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Trade Policy Review Body

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TRADE POLICY REVIEW

REPORT OF

PANAMA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Panama is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Panama.

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INTRODUCTION

1. Since its last Trade Policy Review (TPR), Panama has stepped up its strategy aimed at consolidating the country's role in the international economy, on the one hand by further developing its market-oriented economic policies designed to attract foreign direct investment to strategic sectors and on the other, by taking an active part in multilateral, regional and bilateral trade negotiations.

2. Panama has a robust, dynamic and growing economy, driven by key sectors linked mainly to international trade and boosted by sound economic and social reforms.

3. As a small nation that is highly integrated into the world economy, Panama needs to put in place a set of stable and transparent rules that can be effectively enforced in order to provide and ensure stability for trade.

4. Panama participates actively in the Doha Round and is committed to the successful conclusion of these negotiations. It attaches special importance to implementing the trade facilitation commitments arising from the Ninth WTO Ministerial Conference held in Bali.

5. Over the past six years Panama has brought into force nine free trade agreements and one partial scope agreement and has joined economic and trade integration processes such as the Central American Economic Integration Subsystem (SIECA) and the Latin American Integration Association (LAIA), all of this with the aim of broadening its foreign trade platform and stepping up its participation in world trade. Similarly, it has worked towards becoming part of initiatives such as the Pacific Alliance.

6. Throughout the review period, Panama introduced significant reforms to foster trade and investment. These changes mainly concern the pursuit of a trade policy that entails active participation in ongoing trade negotiations, raising issues under the dispute settlement mechanism regarding measures taken by other Members, as well as promoting the conclusion of trade and investment agreements with certain business partners that are also WTO Members and effectively complying with WTO trade commitments.

7. Panama has adopted a strategy to optimize and reduce the costs of trade-related customs and administrative procedures; it has made significant changes to its tariff rates; it has effected other substantial changes to promote a policy of free competition and a level playing field in terms of market access for all trading partners; and it has sought to develop processes to upgrade public administration and promoted the optimal use of information and communication technologies in the government sector in the form of efficient e-government tools.

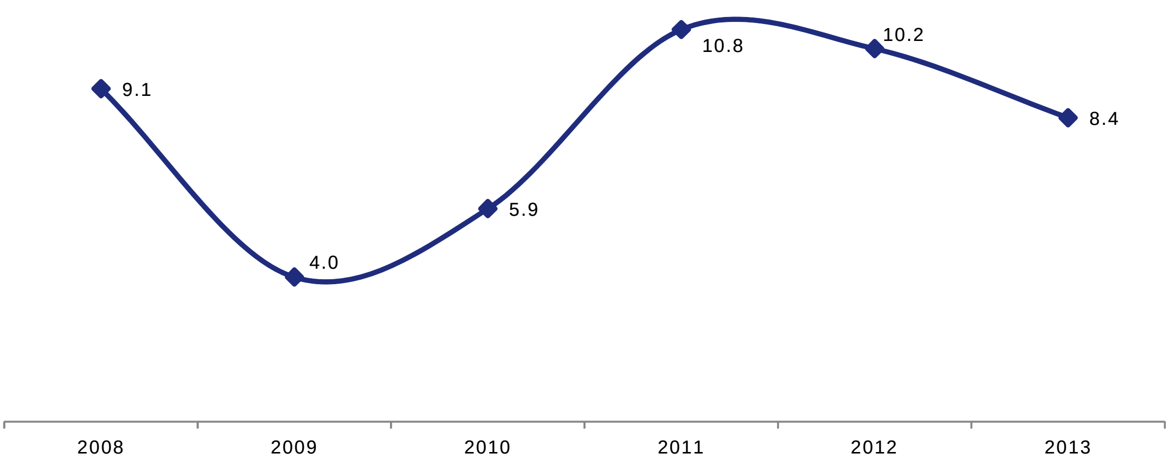
8. The most salient facts are set out below.

1 RECENT ECONOMIC ENVIRONMENT AND OUTLOOK

1.1 Overview

1.1. The Panamanian economy grew strongly between 2007 and 2013. Gross domestic product rose at an annual average of 8.1% over the period, posting the highest rates in 2011 (10.8%) and 2012 (10.2%). Panama led growth in Latin America during those years and the 8.4% increase in 2013 was the second largest in the region. The most appreciable slowdown during the review period took place in 2009 on the back of the world economic crisis, but the economy recovered quickly thanks to the strong boost provided by public and private investment as well as the rise in services exports. The economic activities driving growth have been construction, transport, storage and communications, financial intermediation, hotels and restaurants and the wholesale and retail trade.

Chart 1.1 Percentage change in gross domestic product, at constant 2007 prices: 2008-2013



Source: National Institute of Statistics and Censuses.

1.2. Importantly, the country's successful economic performance is based on the implementation of coherent, market-oriented economic policies that have been instrumental in attracting foreign investment, thus enabling a large number of multinationals to set up in the country. Besides, physical investment in construction has been high. In the case of public investment, the driving factors have been the expansion of the Panama Canal (which will allow for the passage of post-Panamax vessels with greater cargo carrying capacity and will therefore generate economies of scale in the maritime industry), line 1 of the Panama Metro, and construction and expansion work on airports, the road network and hospitals. These investments were undertaken in order to boost the economy's competitiveness whilst improving people's quality of life. There was a surge in private investment in residential and non-residential projects, the latter mainly by shopping centres and hotels. International surveys show that Panama has become one of the most competitive countries thanks to its infrastructure and its attractiveness to foreign direct investment. (See: National Institute of Statistics and Censuses. Percentage distribution of gross domestic product by sector and economic activity. 2007-2013).

1.3. Foreign trade recorded current account deficits for the entire period from 2007 to 2013, and these were funded with surpluses on the financial account, mainly in the form of foreign direct investment. Goods exports grew for most of the period thanks to re-exports from the Colón Free Zone, which has now become one of the most important centres for the regional distribution of goods coming primarily from Asia to the Latin American market. Goods imports have grown rapidly, in step with the growth of the economy. The services balance maintained the usual surplus, the leading exports being travel, air transport services, those from the Panama Canal and ports, as well as financial services.

