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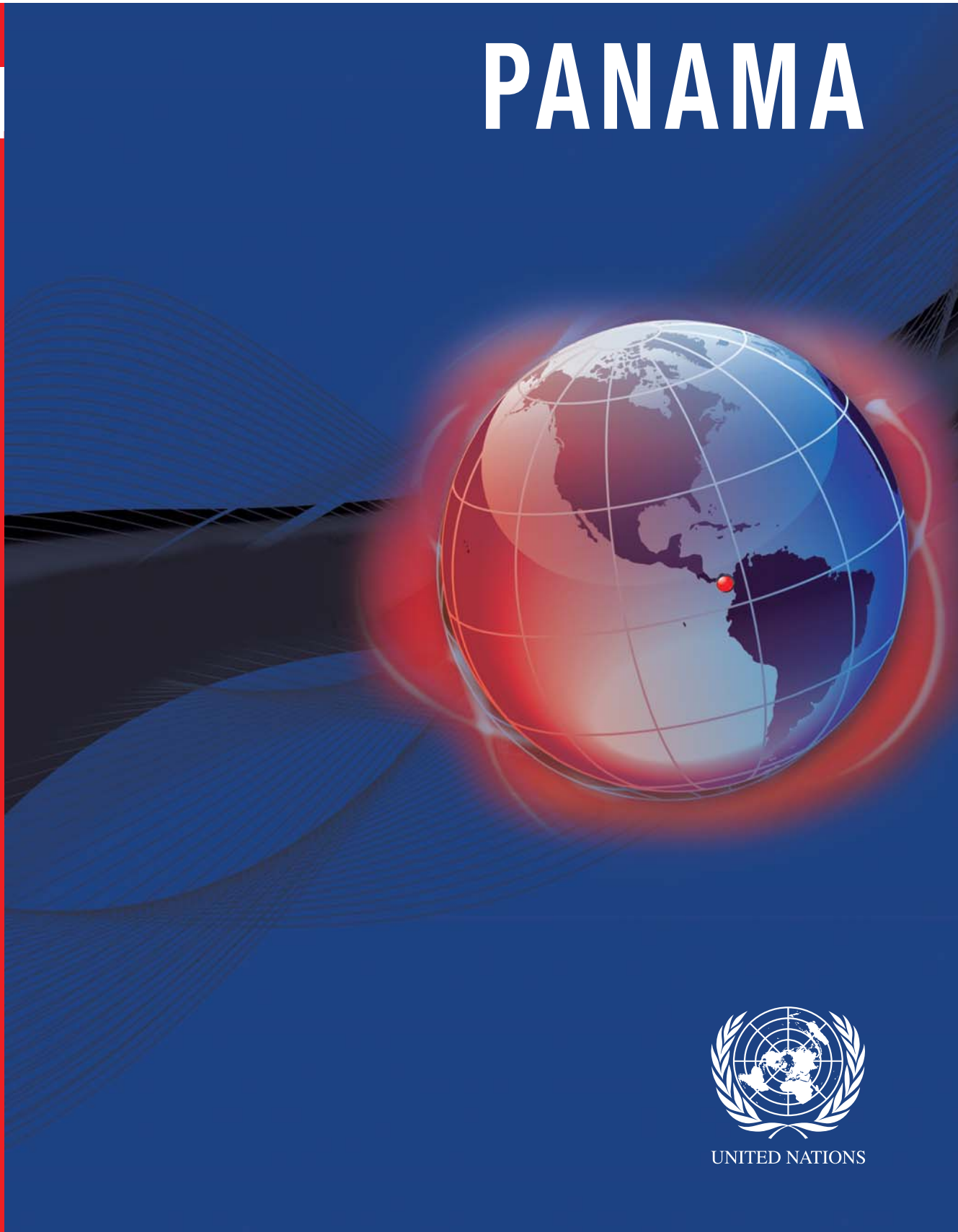
PANAMA

TRADE POLICY FRAMEWORK



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For further information on the Trade Negotiations and Commercial Diplomacy Branch and its activities, please contact:

Ms. Mina Mashayekhi
Head
Trade Negotiations and Commercial Diplomacy Branch
Division of International Trade in Goods and Services, and Commodities
Tel: +41 22 917 56 40
Fax: +41 22 917 00 44
www.unctad.org/tradenegotiations

