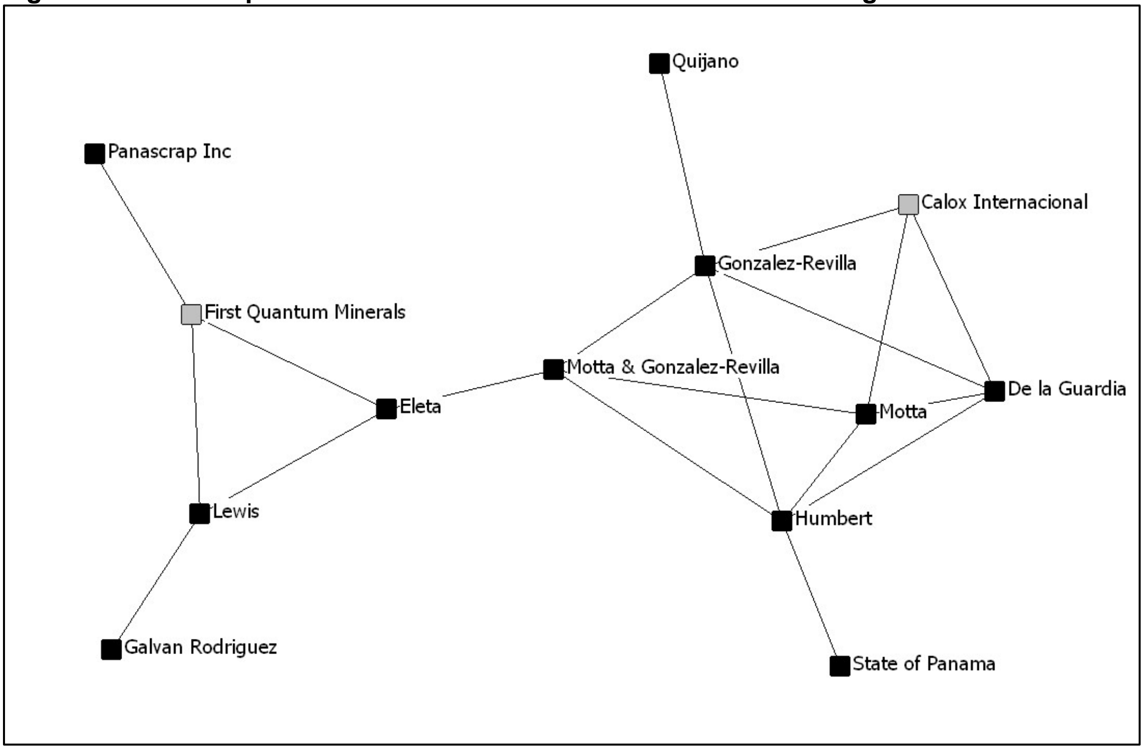


Source: Authors' own elaboration
Notes: Nodes are corporations and ties represent shared directors.

Figure 1 shows the structure of the network among the largest corporations due to shared corporate directors. Nodes represent the top 90 corporations, and ties indicate shared directors. Isolated corporations are displayed on the left side, and the layout of the connected firms allow the visualization of the different components. Most of the components (six of them) are isolated pairs of firms, except for the main component. In summary, the archipelago of corporations reveals that business elites are nationally fragmented in Panama, and only a group of 13 corporations form a cohesive cluster.

In order to analyse whether this cluster of corporations is shaped by the joint action of several business groups, we identified the main owner of each corporation belonging to the main component. Figure 2 displays the sub-network of the main component, where node labels indicate the main owner of the corporation, and ties represent shared corporate directors. The main component in the Panamanian network integrates corporations from 10 different private Panamanian business groups, two foreign firms, and one state-owned company.

Figure 2: Main component in the Panamanian network of interlocking directorates



Source: Authors' own elaboration

Notes: Nodes represent the corporations; node labels indicate the main owner of the corporation; black nodes are Panamanian-owned private corporations; grey nodes are foreign-owned corporations; white nodes are state-owned enterprises; ties symbolize shared corporate directors.