1.4. This recent economic overview shows a robust, dynamic and growing Panamanian economy, which has raised the population's level of well-being, driven by key sectors linked mainly to international trade and boosted by sound economic and social reforms. This performance will doubtless grow stronger in the years ahead, to the benefit of the country itself, its trading partners, and trade in the region.

1.5. Following is a brief description of recent economic performances in the various sectors, to illustrate their contribution to this positive overall economic picture.

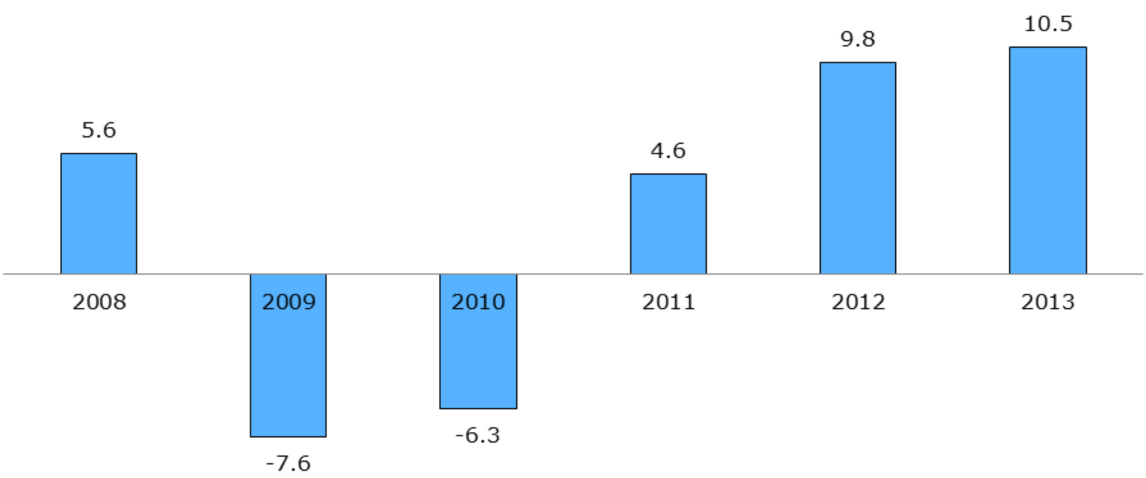
1.2 Economic performance by sector

1.2.1 Primary sector

1.6. Primary sector production amounted to B 8,778.1 million between 2007 and 2013, mainly in the latter year (B 1,432.1 million) when levels were higher than those of previous years, with growth running at 10.5% on the back of increased mining and quarrying. The growth rate averaged 2.8% for the six years, however, having come under downward pressure from diminished production in 2009 and 2010 induced by the world financial crisis.

Chart 1.2 Percentage change in primary sector gross domestic product: 2008-2013

(Percent)



Source: National Institute of Statistics and Censuses.

1.7. In June 2008 in particular, the price of oil peaked at B 133.88 per barrel, an increase of over 90% compared to 2007. This directly impacted domestic production, as rising international demand for grains such as corn and soybeans for biofuel production drove up the prices of this raw material that is indispensable to agricultural production.

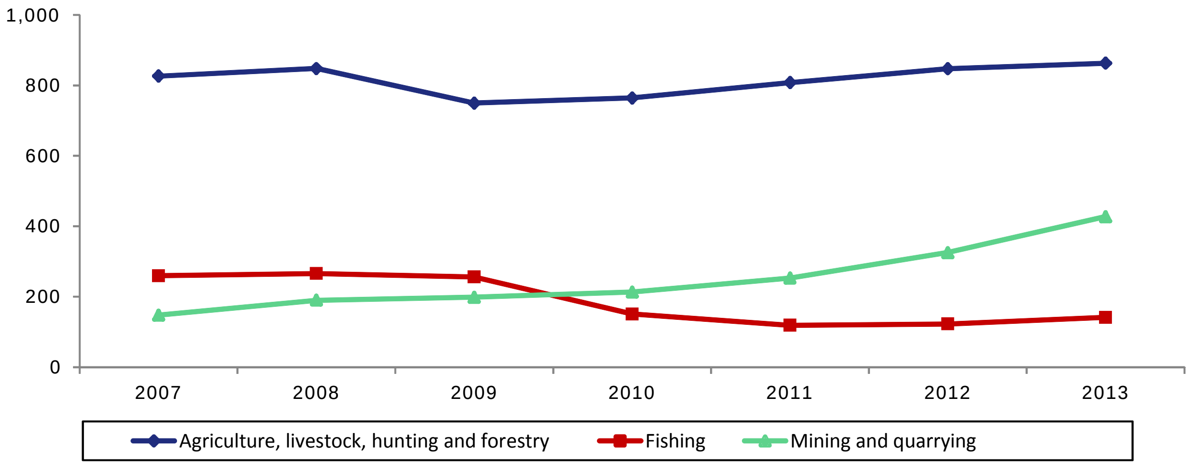
1.8. By 2009, the nation's primary sector (mainly agriculture) was also witnessing a decline in exports of non-traditional fruits (-45.3%), a reflection of contracting demand for this Panamanian product on the principal markets – the United States and Europe – which were being badly hit by the global crisis. Still, there were nascent signs of world economic recovery, which it was hoped would continue in the following years.

1.9. Historically, agriculture, livestock farming, hunting and forestry have accounted for the biggest share in the sector's output with an average of 65%, though their growth has remained relatively constant in recent years. Next in importance have been mining and quarrying (20% on average) and fisheries (15% on average). As of 2010, however, these proportions shifted, as, contrary to the usual pattern, the second highest production came from mining and quarrying. This was attributable to the remarkable growth of mining activity and the construction boom in the country.

1.10. As of that year the growth rate of the mining and quarrying sector began to recover and in 2013 (31.4%) surpassed the 2008 growth rate increase (28.4%) over the previous year. The basis for this was traditional mining, i.e. the larger quantities of stone and sand being extracted for the production of ready-mix concrete and construction in general. Even more instrumental however was non-traditional mining, that is to say gold exports, which increased steadily between 2009 and 2012, although their value began declining in 2012 owing to flagging world demand for gold, as noted at the time by the World Gold Council.

Chart 1.3 Primary sector gross domestic product: 2007-2013

(B million)



Source: National Institute of Statistics and Censuses.