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ABBREVIATIONS

Agenda 2030	2030 Sustainable Development Agenda
AAC	Civil Aviation Authority [Autoridad de Aviación Civil]
ACODECO	Authority for Consumer Protection and Competition [Autoridad de Protección al Consumidor y Defensa de la Competencia]
ACP	Panama Canal Authority [Autoridad del Canal de Panamá]
AEO	Authorised Economic Operator
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AMP	Panama Maritime Authority [Autoridad Marítima de Panamá]
AMPYME	Authority for Micro, Small and Medium Enterprises [Autoridad de la Micro, Pequeña y Mediana Empresa]
ANA	National Customs Authority [Autoridad Nacional de Aduanas]
ANCON	National Association for the Conservation of Nature [Asociación Nacional para la Conservación de la Naturaleza]
ANDELAIPP	National Association of Panamanian Fisheries [Asociación Nacional de la Industria Pesquera de Panamá]
APEDE	Panamanian Association of Business Executives [Asociación Panameña de Ejecutivos de Empresa]
ARAP	Aquatic Resources Authority of Panama [Autoridad de los Recursos Acuáticos de Panamá]
ATTT	Authority of Land Transit and Transport [Autoridad del Tránsito y Transporte Terrestre]
AUPSA	Panamanian Food Safety Authority [Autoridad Panameña de Seguridad de Alimentos]
BDA	Agricultural Development Bank [Banco de Desarrollo Agropecuario]
BIS	Bank of International Settlements
CAF	Development Bank of Latin America
CAUCA	Central American Uniform Customs Code [Código Aduanero Uniforme Centroamericano]
CBI	International Banking Centre [Centro Bancario Internacional]
CCT	Colon Container Terminal
CELMA	Multimodal Logistics Centre of the Americas
CFI	Industrial Development Certificate [Certificado de Fomento Industrial]
CNC	National Competitiveness Centre [Centro Nacional de Competitividad]
COEL	Logistics Business Council
ECLAC	Economic Commission for Latin America and the Caribbean
EFTA	European Free Trade Association
FAO	Food and Agriculture Organization of the United Nations
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FUNAPESCA	National Fisheries Foundation [Fundación Nacional de Pesca]
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GVCs	Global Value Chains

HHI	Herfindahl-Hirschman Index
IDB	Inter-American Development Bank
ICT	Information, Communication and Technology
IMF	International Monetary Fund
INEC	National Institute of Census and Statistics [Instituto Nacional de Estadística y Censo]
IPACOOP	Autonomous Panamanian Institute for Cooperatives [Instituto Panameño Autónomo Cooperativo]
LAIA	Latin American Integration Association
LPI	Logistics Performance Index
MEF	Ministry of Economy and Finance [Ministerio de Economía y Finanzas]
MICI	Ministry of Trade and Industry [Ministerio de Comercio e Industrias]
MIDA	Ministry of Agricultural Development [Ministerio de Desarrollo Agropecuario]
MINSA	Ministry of Health [Ministerio de Salud]
MIT	Manzanillo International Terminal
OAS	Organization of American States
OECD	Organization for Economic Co-operation and Development
PNCI	National Industrial Competitiveness Programme [Programa Nacional de Competitividad Industrial]
PNLog	National Logistics Plan [Plan Nacional Logístico]
PROINVEX	Panama Trade and Investment Agency [Agencia de Promoción de Inversiones y Exportaciones]
RECAUCA	Central American Uniform Customs Code Regulation [Reglamento del Código Aduanero Uniforme Centroamericano]
ROIN	Official Register of National Industry [Registro Oficial de la Industria Nacional]
SDGs	Sustainable Development Goals
SEZs	Special Economic Zones
SIECA	Secretariat of Central American Economic Integration [Secretaría de Integración Económica Centroamericana]
SIERAC	Information System for the Evaluation of Water Resources and Water Quality [Sistema de Información para la Evaluación de los Recursos Acuáticos y la Calidad de las Aguas]
SIP	Union of Industrialists of Panama [Sindicato de Industriales de Panamá]
SMEs	Small and Medium Enterprises
SPS	Sanitary and Phytosanitary
STRI	Smithsonian Tropical Research Institute
TBT	Technical Barriers to Trade
TISA	Trade in Services Agreement
TPA	Trade Promotion Agreement
TRQ	Tariff-Rate Quota
UNDP	United Nations Development Programme
VICOMEX	Vice Ministry of Foreign Trade [Viceministerio de Comercio Exterior]
WEF	World Economic Forum
WTO	World Trade Organization
ZLC	Colon Free Zone [Zona Libre de Colón]