To identify the most central business groups in the main component, we analysed the centrality measures of degree and betweenness. Both measures score all nodes based on the number of ties of each node and the position each node has in the network. Node degree is the number of ties of each node: the higher the node degree, the more "friends", that is, the more opportunities for connection. Nodes with the highest degrees (number of ties) are the business groups Motta, González-Revilla, Humbert, De la Guardia, and a corporation jointly owned by Motta and González-Revilla. Node betweenness is a measure of the extent to which a node acts as a bridge between other nodes: the higher node betweenness, the more other nodes depend on it to connect. Nodes with high betweenness (bridges) are the business group Eleta and the firm owned by Motta and González-Revilla.

The most central nodes are also some of the wealthiest family business groups in Panama. The Motta family has made its fortune from duty free shops and expanded its business to transport (Copa Airlines), the port and logistics sector (Manzanillo International Terminal, the largest port in Central America), insurance (ASSA), telecommunications (Cable Onda), beverages (Global Brands) and media (Televisora Nacional). The González-Revilla family owns MCH Holding, a conglomerate of telecommunications, finance, real estate and fuel distribution companies. The Humbert family owns Banco General, the largest bank in Panama. The Eleta Group has diversified investments in telecommunications, energy, real estate, tourism and agro-industry. The De la Guardia family is mostly associated with the banking and insurance sector (Quintero 2014). In summary, this set of diversified family-controlled business groups constitutes a single cohesive cluster in the Panamanian corporate network.

Political campaign contributions in the 2014 presidential elections

According to data from the Electoral Court and disclosure documents by Juan Carlos Varela and Juan Carlos Navarro, the number of private donations tripled to presidential campaigns in Panama tripled between the 2004 and 2009 elections. In 2004, donations totaled USD 18.7 million, while the 2009 elections saw USD 25.7 million in donations. This rose to USD 59.2 million in the 2014 elections. Between 2009 and 2010, funds from the private sector constituted 56 percent of contributions to electoral campaigns, larger than in some other Central American countries, such as Costa Rica (42 percent of total contributions) (Bull et al. 2014).

While the winner of the 2014 elections, Juan Carlos Varela's Panameñista Party, received about USD 10 million in donations, the outgoing party Democratic Change received about USD 35 million. The Democratic Revolutionary Party (PDR) received donations of USD 14 million, 4 million more than President Varela's party. Owners belonging to the main component contributed to the same political party, the winning Panameñista Party (PAN). Table 4 displays a list of business elites belonging to the main component and the amount of contributions they made. Interlocked corporations tend to finance the same candidate. This finding corresponds to previous studies on corporate networks and political donations in the United States that suggest that corporations linked through shared directors are more likely to finance the same political party (Burris 2005; Mizruchi 1992).

Table 4: Business elites of the main component and private electoral contributions in 2014

Owner	Donor	Amount: USD	Party
Eleta Group	Yolanda Eleta de Varela[7]	1,600,000	Panameñista Party
Motta	Bahía Motors [8] *	20,000 10,000	Panameñista Party PRD
	Felipe Motta Jr.	2,500	Panameñista Party
Humbert	Federico Humbert Arias	4,500	Panameñista Party
	Juan Raúl Humbert	15,000	Panameñista Party
De la Guardia	Alfredo de la Guardia	53,500	Panameñista Party
		20,000	PRD
González-Revilla	Emmanuel González-Revilla	100,000	PRD
Quijano	Guillermo Quijano Castillo	26,000	Panameñista Party

Source: Authors' own elaboration based on documents made public by Juan Carlos Varela and Juan Carlos Navarro[9]
*Notes: * Firm owned by Motta group*

7 According to the documents disclosed by Juan Carlos Varela in 2017, his wife, Yolanda Eleta de Varela, was one of the major donors. Here we take into consideration the amounts reported as Yolanda Eleta de Varela (USD 56,000) and those reported as Yolanda Eleta de Varela/Luis José Varela Rodríguez/Luis J Varela Jr. (USD 1,591,849).
8 This firm also donated USD 10,000 to PRD in February 2013.
9 Please contact authors for access to these documents.