1.11. Whilst fishing contracted in 2010 for the second consecutive year (-41.2%), the sharpest contraction for the period had been -3.7% in 2009 and -21.2% in 2011. This activity was affected by adverse weather conditions, increased operating costs stemming from the high price of petroleum products, the necessary restrictions and closed seasons to protect aquatic resources and the restriction placed on longline fishing (rope lines) at the end of that year. Exports of fisheries products therefore fell (-46.7% in volume and 48.2% in value).

1.12. It was not until 2012 that fishing began to recover, growing 3.4% after three years of recession, thanks to shrimp exports, up 20.3%, and small-scale fishing. Industrial fishing lagged behind with negative performance figures, particularly in terms of the volume of exported fish (-19.9%), generating lower income of B 10.9 million (15.3%) from foreign sales. Growth in fisheries of 15.2% for the year 2013 was the highest in the past six years.

1.13. The structure of the primary sector of the Panamanian economy was therefore transformed owing to the changes in the economic activities that became the drivers of growth and cornerstones of the country's development.

1.2.2 Secondary sector

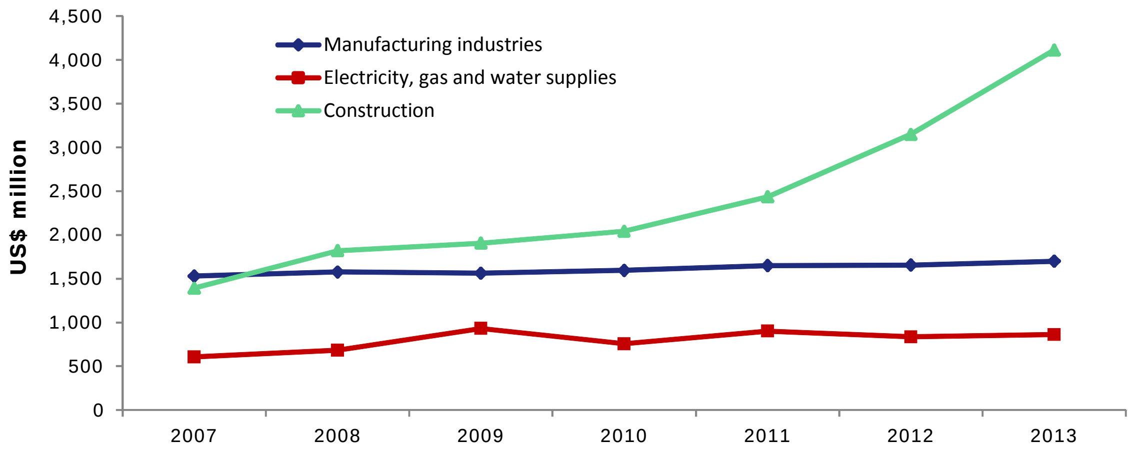
1.14. From 2007 to 2013, the secondary sector represented on average 18.1% of gross domestic product (GDP), posting positive growth rates except in 2010, owing to a diminished GDP contribution from electricity, gas and water supplies. In 2013 the sector grew by 18.5% over the previous year.

1.15. The average share of manufacturing in GDP was 6.2%, with this share declining gradually over the period despite growing at positive albeit low rates. This was attributable to trade liberalization and the very structure of an economy that prioritizes services.

1.16. Meanwhile, the share of electricity, gas and water supplies in GDP averaged 3.0%, with growth rates fluctuating between a high of 36.5% in 2009 and a low of -18.9% in 2010. As this activity is dependent on available supply and market demand, its performance has been mixed.

1.17. Construction meantime registered steady growth. Its average weight in GDP was 8.8% and it posted its lowest growth rate in 2010 (4.6%) owing to the impact of the international financial crisis. Activity nonetheless recovered gradually, achieving growth rates of 30.7% in 2008, 29.3% in 2012 and 30.5% in 2013.

Chart 1.4 Secondary sector gross domestic product, at 2007 prices: 2007-2013



Note: Only market production was used to analyse construction.

Source: National Institute of Statistics and Censuses.

1.18. It is worth noting that manufacturing GDP was B 1,530.7 million in 2007, whilst that of construction was B 1,393.1 million. However, 2013 manufacturing GDP came in at B 1,699.8 million and that of construction at B 4,111.4 million, which represented a tripling of this latter activity's GDP share. Residential and non-residential construction projects as well as public and private infrastructure works have therefore been the drivers of growth in the secondary sector of the economy during the period in question.

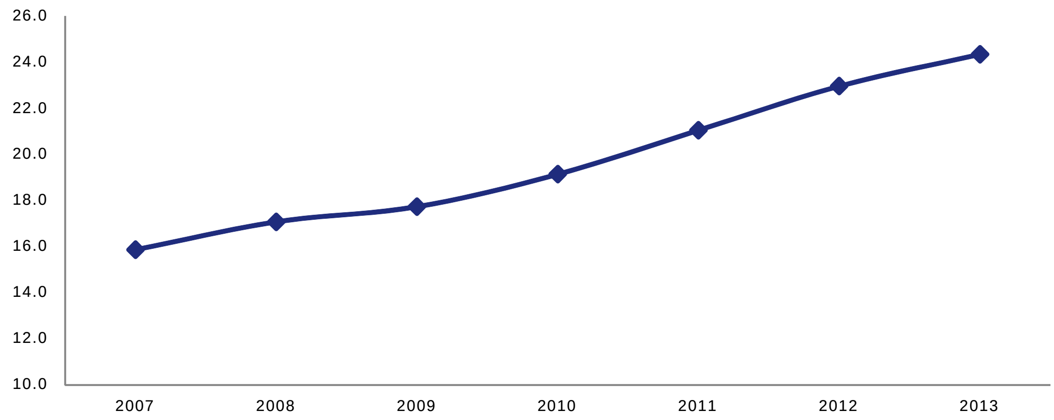
1.2.3 Services sector

1.19. From 2007 to 2013 the services sector was the biggest contributor to Panama's GDP, accounting for a 74.3% share and growing at an average of 7.4%. The wholesale and retail trade, transport, storage and communications, hotels and restaurants as well as financial intermediation were amongst the sector's most dynamic activities.

1.20. On average, transport, storage and communications represented 18.0% of GDP and their dynamism was attributable to the performance of the Panama Canal, port movement and telecommunications, the latter thanks to the opening up of competition and to technological advances in mobile telephony, internet and cable services. The year 2009 witnessed the entry of new cell phone operators, thereby making consumer services more accessible.