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EXECUTIVE SUMMARY

Panama has experienced high economic growth in the last decade, among the biggest worldwide. The pace has begun to decline but over the medium term the country is expected to continue to have the highest growth rate in the region. The strengths of the Panamanian economy are linked with its privileged geographical position, which enables the Panama Canal and the interoceanic logistics cluster, its degree of openness and the diversification of its economic activities. Panama shows a high level of competitiveness in sectors that are most exposed to international markets. Still, inequality remains relatively high in Panama. Different levels of productivity impact remuneration levels, with the salary in the primary sector amounting to less than half of the salary in industry and almost a third compared to the logistics sector. According to the Government Strategic Plan 2015-2019, an important development challenge is to reduce the gap between growth, inclusion and territorial cohesion, with public policy focused on effectively influencing the dual dimensions of national development: competitiveness and social inclusion. The sectoral goals focus on activities with the potential to create new jobs or to strongly impact the population's socio-economic conditions.

In this context, and at the request of the Ministry of Trade and Industry of Panama, this Trade Policy Framework review focuses on the agriculture, fisheries, agribusiness and industrial sectors. International trade has the potential to positively impact lagged sectors and economic activities outside the interoceanic corridor. This requires a well-designed and coherent policy framework to maximise development gains from trade and investment opportunities. Most notably, it relies on building supply and export capacity. Also for this reason, the Trade Policy Framework review focuses on the logistics sector, which is important in itself as well as an enabler of connections between Panamanian value added and foreign markets.

Trade policy is highly relevant for the competitiveness of the agriculture sector, as it can enable affordable inputs, encourage adoption of improved standards and generate scale contributing to supply capacity. When it is not feasible to find direct connections between agricultural products and international markets, it is important to determine if it is possible to link such products to regional and global value chains by connecting them to other activities in Panama that are export-oriented. The analyses of backward and forward linkages can help identify opportunities to link agricultural activities to export-oriented activities. Trade policy can therefore have a multiplier effect, not only through providing direct support to agricultural activities, but also through strengthening activities such as industrial and agribusiness activities that use agricultural inputs. Specific supply side measures include improving logistics, for example through a multimodal centre and cold chain services, incorporating new technology, certifying production and sanitary processes, building networks of agricultural producers and reinforcing public policies for sustainable land management.

The performance of fisheries is intimately related to foreign markets and trade policy is therefore very important for enabling foreign demand and lowering the costs of some inputs needed by the sector, such as technology for industrial fishing. Trade negotiations can play a relevant role by aiming for an expanded number of preferential tariff lines. Rules of origin that recognise Panamanian origin in what is fished in international waters by vessels with flag from Panama are beneficial for the country. The sector requires a Master Plan and a regulatory framework that promotes sustainable and higher value-added fishing. It should consider the specific needs of artisanal fishing and include a National Aquaculture Plan to consider the potential of aquaculture and mariculture options to diversify and upgrade fishery products. Specific policy options include investments in infrastructure, such as docks and storage facilities with cold chain management, better logistics, training of fisherman and providing them with market intelligence information regarding market demand, favouring networks of producers and public policies aimed at improving reporting on fishing activities.

International trade can play a key role in promoting access to cheaper and better inputs for industry and agribusiness. A regulatory framework should be adopted that improves predictability for investors, producers and consumers, and envisages business facilitation and less bureaucracy. The objective of achieving a single window for industrial processes should remain a priority. Ensuring industrial competitiveness also requires a strategy for the structural transformation of the sector by diversifying productive activities and by considering both national and subnational perspectives. Specific lines of action include the full use of the network of trade agreements to

gain market access and of trade promotion and market intelligence to gain market penetration, promotion of associativity of producers and public-private partnerships, improvement of transport infrastructure and logistics services and the development of other necessary infrastructure, such as energy supply, environmental services and, regarding the particular case of agribusiness, irrigation systems and cold chains.