Revolving doors: Appointments of businesspeople to government positions

Another important factor in understanding business influence on the state is revolving doors. Rather than exchanging resources (money or votes), business elites seek to influence the political arena through the movement of people from corporations to public branches (Etzion and Davis 2008). In Panama, President Varela appointed several businesspeople to manage strategic ministries: Economy, Agriculture, Commerce, Transport, Housing and the Panama Canal (see Table 5). These businesspeople hold ministries related to their particular business interests and expertise. For example, Jorge Arango, owner of Compañía Agrícola Industrial, the largest producer of pork in Panama, was appointed as Minister of Agricultural Development. Mario Etchelecu, a businessman in the real estate sector, was appointed Housing Minister. The Minister of Public Infrastructure, Ramón Arosemena, is a construction sector businessman. Dulcidio de la Guardia, the Minister of Economy and Finance, was Vice-President of Investment Banking at Banco Continental, a bank acquired by Banco General.

Table 5: Businesspeople appointed to ministries during Varela's presidency (2014-2019)

Businesspeople	Ministry	Private Company/Sector	Economic sector
Roberto Roy	Panama Canal	R-M Engineering	Construction
Dulcidio de Guardia	Minister of Economy and Finance	Banco Continental	Finance
Jorge Arango	Minister of Agricultural Development	Compañía Agrícola Industrial, S.A. (Caisa)	Agriculture
Ramón Arosemena	Minister of Public Works	American Engineering Group	Construction
Augusto Arosemena	Minister of Trade and Industry	Arias Fabrega & Fabrega	Legal services
Mario Etchelecu	Housing Minister	Bienes Raíces COT	Real estate

Source: Authors' own elaboration based on the biographies of ministers available on business directories and LinkedIn

In addition to ministerial appointments, businesspeople linked to the main component occupied strategic positions in the government when Juan Carlos Varela was President. Federico Humbert, who owns a stake in the Banco General and holds a position on the board of directors of the Social Security Department (Caja del Seguro Social) was elected Comptroller General of the Republic thanks to Varela's endorsement. Emanuel González-Revilla, Chairman at MCH Holding, was appointed ambassador to the United States. Several members related to the Motta business group were also recruited to Varela's administration (see Table 6).

Table 6: Varela administration's public servants linked to the Motta business group

Name	Relationship to the Motta family	Government position
Dulcidio de la Guardia	Vice-President of the Banca de Inversión del Banco Continental (1999-2002)	Minister of Economy and Finance (2014-2018)
Melitón Arrocha	Anamae Boyd Motta's husband	Minister for Trade (2014-2015)
Rodolfo Aguilera	Guillermo Henne Motta's partner in several companies	Minister of Security (2014-2016)
Mirei Endara de Heras	Wife of Grupo Motta's Treasurer (Miguel Heras Castro)	Minister of Environmental Affairs (2015-2017)
Joseph Fidanque III	Director of Copa Airlines	Manager of Tocumén S.A. (International Airport)
Francisco Sierra	Executive Financial Vice-President of Banco General	Minister-Counsellor (ad honorem)
Rogelio Donadío	Seller of Global Brands (Motta International)	Vice-Minister of Security (2014-2016)
Carlos Duboy	General Manager Motta International	Presidential Secretary
Jorge Motta	Stanley Motta's cousin	National Secretary for Science and Technology
Emanuel Gonzalez-Revilla	Member of the Board of Directors of Banco General	Panamanian Ambassador to the US

Source: Authors' own elaboration based on Torrijos Legazpi (2015)

Discussion and Conclusions

This study of business elites' sources of power illustrates several features of the puzzling case of state capture in Panama: 1) the very rich control a high share of the total national income, one of the highest in Latin America, and, in parallel, they have a low tax burden, one of the lowest in Latin America; 2) there is no general national cohesion of business elites, rather only a small set of family business groups form a cohesive cluster; 3) this cluster directed its political campaign contributions mostly to one presidential candidate; and 4) after the elections, businesspeople closed related to the main component were appointed to ministerial and other government positions related to the economic sector of their companies.