Chart 1.5 Services sector gross domestic product, at 2007 purchaser's prices: 2007-2013

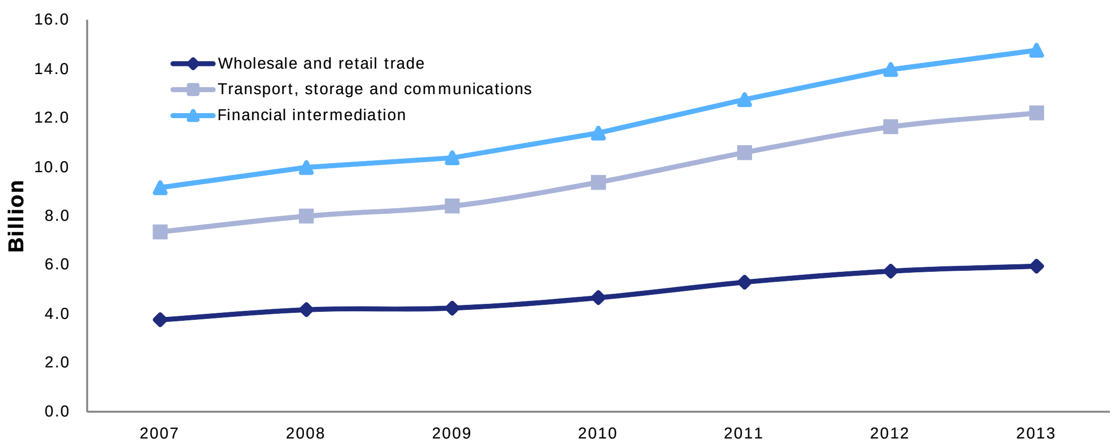
(B billion)



Source: National Institute of Statistics and Censuses.

1.21. Adjustments were made to the Panama Canal's system of tonnages and subsequently, in 2007, to rates, which entailed differentiating Canal toll charges so as to align them with the true value the route provides, in other words, valuing the opportunity cost involved. It also adopted a system of market segmentation based on type and size of vessels (passenger, container, and according to load and dimensions), in effect since 2011. All the aforementioned measures were crucial to the conduct of the Canal's activity.

Chart 1.6 Gross domestic product of the most important services sector activities: 2007-2013



Source: National Institute of Statistics and Censuses.

1.22. Panama's ports move more than six million TEUs annually. This makes it one of the leaders according to the ECLAC ranking of container port movements in Latin America and the Caribbean for the 2010–2013 period. It also constitutes infrastructure that is crucial to promoting trade flows in the region.

1.23. Other activities that made major contributions to the sector have been the wholesale and retail trade, which showed vibrant growth between 2008 and 2012 at an average rate of 8.0%. The Colón Free Zone registered significant trade movements between 2009 and 2011. Activities then slowed in 2012 and by the end of the last quarter of 2013, a series of situations facing the main partner countries of the Colón Free Zone combined to drive down foreign sales, giving rise to the first downturn in recent years. Meanwhile, the retail trade received a shot in the arm from increased wage income and greater consumer funding provided by the National Banking System.

1.24. Financial intermediation was another principal driver of the sector, thanks to an increase in the financial services provided. The Panamanian banking system has developed in a competitive market that makes for a stable system. This enables the Panamanian economy to maintain very competitive interest rates that are closely aligned with international ones. The features of the Panamanian banking centre are such that money is able to flow within the economy through loans to private banks and the public sector. Moreover, the country receives foreign exchange mainly from goods and services exports and foreign investment. A study of trends over the 2007–2013 period reveals that during 2009 banks maintained very cautious policies on lending in general and financial investments in particular. Activity nevertheless began to recover, achieving growth of 9.0% at the end of 2013 and accounting for 7.6% of gross domestic product.

1.3 Balance of payments

1.25. The balance of payments showed a deficit in the ***current account*** between 2007 and 2013, representing an annual average of 9.3% of gross domestic product. Over the past four years, however, the deficit has been above average, particularly during 2011 when it represented 15% of GDP and amounted to B 4,993.3 million. The negative current account balance is largely the result of the deficit in the goods and income balances. The services and transfer balances for their part showed a surplus for most of the years under reference.

1.26. The ***balance of goods*** continued negative, with imports invariably exceeding exports. The growth of goods imports was driven by a strong surge in economic activity, with capital goods imports standing out for several years of the period, and growing at an average of 18.63% from 2010 to 2013. Over the period, the biggest increase in these imports took place in 2011 (32.9%). Public and private infrastructure works were of pivotal importance. In the case of public infrastructure works, those of greatest impact were the expansion of the Panama Canal, line 1 of the Panama Metro and the expansion of the road network.

1.27. Consumer goods imports also grew strongly over the period, in particular in 2008 (40.1%), in 2010 (19.2%) and in 2011 (24.1%), the main items being fuels, lubricants and related products, which showed increases of 51.5%, 33.7% and 42.7%, respectively, on the back of substantial increases in international commodity prices during those years.

1.28. As regards the Colón Free Zone, imports showed increases in step with the growth of re-exports. They amounted to B 7,634.1 million in 2007 and B 14,650.7 million in 2012, then declined in 2013. These goods come mainly from China; Chinese Taipei; Hong Kong, China; Mexico; Singapore; and the United States, amongst other countries.

1.29. As pertains to goods exports, a distinction must be drawn between national exports and re-exports. The first consist of goods produced and processed in the country. National exports totalled B 1,126.8 million in 2007 and peaked in 2008 at B 1,144.0 million, only to contract in 2009 and even further in 2010. They then recovered over the past three years (2011, 2012 and 2013), though not to previous levels. The surge was the result of high demand for agricultural exports in developed countries, in particular for fruit (bananas, melons, watermelons and pineapples) as well as for fisheries products. The decline in export levels was primarily attributable to the impact of the economic crisis, which compressed demand in the main markets of destination of Panamanian exports, and to the effects of weather events. In parallel, the later years also witnessed a decline in the supply of various agricultural and fisheries products.

1.30. Besides agricultural, agro-industrial and fisheries products, it is worth mentioning the dynamism displayed by some others, mainly scrap metal, non-monetary gold (since 2009) wood and hides.