Panama's network of trade agreements is important not only to gain market access but also to promote transparent and non-discriminatory procedures that promote investment, technology transfer and the provision of services that are necessary to improve supply capacity in logistics services. The priority road map for the sector, recently agreed by the government, can provide a long-term perspective to further develop logistics services and its implementation is therefore critical. The logistics cluster needs to be strengthened with support services, which requires the implementation of the Master Plan for the Interoceanic Zone, developing rail and road infrastructure, modernising port terminals and, in some cases, evaluating the increase in the network of international ports. Transport and logistics services need to fulfil their role of connecting products from Panama, including from small local producers, to regional and international markets. In this regard, it is critical to improve the effectiveness of transport and logistics infrastructure that links producers throughout the country to the export-oriented interoceanic cluster and to foreign markets. Specific policy options include ascertaining where road infrastructure or short sea shipping are the preferable options, identifying and addressing constraints in free zones and load areas, aiming for the competitive provision of transport and logistics services, developing supporting infrastructure such as information and communication technology services, generating greater administrative efficiency in custom processes, including through automation and harmonisation, and training human resources.

A trade policy framework for Panama needs to usefully reflect the country's development goals to establish a market-driven, development-led, sustainable trade policy capable of catalysing economic growth and reducing poverty and inequality. This requires a coherent approach among the different dimensions of trade policy, for example negotiations, market intelligence and trade promotion. The country is expanding and densifying its network of trade agreements, which has been important for gaining market access in some traditional exports but has not provided a solid basis for diversification and upgrading of exportable goods. Additional opportunities in different markets could be considered. Trade promotion initiatives should aim for the diversification of destination markets and a higher focus on quality and innovative characteristics through a comprehensive marketing strategy. Market intelligence is also critical to provide the necessary guidance to the private sector about the opportunities – current and potential – of foreign markets. Attaining these objectives requires further strengthening of human and financial resources, including a reinforced institutional framework and the establishment of trade promotion offices in strategic foreign locations. Institutional coordination, which would benefit from guidance and endorsement at the highest level and from multi-stakeholder consultations, is required to achieve policy coherence and effective results in trade policy and its linkages with other policy areas.

In addition to the need to reinforce all dimensions of trade policy, trends in international trade point to the growing importance of addressing behind-the-border limitations. With lower tariffs throughout, trade policy is increasingly focused on non-tariff factors, including policy and regulatory frameworks. These are important, for example, for addressing possible unfair competition effects and, although legislation is in place in this regard, increased attention and a more prominent role of the competent authorities is advisable. Also, attendance to sanitary and phytosanitary measures and technical barriers to trade requires strengthened capacities of Panamanian institutions in order to promote the adoption of best practices and the improvement of technical regulations in line with the standards required by destination markets. Regional regulations can be viewed as a stepping stone to gaining capacity to comply with international requirements. It is also important to pursue certifications based on international standards so that the capacity to comply is recognised in the broadest manner.

Trade policy needs to connect with industrial policy to move towards a development model based on innovation and market competitiveness. Trade policy must contribute not only to export-related income and reduction of trade costs, but also allow for inflows of inputs, technology and knowledge to improve productive processes, and to allow for a more diversified offer of products with more value added, to expand the potential benefits of international trade to the whole country. This calls for capitalising the areas where the country reveals comparative

advantages as sources of income and backward and forward linkages to the rest of the economy. It is also necessary to defy existing comparative advantages and provide forward-looking policy support to the sectors and value chains that can potentially contribute more to development goals by favouring inclusion, diversification or upgrading.

This entails improving competitiveness factors which may include physical infrastructure, trade facilitation, logistical conditions and human capital endowments. It also includes the need for technology, innovation and education policies at the centre of a well-designed and coherent domestic agenda to improve productivity and competitiveness and as the axis of a long-term productive and exporting strategy. Such policies benefit from productive networks and clusters to allow for economies of scale and resource pooling. This agenda should have a coordinated approach to the national and subnational dimensions to enhance inclusiveness. The decentralised subnational level translates the strategic guidance at national level into operational projects closer to local realities and producers. Finally, a well-designed and effective policy framework needs to be evidence-based. High quality, disaggregated, timely and reliable data is needed to properly identify trade barriers and opportunities.