These results suggest that a small but powerful fraction of the business elite, rather than the whole business sector, has been able to exert considerable direct control over the state administration. They have achieved this, first, through active coordination to fund the political campaign of a businessman running for president, and second, from the fact that they were able to influence the appointment of closely related businesspeople to strategic government posts that regulate and define macroeconomic policies, including fiscal ones. This well-connected cluster of business elites captures the state on the basis of what has been called an institutional framework of stable democracy and relatively strong regulatory institutions. Unlike other Latin America economies where business elites supported military coups or financed paramilitarism, Panamanian business groups seems to rely mostly on their economic resources and connections to control the state. Further studies should explore the differences among business elites in Latin America and their historical and institutional ways of influencing public policy.

The appointment of businesspeople to government posts has become a common mechanism used across Latin American countries, especially in pro-business governments such as those led by Mauricio Macri in Argentina (Castellani 2018), Sebastian Piñera in Chile (Maillet et al. 2019) and Carlos Salinas in Mexico (Aragón-Falomir and Cárdenas 2020). Although we evidenced this practice in Panama, future studies should examine the other side of the revolving door, when large corporations hire former politicians. While businesspeople who serve as ministers and government officials are very exposed to public scrutiny, policymakers who become business executives operate more out of the public eye. Therefore, the movement of government officials to large private corporations, a common practice in Europe, might increase the opportunities for state capture (Alter-EU 2018).

A dominant perspective in business power literature argues that only national business cohesion effectively precludes policies such as progressive taxation,[10] but we found that in Panama a small set of business groups was also able to capture the state. The connection of a few business groups can make it easier to reach agreements and to coordinate political actions. If more corporations would have been connected through interlocking directorates, business demands might have turned out more general and beneficial for the whole business world, instead of benefitting a specific cluster representing more particularistic interests. This study shows that networking among business elites can be one mechanism of political influence that precedes state capture, as it organizes access to the state through collective mobilization of resources and coordinated action planning.

In addition to the mechanisms mentioned in the literature that can lead to state capture—lobbying, revolving doors and campaign contributions[11]—analyses of interlocking directorates are useful to uncover the underlying structure through which corporations and business elites are organized. Network analysis contributes to the mapping of opportunities and constraints of corporate actions, and thus to determining when business networking might have more chances to take advantage of public procurements, tax exemptions and legal prosecutions.

In conclusion, this paper contributes to the literature on state capture in several ways. At the theoretical level, it questions the well-considered institutional political economy approach to understand state capture and uses the theory on business sources of power to shed light on how a small cluster of business elites might also have chances to capture the state. At the methodological level, it incorporates an analysis of networks of interlocking directorates. At the empirical level, it maps the social organization of business elites in Panama for the first time and generates data on revolving door practices of business elites and the role of financial donations to political campaigns. Consequently, it opens further avenues of research on elite networks and their political

[10] Castañeda 2017; Fairfield 2015; Flores-Macías 2019.
[11] Carpenter and Moss 2013; Dal Bó 2006; Durand 2019.

consequences. Future studies should also address whether cohesive business elite networks, given their capacity for political influence, can help to understand either the emergence or blockage of institutions for income redistribution. In economies where business elites form cohesive networks, are they more open or resistant to redistributive policies? (Cárdenas 2020; Delamonica et al. 2020). In sum, investigating business elites in Latin America in general, and in Panama in particular, is not an easy task due to the lack of transparency in corporate governance and public management. Still, available data and information allowed us to shed light on certain levels of underlying state capture and unequal sources of power, two of the major issues in the region and the country.

At a practical level, policies addressed to reduce state capture in Panama should focus on the business elites' instrumental sources of power given the complexity of implementing redistributive policies. Changes in the legal framework should constrain the role of private funding in electoral campaigns to reduce the economic influence of business elites on democracy. Moreover, legislation should restrict revolving doors to diminish conflict between private and public interests. Finally, building national business associations and, thus, a more nationally cohesive corporate network would avoid the development of biased policies that benefited only a small cluster of businesspeople.

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