SUMMARY

1. Since 2007, Panama's economic growth has been impressive, thanks mainly to its dynamic investment and a stable macroeconomic environment. Generally speaking, Panama's trade and investment regime is fairly open, and continued to open up during the period 2007-2013, chiefly through Panama's participation in preferential trade agreements which served as a catalyst for legislative reforms in areas such as customs, intellectual property, government procurement and other trade-related areas. As part of its development strategy, Panama also maintains incentive schemes to attract foreign direct investment (FDI), including a number of special economic zones, such as the Colon Free Zone (ZLC). Thanks to its comparative advantage in the tertiary sector and its geographical location, Panama has been able to consolidate its position as a major exporter of financial, port, transport, storage, distribution services and transit services through the Panama Canal. The large public investments in infrastructure in recent years were intended to convert the country into a regional logistical centre. On the other hand, in spite of the government support and protection they have received, the shares of the agricultural and manufacturing sectors in GDP have declined.

2. This rapid economic growth has brought with it a surge in the nominal GDP per capita (US$ 11,075 in 2013) and a decrease in the poverty and unemployment rates. However, there remain considerable social and regional inequalities and a significant shortage of skilled labour. Judging from the significant increase in FDI flows over the past few years, the incentive schemes to attract investment appear to have borne fruit. However, the links between the special economic zones and the economy as a whole need to be strengthened, and the contribution of the former to employment and local value added needs to be improved. It would also be wise to reassess and, where appropriate, rationalize the incentive schemes in order to narrow the gap between the most vigorous economic zones and sectors and the rest of the economy, and to allocate more resources to social programmes, including improvements in the quality of education in order to meet the demand for skilled labour on which sustainable economic growth depends. The efficiency and competitiveness of the economy would also be improved by solving the recurrent problem of electricity shortages.

Economic environment

3. Between 2007 and 2013, the Panamanian economy grew at an average annual rate of 8%, one of the highest in Latin America. This rapid growth was fuelled mainly by the expansion of private consumption and by public and private investment, chiefly in large-scale infrastructure projects. Services are at the heart of the country's economic structure, accounting for 70% of GDP and two thirds of employment.

4. Since 2009, public finances have recorded a deficit owing to rising levels of expenditure, mainly capital. Although the deficit has been moderate and has remained within the annual limits approved by the law, those limits have had to be eased on several occasions. The main fiscal policy challenge is to maintain discipline in order to consolidate public finances and boost confidence, an objective made all the more pressing by the lack of a monitory policy for dealing with economic cycles and possible external shocks (Panama uses the US dollar as legal tender). The public debt to GDP ratio decreased during the review period, reaching 36.8% in 2013. A credit boom, together with robust domestic demand and high international fuel and food prices, has put pressure on inflation, which stood at 4% in 2013, higher than that of the United States.

5. International trade in goods and services continues to play a key role in the Panamanian economy, representing 166% of GDP. During the 2007-2013 period, the current account of Panama's balance of payments recorded deficits, mainly owing to a negative balance in merchandise trade. The services balance, on the other hand, has been positive and growing thanks to the increased income from the Panama Canal, transport services, port services and tourism. Agricultural and food products have dominated Panama's merchandise exports (56% of the total, without counting re-exports from the ZLC), reflecting the relatively small size of the manufacturing sector in Panama. Manufactured goods and fuels account for 88% of imports. The United States remains Panama's main trading partner, absorbing more than 20% of its exports and imports, although its relative importance has declined. Other major partners are the European Union, Canada, the Central American countries, Mexico, Colombia and China. FDI flows into Panama continued to grow during the review period, reaching 7.6% of GDP in 2012.

The preferential trade agreements concluded by Panama over the past few years are expected to help diversify its foreign trade and attract more FDI.

Trade and investment policy framework

6. The main focus and the objective of Panama's trade policy is to increase FDI and exports. For Panama, the opening up process goes hand in hand with these objectives, and it has concentrated both on concluding trade agreements and improving competitiveness, the business climate and infrastructure. It is seeking to attract high value-added investment that promotes training of human resources and the transfer of technology to key economic sectors, i.e. financial services, logistics, tourism and agriculture. To that end, it created the Investment and Export Promotion Agency (PROINVEX) which acts as a single window for investors. In order to increase the volume, quality and diversity of its exportable supply, Panama is concentrating on exports to markets that afford preferential access to its goods and services, and exports of high-value-added non-traditional products, for example non-traditional agricultural and marine products.