This review begins by identifying the main economic trends that provide the necessary context to the subsequent analyses and by establishing the general linkages between international trade and development objectives. It then introduces the structure and patterns of international trade in Panama, detailing the specificities of export and re-export trends and of merchandise and services trade. This is followed by sectoral reviews of the agriculture, fisheries, industrial and agribusiness and logistics services sectors. It concludes by consolidating findings and recommendations for each sector and for trade policy overall.

ECONOMIC OVERVIEW

A. ECONOMIC STRUCTURE

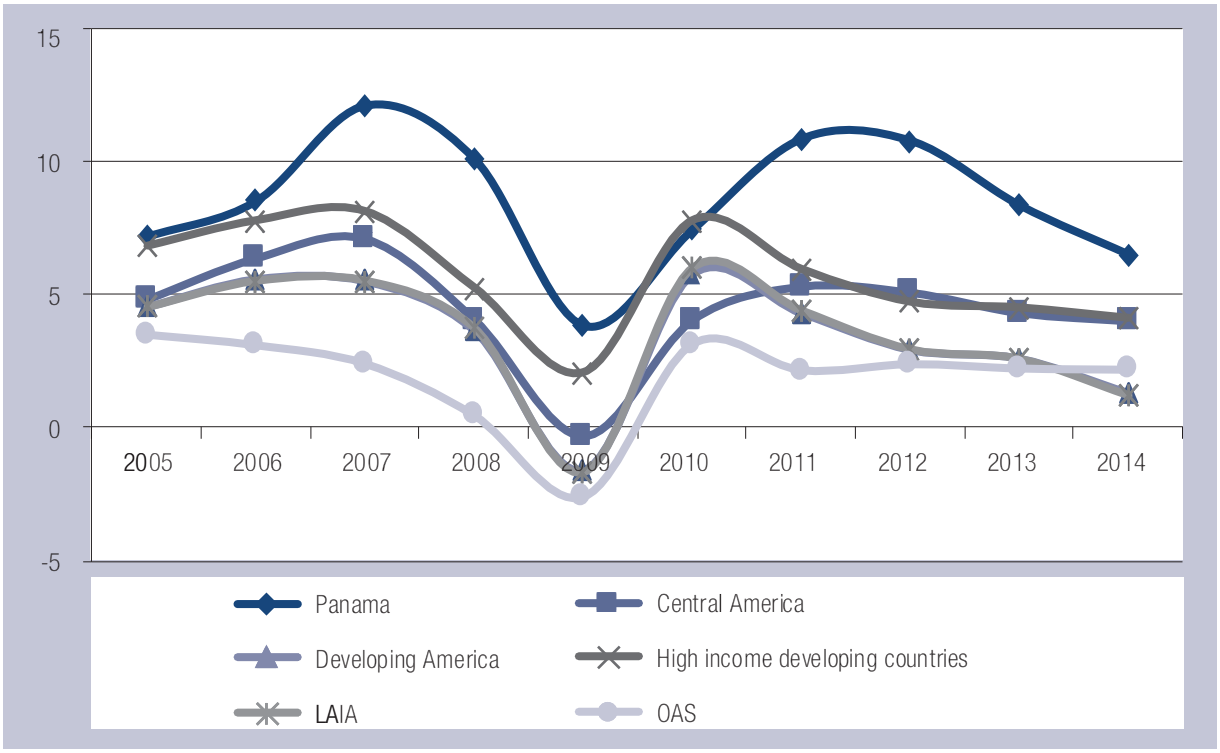
The Republic of Panama occupies an area of 75,517 km^2 with a total population of 3,926 million in 2014, and an income level classified as medium high.[1] The Panamanian population is unevenly distributed across the territory, and is highly concentrated in Panama City and surroundings. Fifty per cent of the population lives in the province of Panama.

The country has experienced high economic growth in the last decade, with an average real rate of gross domestic product (GDP) growth above 8 per cent between 2006 and 2012. Its growth has been among the biggest worldwide, and more than double the regional average between 2001 and 2013[2] (see figure 1). This growth was reflected in all economic activities and in the increase in bank loans, which has had an impact on private consumption. It was particularly reflected in economic activities related to the external sector, such as the Panama Canal, Colon Free Zone (ZLC), ports, air transport and tourism. The period between 2009 and 2014 was characterised by the implementation of large infrastructure projects, such as the Panama Canal expansion; one of the subway lines: three international airports in the provinces of Chiriquí, Cocle and Colon; real estate projects; the expansion of port capacity; the improvement of the road network in Panama City; the extension of access roads to towns in the countryside; and the completion of the last phase of the Panama-Colon Highway.