1.31. Re-exports from the Colón Free Zone amounted to B 8,519.5 million in 2007 and grew year on year thereafter, in particular in 2011 when they posted a 32.7% increase over the prior year. In 2012 they reached their highest level for the period when they totalled B 16,141.7 million but fell back in 2013 by some 7.2% owing mainly to the contraction of re-exports to the Bolivarian Republic of Venezuela (43.3%) and Colombia. Re-exports from the Colón Free Zone go mainly to Puerto Rico, the Bolivarian Republic of Venezuela, Colombia, Costa Rica and Ecuador. The leading re-export items include machinery and electrical appliances for reproduction and sound, chemicals (more specifically medicines), textiles and textile manufactures and footwear.

1.32. The **balance of services** showed positive balances throughout the period from 2007 to 2013. For most of those years exports posted double-digit growth averaging 14.4% annually. The growth rate slowed only in 2009 (6.7%) as a result of the world economic crisis and in 2013 (4.5%) owing to reduced exports from the Panama Canal and ports as a result of a slowdown in world trade.

1.33. Services exports consisted mainly of services provided by the Panama Canal as well as travel, air transport and port services. Tourism-related services gained in importance between 2007 and 2013, representing 26.9% of the total exported in 2009 and 34% in 2013. Also related to a good extent to tourism were air transport services provided to non-residents, which increased from 15.4% in 2007 to 19.9% in 2013. These two activities registered the most rapid growth, which was consistent with a Government strategy of making tourism a driver of growth. To that end, economic policies were implemented to provide incentives for the building of hotel infrastructure and public investment in airports, and the country's attractions were promoted internationally.

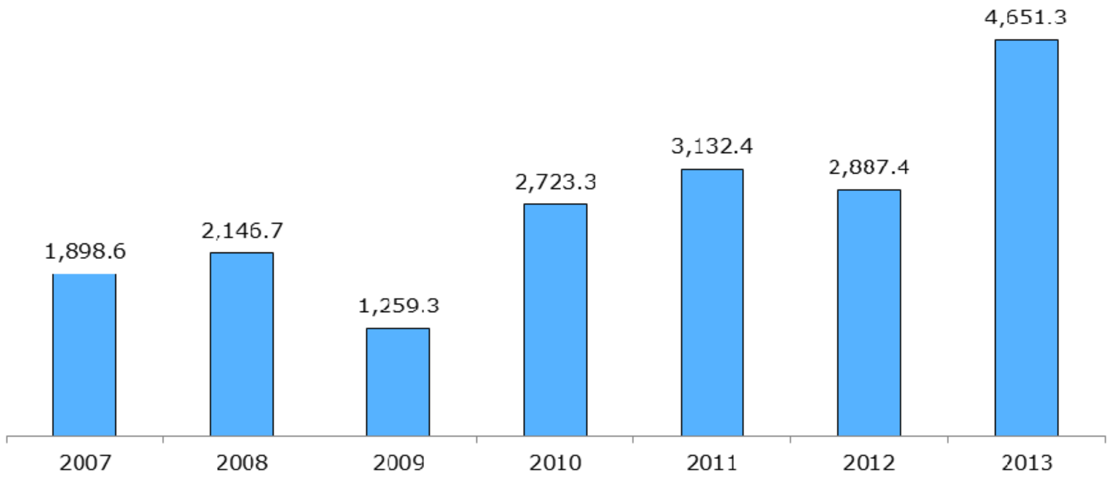
1.34. **Incomes** paid exceeded those received throughout the period from 2007 to 2013 owing mainly to the repatriation of profits and dividends abroad by companies set up through foreign direct investment. The contribution from income paid by way of interest also remained significant. Incomes received were led by interest collected by banks with general and international licenses on their investments and debt instruments.

1.35. The **transfer balance** was positive from 2007 to 2012, though not in 2013 when it posted a deficit of B 25.4 million. Transfers received were mostly workers' remittances which in 2013 amounted to B 398.1 million. Remittances were also prominent in outgoing transfers, amounting to B 295.9 million in 2007 and B 709.4 million in 2013 owing to increased migration of non-resident workers thanks to the booming economy and a more flexible migration policy.

1.36. The **capital and financial account** showed positive balances for almost the entire 2007-2013 period, and these helped finance the current account deficit. The main receipts on the account were from foreign direct investment by other countries in Panama, which grew at its highest level in 2013 when it amounted to B 4,651.3 million, representing a 61.6% increase over the prior year. During the period, foreign investment went mainly towards the wholesale and retail trade, financial activities, transport, storage and communications, and manufacturing.

Chart 1.7 Foreign direct investment in the reporting economy (in Panama): 2007-2013

(B million)

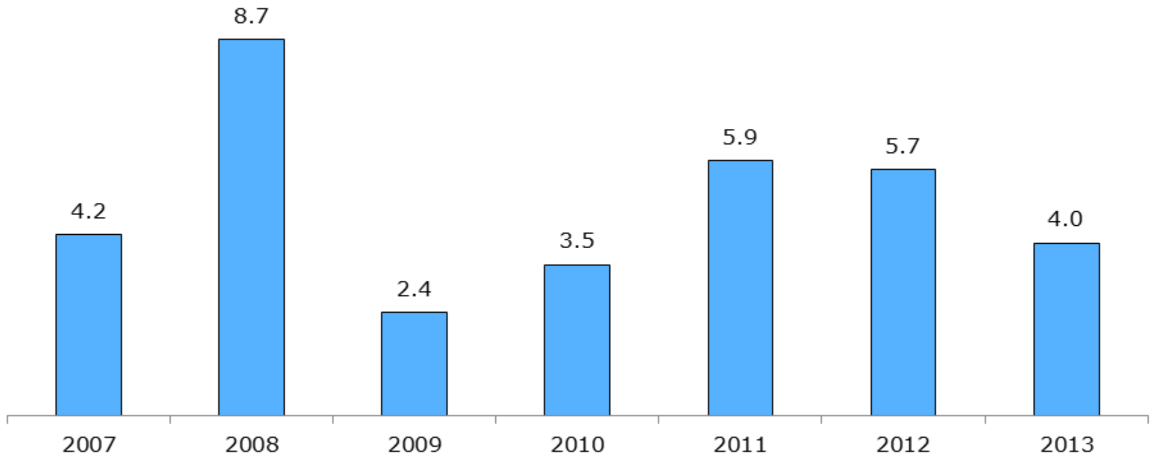


Source: National Institute of Statistics and Censuses.