7. For Panama, strengthening the multilateral trading system is important in order to improve interaction among Members while they establish regional or bilateral trade relations that help foster growth in exports and investment. Thirteen regional trade agreements entered into force between 2007 and 2014. This includes Panama's accession to the Latin American Integration Association (LAIA) and the Central American Economic Integration Subsystem (SIECA), the Trade Promotion Agreement between Panama and the United States and the Association Agreement between the European Union and Central America. After signing agreements with Colombia (2013) and Mexico (2014), Panama hopes to join the Pacific Alliance, comprising Colombia, Chile, Peru and Mexico.

8. Panama has streamlined the procedure for setting up companies by introducing an electronically processed start-up notification. Panamanian law grants national treatment to foreign investors and the enterprises in which they participate. There are no foreign exchange controls. Foreign investors are guaranteed free repatriation of capital, dividends, interest and profits arising from their investment. Any investments worth B 2 million or more may benefit from the Law on Legal Stability of Investment. Investors do not require any prior authorization to invest unless they benefit from an incentive scheme or wish to conduct activities that require a concession, licence, permit or other type of authorization.

Trade policies by measure

9. Panama continued to modernize its customs regime, adopting a new law, updating its computer system, and creating the National Customs Authority. Other trade facilitation measures include the introduction of advance rulings, the single window for exports, and the launching of an authorized economic operator programme. The tariff is the main trade policy instrument; practically all of them are *ad valorem*, and the number of tariff rates decreased from 37 to 29 during the review period. The average MFN tariff was reduced from 8.5% to 7.6%, but at 13.7%, the average tariff on agricultural products (WTO definition) remains more than double that on other products (6.4%). In the case of 59 products, the applied rates exceed the WTO bound rates. In 2013, when it joined SIECA, Panama adopted the Central American Import Tariff, with a few exceptions. Under its trade agreements, Panama applies preferential tariffs to imports from more than twenty trading partners.

10. There is an Administrative Charge for Customs Services on imports as well as a fee for using the computer system, both based on a specific amount. In addition, imports are subject to the Tax on the Transfer of Movable Property and the Provision of Services (ITBMS) and, where applicable, to the Selective Consumption Tax (ISC) and the Consumption Tax on Petroleum-Derived Fuels (ICCDP). In the case of certain products (electronics, motor vehicles), the elimination of tariffs has been offset by an increase in the ISC. Panama gives imports national treatment when applying domestic taxes, except in the case of fuel mixed with ethanol from abroad, to which a higher rate of ICCDP applies than for fuels mixed with domestic ethanol, and imported motor vehicles (new and used), which are subject to a minimum ISC rate that varies according to the age of the vehicle.

11. During the review period, Panama pursued its efforts to build up its institutional and technical capacity for the application of sanitary and phytosanitary (SPS) measures. Nevertheless, improvements are still needed in areas such as risk analysis, training of personnel, creation of a national SPS committee, accreditation, and notification procedures. Between 2007 and 2013, Panama notified eight SPS measures to the WTO, five of which were emergency measures. Panama has 88 technical regulations, mostly covering food products, of which only six have been notified to the WTO since 2007. By improving its SPS systems and technical regulations and increasing transparency, Panama would be in a better position to take advantage of the trade opportunities offered by the preferential agreements.

12. While Panama made little use of contingency measures during the review period, in 2009 it did adopt regulations containing procedural rules for conducting anti-dumping, subsidy and safeguard investigations.

13. Exports of some marine species, flammable products and weapons are subject to a permit or compliance with special formalities. For reasons of sustainability and to boost national value added, exports of wood in slabs and blocks or simply planed is prohibited. Panama does not apply any export taxes except on products manufactured from native woods. Domestic taxes are not imposed on exports.