After recording double-digit rates in 2011, with growth supported by high public and private spending including macro-projects, the pace has begun to decline reaching 6.1 per cent in 2014 and 5.8 per cent in 2015 (see figure 2).[3] The reduced real GDP growth rate in 2014 is due to the completion of certain macro-infrastructure projects, reduced dynamism of external demand and public sector performance in an election year. In 2015, Panama had the lowest GDP growth rate of the last five years due to the fall in transactions in ZLC and the end of big infrastructure contracts.[4]

Growth is projected to remain around 6 per cent in 2016 and over the medium term.[5] It is expected that the inflation rate will remain low, taking into account its long-term historical value of around 2 per cent. Over the medium term, the country is expected to continue

Figure 1. Selected economies: real gross domestic product growth rate, 2005–2015 (Percentage)



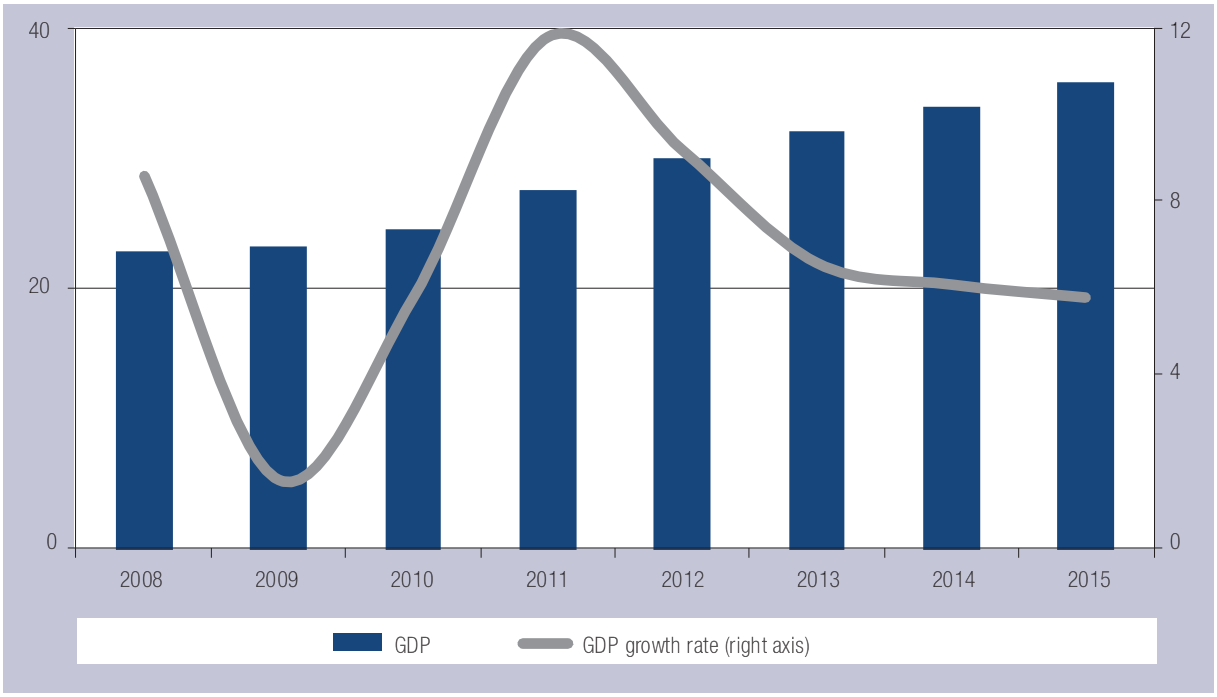
Source: UNCTADstat.
Note: LAIA = Latin American Integration Association, OAS = Organization of American States.

to have the highest growth rate in the region. It will be supported by the opening of the expanded canal as well as high public and private investment. During the period 2012-2015, gross domestic investment as a percentage of GDP increased from 34 to 41 per cent and is expected to reach 39.8 per cent and 39.0 per cent in 2016 and 2017.[6]