1.4 Inflation

1.37. Over recent years, Panama's rate of inflation (measured by changes to the consumer price index) has changed by comparison with the trend of earlier periods (low inflation). This has been due mainly to factors such as the world financial crisis, credit, domestic demand, higher prices of oil and some agricultural commodities, all of which affected the import prices of both finished products and raw materials. Adverse weather conditions also negatively impacted agricultural and livestock production.

Chart 1.8 Percentage change in the urban national consumer price index: 2007-2013



Source: National Institute of Statistics and Censuses.

1.38. Over the 2007–2013 period, the highest rates of inflation were recorded in the years 2008 (8.7%), 2011 (5.9%) and 2012 (5.7%), followed by a return to relatively moderate levels in 2013 (4.0%). The average CPI increase for the period was 4.9%.

2 RECENT TRADE POLICY DEVELOPMENTS

2.1 Multilateral trading system

2.1. As a Member of the World Trade Organization (WTO) since 1997, Panama is fully committed to the multilateral trading system and the rules governing international trade, and bases relations with its trading partners on the relevant guiding principles by following a trade policy that is open, non-discriminatory and competitive and one that offers predictability and transparency.

2.2. The WTO is the main forum for discussion with trading partners and provides an institutional and legal setting in which to combat protectionism and promote market opening, both of which are crucial to a developing country such as Panama, which is highly dependent on international trade. The Organization also facilitates negotiations to expand and modernize the rules of multilateral trade such as the recent agreements emanating from the Bali Ministerial Meeting.

2.3. Panama believes that strengthening the rules of the multilateral system is important in improving interaction among Members, as well as in establishing stable regional or bilateral trading relations that contribute to the expansion of trade and investment flows.

- Participation in ongoing negotiations

2.4. The Doha Round negotiations have been considerably delayed. Nonetheless, Panama hopes that they will be concluded in the near future to the benefit of all WTO Members. For Panama, the Bali Package has reaffirmed the commitment of countries to the multilateral trade rules under the WTO and to achieving the aims of the Doha Development Programme. Panama is of the view that the outcomes of these negotiations would help to strengthen world trade and hence foster economic growth for the country in particular and for other Members in general.

2.5. The main achievements during the period under review include the WTO Ministerial Conference held in Bali in 2013, where agreement was reached on issues that will bring greater certainty and transparency to international trade formalities and promote the expansion of trade.

2.6. Another achievement during this period was the conclusion of the Geneva Agreement on Trade in Bananas in December 2009, which ended one of the most protracted disputes in the history of the GATT and the WTO. The agreement addresses, *inter alia*, matters regarding the modification of the European Union's (EU) tariff schedule through GATT Article XXVIII and the changeover to a single-tariff system, and is a satisfactory outcome as pertains to Panama's trade interests under the multilateral system. This agreement was signed by Panama, the EU, and the other Latin American countries involved on 31 May 2010 and became effective in March 2011.

2.7. To foster technological development and encourage investment in the realm of technology and information science, Panama in 2012 acceded to the Information Technology Agreement (ITA), which provides for the full elimination of customs duties on the information technology products it covers.

2.8. Panama is involved in the negotiations on the Trade in Services Agreement (TISA) and implementation of the outcomes of the agreement will provide a framework that will further buttress Panama's position as the region's multimodal and logistics hub.

- Dispute settlement mechanism

2.9. With its increased involvement in the multilateral trading system, Panama finds the dispute settlement system to be the appropriate mechanism for airing its concerns over measures taken by other Members, whilst seeking to ensure that trade with its partners is mutually beneficial and in line with the rules adopted under the Agreements governing the Organization.

2.10. Panama is a Member that respects the obligations deriving from these rules, which is why it was not involved as a defendant in any dispute settlement procedure during the period under review.

2.11. Although Panama is of the view that the dispute settlement system needs to be reinforced in order to expedite proceedings for Members, it has been making more extensive use of the mechanism and, during the review period, it participated as a complainant in three procedures, one leading to a favourable ruling and two to the establishment of arbitration panels. Panama is also involved as a third party in three procedures that are of substantial commercial interest to the country.

2.2 Trade and investment agreements

2.2.1 Agreements in force

2.12. Up to April 2007, Panama had new generation trade agreements in force with Chinese Taipei, El Salvador and Singapore. Since the last trade policy review, Panama has implemented nine free trade agreements with countries such as Canada, Chile, Costa Rica, Guatemala, Honduras, Nicaragua, Peru, the United States, and the European Union, and one partial scope agreement with Cuba. In addition, Panama formalized its accession to the Economic Integration Subsystem by means of the Protocol incorporating the Republic of Panama into the Central American Integration System, and also became a full member of the Latin American Integration Association (LAIA).

2.13. This bilateral and regional trade agenda being followed by Panama is a vitally important complement to its strategy of integration into international trade, and consolidates, expands and deepens the trade benefits deriving from the WTO multilateral trade negotiations.

- **<u>Free Trade Agreement with Chile</u>**: The FTA between Panama and Chile was signed on 27 June 2006 and adopted by Panama through Law No. 7 of 12 January 2007. The Agreement envisages the phasing out of tariffs between the two countries starting on 1 January of the year in which the agreement enters into force. In the case of Panama, the reduction schedule includes goods for which tariffs will be eliminated immediately, goods that will be liberalized progressively over five, ten, 12 or 15 years, and others for which tariffs will remain at the base rate without reduction. The agreement contains a positive list of services commitments. In 2012, trade with Chile accounted for 1% of Panama's total trade.

- **Bilateral Protocol between the Republic of Panama and the Republic of Costa Rica**: It was adopted by the Republic of Panama through Law No. 17 of 2008 and became effective on 23 November of the same year. The tariff elimination programme began on 1 January 2009. The entry into force of this Protocol terminated the free and preferential trade agreement signed between Panama and Costa Rica in 1973.

- **Bilateral Protocol between the Republic of Panama and the Republic of Honduras**: This bilateral protocol was adopted by the Republic of Panama through Law No. 23 of 25 April 2008, and after the exchange of instruments of ratification, took effect on 8 January 2009, thereby terminating the preferential agreement signed by both countries in 1973.