14. Panama notified three export subsidy programmes to the WTO and was given an extension until 31 December 2015 for the elimination of those subsidies. In 2009, Panama eliminated the Tax Credit Certificate and in 2010 introduced the Industrial Promotion Certificate, which replaced the Official National Industry Register. In 2011, it also adopted Law No. 32 on free zones, eliminating the tax benefits that constituted export subsidies. In 2012, the free zones under Law No. 32 accounted for less than 2% of total exports (including re-exports). On the other hand, the Colón Free Zone (ZLC), which is governed by another law, is the second largest free zone in the world, and handles 66% of the country's foreign trade. Companies established in the ZLC are exempted from taxes on imports, re-exports and manufacturing of goods and repatriation of dividends, as well as from other internal taxes. In addition, there are many incentive programmes, for example, for the head offices of multinational companies, for micro and small enterprises and for specific sectors (agriculture and tourism). It would be worth conducting a cost-benefit analysis of the incentive schemes and rationalizing them where appropriate in order to improve their efficiency and transparency and make the incentive structure more uniform, to avoid possible distortions in the allocation of resources.

15. In 2007, a new competition and consumer protection law was adopted (Law No. 45) which, among other things, introduced an economic efficiency criterion, classified cornering the market as a relative monopolistic practice, introduced a payment for information scheme, and increased fines. Although Law No. 45 has led to a more forceful implementation of competition policy, there is still a high level of concentration in certain markets, particularly in the case of goods. As far as consumer protection policy is concerned, the authorities monitor the price of fuels, medicines and goods in the basic basket. Prices for land transport of passengers are regulated, as are rates for the distribution and sale of electricity. Panama has notified the WTO that it has no State trading enterprises.

16. Panama has adopted the number of laws reforming and clarifying its government procurement legislation. These mostly concern procedural matters, and tend to favour the bidders. However, recourse to special procedures continues to be common. In August 2013, after several years of negotiations, Panama announced its decision not to accede to the WTO Plurilateral Agreement on Government Procurement. Nevertheless, it has adopted government procurement commitments in its bilateral agreements, in some cases even with respect to procurement by the Panama Canal Authority. The authorities have announced their intention to continue negotiating access to government procurement markets on a bilateral basis.

17. In 2012, Panama overhauled its intellectual property legislation to bring it up to date and harmonize it with its international commitments. The amendments cover all intellectual property rights, extend terms of protection and amplify administrative provisions, provide stronger rules on enforcement and increase the penalties. The import or export of counterfeit, altered or imitated products is defined as a crime in the Penal Code, even if they are in transit through Panama.

Sectoral policies

18. The sectoral structure of the Panamanian economy continues to be distinctly dualistic, marked by the coexistence of a dynamic and competitive services sector, that has chiefly developed around the activities of the Panama Canal and the ZLC, alongside the less productive agricultural manufacturing sectors, whose share in the economy is much more modest and has been declining in spite of State support.

19. The relative share of agriculture in GDP continued to decline between 2007 and 2013, although it still employs 16.4% of the working population. In 2013, the average tariff in the agricultural sector (WTO definition) was 13.7%, above the overall average, and the products with the highest tariffs were agricultural products. The average tariff quota fill rates for agricultural products in Panama's schedule of commitments varied from 60% to 100%, in addition to which autonomous tariff quotas were opened because of a lack of supply. Panama granted domestic support in the green box category. Domestic support under the heading "development programmes" increased considerably between 2007 and 2012.

20. In 2013, the manufacturing industry accounted for 5.1% of GDP and employed 7.7% of the labour force. The sector is concentrated in a handful of activities, such as the manufacturing of food and beverages, publishing and printing, and non-metallic mineral products. There are various fiscal and financial incentives for manufacturing activities. The main imports include fuel, mineral oils and machinery, and the main exports precious metals and cast iron and steel.

21. The electricity market is decentralized and regulated. Generation is mainly private and operates under conditions of free competition, whereas transmission is in the hands of a State enterprise, with three semi-public companies responsible for distribution in exclusive concession areas. Panama is connected to the Central American power grid. The installed capacity margin relative to demand is narrow, and although it has improved, it is still insufficient to satisfy the demand in all seasons of the year. The State is allocating subsidies to mitigate the effect of the increase in end-user tariffs. Panama does not produce any hydrocarbons, but has substantial storage capacity and an extensive port infrastructure. In 2013, it took steps to promote exploration with a view to commercial exploitation of the confirmed deposits on its territory.

22. The services sector plays a fundamental role in Panama's economy, accounting for some 70% of GDP, two thirds of total employment and approximately 36% of total exports. Panama has consolidated its position as a major exporter of financial, port, logistical and tourism services. It has made specific market access and national treatment commitments in 11 sectors defined in the General Agreement on Trade in Services (GATS). While the commitments in the financial sector are broad, those in the telecommunications and transport sectors are limited, or indeed non-existent in the case of maritime transport. In practice, the scope of Panama's commitments under the GATS has been largely surpassed by the current openness up to foreign services suppliers.