The five sectors that contribute most to GDP accounted for 63 per cent of total GDP in 2015 (see table 1). The transport, storage and communications and trade industries have maintained double-digit percentage contributions between 2011 and 2015 and together generated 32 per cent of GDP in 2015, reaffirming the orientation of the economy towards the tertiary sector. The first sector in order of importance is wholesale and retail, contributing close to 18 per cent of GDP in 2015. It is followed by the construction sector which contributed increasingly to GDP over the last five years, accounting for 14.8 per cent in 2015. Transport, storage and communications have slightly decreased their contribution to GDP, but they still accounted for a meaningful 14.3 per cent in 2015. Real estate, renting and financial intermediation generated more than 8 per cent and 7 per cent respectively from 2011 to 2015.

Of these sectors, construction is the one with the steepest growth during this period, which was supported by, *inter alia*, increased residential investment. It was followed by financial intermediation and then by wholesale and retail trade and transport,

Figure 2. Panama's real gross domestic product evolution and rate of growth, 2011–2015
(Billions of dollars and percentage)



Source: Report of the General Comptroller of the Republic of Panama, 2015.

Table 1. Panama's top five economic sectors by contribution to gross domestic product, 2011–2015 (Percentage)

	2011	2012	2013	2014	2015
Wholesale and retail trade	19.6	19.8	18.6	17.8	17.6
Transport, storage and communications	16.0	15.3	14.5	14.5	14.3
Construction	9.3	11.1	13.6	14.6	14.8
Real estate, renting and business activities	8.2	8.1	8.2	8.5	8.7
Financial intermediation	7.5	7.5	7.6	7.4	7.7

Source: National Institute of Census and Statistics (INEC) and Comptroller General.

storage and communication services, which have also grown. Wholesale and retail trade benefitted from the increase in domestic aggregate demand supported by transfers and price level stability. Other sectors, as manufacturing and agriculture, are not only contributing poorly to GDP but they have also remained stagnant and are even slightly decreasing. For example, the share of manufacturing in GDP decreased from 6.5 to 5.4 per cent between 2011 and 2015 and the share of agriculture in GDP decreased from 2.8 to 2.2 per cent in the same period. Fishing represented close to 0.6 per cent of GDP throughout the period and has evolved with volatility (see figure 3).