- **Bilateral Protocol between the Republic of Panama and the Republic of Guatemala**: It was signed on 26 February 2008, and adopted through Law No. 48 of 15 July 2008 published in Official Gazette No. 26084 of 16 July 2008. It entered into force on 20 June 2009 following the exchange of instruments of ratification. The entry into force of this protocol terminated the free and preferential trade agreement according tariff preferences for trade in specific goods between the two countries since 1974.

- **Bilateral Protocol between the Republic of Panama and the Republic of Nicaragua**: It was signed on 15 January 2009 and adopted by the Republic of Panama through Law No. 29 of 22 June 2009. The entry into force of this protocol voided the free and preferential trade agreement that had benefited trade in goods between the two countries since 1972.

- **Free Trade Agreement with Peru**: The Free Trade Agreement between Peru and Panama took effect on 1 May 2012 under Law No. 82 of 22 December 2011. This Agreement also reflects the benefits of regional trade. It was negotiated under a common format though with a sufficient number of flexibilities to allow the countries to include chapters of interest to them. In the case of the Republic of Panama, the chapters on financial services, maritime services and telecommunications were negotiated in the light of our strategic vision for the services sector.

- **Trade Promotion Agreement (TPA) with the United States of America**: The TPA was ratified by the United States Congress and Senate in October 2011, and entered into force on 31 October 2012 once our country had finalized the implementation process.

  As pertains to trade relations, the United States is Panama's main trading partner. Trade flows for 2012 were worth B 3,137.7 million, with the United States receiving 20% of Panama's export supply and supplying 23% of our demand for goods. The principal exports are cane sugar, salmonids, bananas, shrimps, pineapples, aluminium scrap and unroasted coffee.

- **Free Trade Agreement with Canada**: The Canada-Panama FTA took effect on 1 April 2013 under Law No. 69 of 26 October 2010. This Agreement is a fundamental tool for developing economic activity, creating job opportunities for Panamanians and boosting the competitiveness of our goods and services production sectors.

  Canada is a major consumer of tropical and marine products that is does not produce, a fact that ensures continuity and a lasting taste for products from our country, of which we have a varied exportable supply. Trade with Canada made up 1% of Panama's total trade in 2012.

- **Association Agreement between Central America and the European Union**: It entered into force on 1 August 2013 under Law No. 27 of 17 April 2013. The Association Agreement with the European Union represents the first regional initiative undertaken by the

Republic of Panama. The primary objective of the commercial part of this Agreement is to consolidate and expand access to the European market for Panama's exportable products and the offer of services and investment opportunities in the world's largest economy.

For Panamanian producers this market represents a potential of more than 497 million people with high purchasing power. This Agreement therefore opens the door to a market without precedent, but maintains an appropriate level of protection for the more sensitive productive sectors of the Panamanian economy.

- **Partial Scope Agreement between Panama and Cuba**: This was signed on 16 March 2009 and became effective on 20 August 2009. Preferences are applied to a limited group of products. The preferences are 50%, 75% or 100%.

- **Protocol of Incorporation of the Republic of Panama into the Central American Economic Integration System**: Our country's accession to the Economic Integration Subsystem was formalized on 6 May 2013 by Law No. 26 of 17 April 2013. The protocol lays out the terms, conditions, modalities and time-frames – ranging from six months to two years – for our country's integration into this subsystem.

  The Central American Common Market (CACM) is one of Panama's main trading partners. In 2012 it occupied fourth place in total trade with the world, with trade exceeding a value of B 1,066 million. Exports were worth B 98.7 million and imports B 967.6 million. Costa Rica is the main trading partner in the Central American region, accounting for over 55% of trade with that region. As pertains to the Colón Free Zone, re-exports to the CACM were worth B 2.03 billion that same year.

- **Latin American Integration Association (LAIA)**: The Republic of Panama became a member of LAIA on 2 February 2012 with the deposit of the Treaty of Montevideo in Uruguay and the signing of five Additional Protocols, which entered into force in May 2012.

2.2.2 Treaties or preferential agreements pending entry into force

2.14. Panama has other preferential trade agreements in force, including partial scope agreements with Colombia, the Dominican Republic and Cuba, the latter being the most recent. Panama also recently signed trade treaties or agreements with the States members of the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland), and with Colombia, Mexico, and Trinidad and Tobago. At April 2014, these agreements had still not yet entered into force. Some had already been ratified by the Panamanian National Assembly; in other cases, the process of exchange of instruments of ratification and deposit was in progress or formalities were being effected for their approval by the National Assembly. In this regard it is worth highlighting the importance of the approval and implementation of the free trade agreements with Colombia and Mexico, which favour Panama's intention of becoming a full member of the Pacific Alliance initiative along with the other two countries making up the bloc, Chile and Peru.

- **Free Trade Agreement between Central America and the States of the European Free Trade Association (EFTA)**: It was signed on 24 June 2013 and ratified by Law No. 4 of 7 April 2014. This Agreement supplements the national policy of rapprochement with the European Union with a view to expanding and diversifying Panama's goods and services exports.

- **Free Trade Agreement with the Republic of Colombia**: This Agreement was signed on 20 September 2013. Its entry into force will strengthen bilateral relations between the two countries, bearing in mind each country's trade and economic interests. On the other hand, this Agreement clearly lays the groundwork for Panama to make the most of its national strategy of becoming a logistics and trade hub for goods from third countries by taking advantage of the network of trade agreements maintained by Colombia and Panama.

- **Partial Scope Agreement with Trinidad and Tobago**: This Agreement was signed on 3 October 2013, and the internal procedures are currently in progress in each country with a view to its entry into force (in our country, the Cabinet Council approved it on 1 April 2014). The entry into force of this Agreement will deepen our country's relations with the Caribbean Community, which is of great interest to Panama's private sector.

- **Free Trade Agreement with the United Mexican States**: The signing of this Agreement on 3 April 2014 represented the culmination of an initiative that lasted more than fifteen (15) years and witnessed several failed attempts in 1999 and 2003. The signing of the trade agreement brings us closer to our desire to be part of the Pacific Alliance, which comprises Chile, Colombia, Mexico and Peru. This Agreement lays down legal provisions that will pave the way for investments and the provision of services, and will also boost trade in goods.