23. In the telecommunications sector, competition was improved with the market entry of two mobile operators in 2009, a move which favoured a reduction in prices and improvements in the quality of services. There are no restrictions on foreign investment in private telecommunications firms. In 2008, Panama adopted the Law on Universal Service and Access, and in 2009, the Number Portability Regulations. Under the GATS, Panama has made specific commitments only with respect to value-added services, and has not adopted the Basic Telecommunications Reference Paper.

24. Panama has a diversified and competitive financial sector. The banking system is sound: capitalization and liquidity levels are reasonably high, and there has been a credit boom in recent years. Foreign banks can be set up through subsidiaries or branches. During the period under review, Panama amended its banking legislation to strengthen supervision and bring it into line with international standards, improve transparency, curb tax evasion, and protect consumers. Moreover, financial conglomerates were subjected to supervision, and the Financial Coordination Council was set up to improve cooperation among the various bodies responsible for overseeing the sector.

25. Foreign insurance companies can set up as public limited companies or as branches. Insurance policies on property and persons situated in Panama con only be taken out with insurers established in the country. In 2012, a new insurance law was adopted which, among other things, broadened the responsibilities of the sector's supervisory body, updated the rules on minimum capital, solvency and reserves, and authorized the sale of insurance through financial companies and trading companies. Foreign reinsurance companies can offer their services to companies domiciled in Panama provided they have enrolled in a register created for the purpose in 2012. In 2011, the Securities Market Supervisory Authority was created, with broad regulatory and supervisory responsibilities.

26. Tocumen International Airport is the busiest airport in Central America and a regional air transport hub. Between 2007 and 2013, the total number of passengers grew at an average annual rate of 12.8%, the number of passengers in transit by 21% and the volume of freight and mail by 5.2%. There are no restrictions on foreign investment in international traffic operators, but cabotage traffic is reserved, in principle, for companies with a minimum of 60% of the shares in Panamanian hands. By law, the Tocumen Airport management company is 100% State-owned. International passenger and freight air traffic operating certificates are granted to foreign companies under bilateral agreements.

27. Panama's National Maritime Strategy, approved in 2009, is designed to turn the country into an integrated centre of excellence for competitive maritime and logistical services. Panama has an extensive network of ports and offers a wide range of services for vessels. The State owns the ports but their management may be outsourced to private companies on concession and, in fact, the largest ports are under private management. There are limits on foreign capital participation in companies offering auxiliary maritime services, and 90% of the crew of vessels engaged in such services must be Panamanian nationals. In 2012, the maritime transport sector's contribution to GDP amounted to 2.3%. Panama has the world's largest merchant fleet, with 8,221 ships registered as of 30 June 2013. There are no nationality restrictions on registration. Panama is seeking to rejuvenate its fleet by granting various discounts on the registration of newly built vessels.

28. The Panama Canal's contribution to GDP was 3.2% in 2012. The Canal is a nerve centre of global maritime transport which generates a variety of economic activities, in addition to the contribution from tolls. During the review period, the Panama Canal Authority (ACP) altered its toll policy to bring tolls into line with the value offered by the route. In 2007, work began on expanding the canal by building a third set of locks to accommodate vessels with a greater draught. In February 2014, having resolved a few problems relating to the financing of cost overruns, the ACP and the construction companies reached a conceptual agreement which targets December 2015 for the completion of the works.

29. Tourism is one of the main generators of foreign exchange and accounted for 12% of GDP in 2012. Investment in tourism increased considerably during the 2007-2012 period, especially in Panama City. During the same period, Panama extended the coverage of the tax incentives granted to investment in tourism, lifted the restrictions on foreign participation in tour operator and travel agency businesses, which ceased to be regarded as retail trade, and strengthened the institutional support system for the sector.

30. The Panamanian Constitution reserves the right to engage in retail trade for Panamanians by birth and naturalized foreigners, three years after having received their final papers. Between 2007 and 2012, retail trade grew at a rate of 8.5%, and accounted for 3.8% of GDP in 2012. Under the Trade Promotion Agreement with the United States, Panama has opened up this subsector by establishing that multiple service businesses were not regarded as retail trade.