2.2.3 Investment agreements

2.15. Investment promotion in Panama has led to structural changes designed to project the image of a safe territory. Legal and regulatory provisions have been implemented ranging from a framework law on investment (No. 54 of July 1998) to the signing of reciprocal investment promotion and protection agreements.

2.16. Similarly, as part of the economic integration processes on which Panama has embarked in recent years, disciplines, obligations, criteria and standards for the treatment of foreign investment have been incorporated in the international trade agreements, as well as systems for settling any disputes that may arise from these relations.

2.17. All the free trade agreements signed by Panama during the period under review contain investment chapters that replace – some immediately and others after a transition period – pre-existing investment promotion and protection agreements with some trading partners. This also paves the way for broad regulatory regimes that include mechanisms for settling bilateral and regional investment disputes, that is, the introduction of much more comprehensive policy instruments.

3 TRADE POLICY INSTRUMENTS

3.1 Tariffs

3.1. Panama accords MFN, non-discriminatory treatment to all its trading partners. The country has bound all tariff lines, thus making its trade regime more predictable.

3.2. In mid-2007 the import tariff of the Republic of Panama, contained 8,624 tariff headings. All import tariffs are levied at *ad valorem* rates and applied to the c.i.f. value of the imported goods.

3.3. The average rate for the vast majority of tariff headings in Panama's national tariff currently ranges between 0% and 4%, representing 40% of the national import tariff; 9.3% of tariffs are applied at a rate of 10%, 23.3% at a rate of 15% and only 1.3% of the headings are subject to import tariffs above 20%.

3.4. Panama accords duty-free treatment for a number of information technology products, pursuant to the Information Technology Agreement (ITA). Similarly, it has removed import tariffs on motor vehicles of Chapter 87 of the national tariff, which led to an increase in zero-rate tariff headings from 29.8% to 40%.

3.5. Panama adopted the Fifth Amendment to the Harmonized System on 28 December 2011, offering members an updated tariff nomenclature for import purposes that is in step with technological developments and the requirements of international trade.

3.2 Trade facilitation

3.6. During this review period Panama also redoubled its trade facilitation endeavours by adopting and implementing standards to expedite and reduce the time needed for border formalities.

It allocated appreciable resources to the automation of customs operations, including the single window for foreign trade, the adoption of digital certification of origin under certain trade agreements, the migration of all import management procedures to a computer platform called Integrated Customs Management System (SIGA), and the adoption of the Mesoamerican International Transit (TIM) system so as to reduce the times needed for border formalities and allow for the consolidation of cargo at the customs of departure.

3.3 Competition policy

3.7. As pertains to its policy of free competition, Panama amended its legislation by enacting Law No. 45 of 31 October 2007 prescribing rules on consumer protection and the defence of competition and repealing the previous Law No. 29 of 1996. The purpose was to lay down rules to combat monopolistic practices in government procurement and cornering of the market, whilst toughening the penalties for such practices. This regulatory adjustment underpins a policy aimed at ensuring free competition not only at the domestic level but also with our international trading partners.

4 MODERNIZATION OF THE STATE

4.1. Panama has launched policies to further modernize the State and has accordingly executed processes to upgrade public administration and promoted the optimal use of information and communication technologies (ICTs) in the government sector in the form of efficient e-government tools. To this end, it set up the Government Innovation Authority by Law No. 65 of 30 October 2010, regulated by Executive Decree No. 205 of 9 March 2010. The Authority's main functions are to plan, coordinate, issue guidelines, monitor, ensure cooperation for, support and promote the optimal use of information and communication technologies in the government sector so as to modernize public administration; it also recommends the adoption of strategic national policies, plans and actions in this realm.

4.2. A Strategic Digital Agenda 2012-2014 has accordingly been drawn up with, *inter alia,* the following objectives: connectivity and improvement of technological infrastructure; establishing innovative, interoperable and unified governance; making the legal changes necessary to minimize the formalities required of citizens by the public authorities; and enhancing digital skills by creating a new culture amongst public servants, focused on developing a conception of State services based on connectivity and avoiding red tape and the use of paper.

5 CONCLUSIONS AND OUTLOOK

5.1. The Republic of Panama is firmly committed and attaches special importance to the conduct of exercises of this kind, which relate to the formulation and implementation of Members' trade policies and promote transparency. It is therefore pleased to have carried out this second Trade Policy Review together with the WTO Secretariat.

5.2. This second TPR has made it possible to emphasize that Panama currently has a robust, dynamic and growing economy, which has raised the population's level of well-being, driven by the performance of key sectors linked mainly to international trade and boosted by sound economic and social reforms. This performance will doubtless grow stronger in the years ahead, to the benefit of the country itself, its trading partners, as well as trade in the region.

5.3. As a Member of the WTO since 1997, Panama is fully committed to the multilateral trading system and the rules of international trade, and bases relations with its trading partners on the relevant guiding principles by following a trade policy that is open, non-discriminatory and competitive, and one that offers predictability and transparency.

5.4. Panama will continue to participate in the ongoing trade negotiations and believes that their outcomes would help strengthen world trade and hence foster economic growth for the country in particular and for Members in general.

5.5. Since the last review of its trade policy, Panama has pursued an intensive agenda of trade negotiations leading to the implementation of nine free trade agreements with countries such as Canada, Chile, Costa Rica, the European Union, Guatemala, Honduras, Nicaragua, Peru and the United States, and one partial scope agreement with Cuba; it has joined the Economic Integration Subsystem, become a full member of the Latin American Integration Association (LAIA), and is now arranging for the entry into force of a further four trade agreements with Colombia, the European Free Trade Association, Mexico, and Trinidad and Tobago. Panama's bilateral and regional trade agenda is a vitally important complement to the country's strategy of integration into world trade, and consolidates, expands and deepens the trade benefits deriving from the WTO multilateral trade negotiations.

5.6. During the period under review, Panama redoubled its trade facilitation endeavours by adopting and implementing standards to expedite and reduce the time needed for border formalities and allocating appreciable resources to automating and transforming customs management. Panama has also improved its regulatory framework with respect to consumer protection and the defence of free competition and has implemented policies to promote a more modern State through processes to upgrade public administration and promote the optimal use of ICTs in the government sector in the form of efficient e-government tools.

5.7. Panama will continue to intensify its trade relations with the rest of the world as a means of boosting economic growth and hence the prosperity of its people.

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