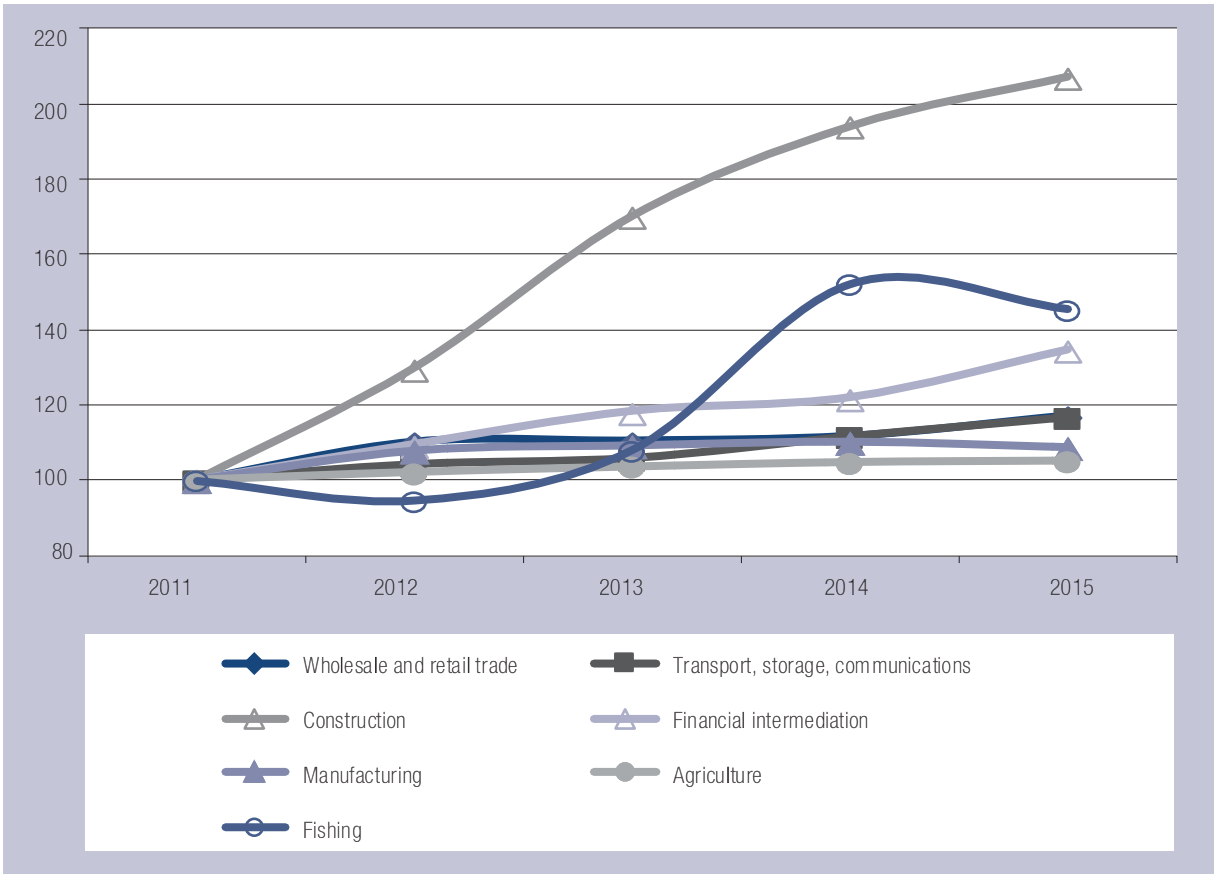
B. EMPLOYMENT

According to the Labour Survey carried out in August 2013, the employed population partly reflects the sectoral composition of the GDP (see table 2). The exception would be the agricultural sector, which absorbed 12.55 per cent of the employed population in 2013 – above the 2.5 per cent contribution to GDP in the same year – and thereby confirms low levels of productivity.

Economic growth has resulted in improved social indicators. The unemployment rate has gradually been declining, especially during this last decade when it reached 4 to 5 per cent, a level considered as frictional unemployment (see figure 4). Many companies even had to hire foreign labour due to the lack of skilled labour available in the market.[7] The slight increase in the unemployment rate observed in 2014 and 2015 can be associated with a lower GDP growth rate in comparison to previous years. Unemployment remains persistently higher among women, which cautions for the need for active gender-equality policies.

However, national employment data does not portray the reality of a large portion of the active population that does not have the necessary conditions to formally enter the labour market. It also does not reflect the reality of those that choose not to enter the labour market, opting instead for self-employment

Figure 3. Panama's gross domestic product evolution in selected sectors, 2011-2015 (Index 2011=100)



Source: UNCTAD, based on *Instituto Nacional de Estadística y Censo* (INEC).

Table 2. Panama's composition of working age population by selected sectors, 2013

	Number	Share
Total	**1 572 290**	**100.00**
Agriculture	197 275	12.55
Wholesale and retail trade	298 421	13.98
Construction	186 122	18.98
Transport, storage and communications	120 464	11.84
Manufacturing	117 341	7.66
Public administration	105 773	7.46
Hotels and restaurants	85 323	5.43
Subtotal		**63.92**

Source: INEC and Comptroller General.

in informal enterprises due to the perception that the formalisation of economic activities involves high costs. In 2010, about 200,000 non-formal small and medium enterprises (SMEs) gave jobs to about 430,000 permanent workers, an average of 2.15 workers per SME.[8] Almost 40 per cent of the employed population in sectors other than agriculture had some type of informal employment in August 2014, a slightly increasing trend compared to the previous year.

Inequality remains relatively high in Panama, with a 0.517 Gini coefficient in 2013.[9] The country suffers from a bad distribution of income, ranking amongst the 20 countries with the worst income distribution in the world.[10] Different levels of productivity in economic activities impact the remuneration received by workers. The average monthly salary in the primary sector amounts to less than half of such a salary in the industrial sector and almost a third compared to the logistics sector (see table 3).[11]

Table 3. Panama's average monthly salary by sector, 2015 (Dollars)

Sector	Average monthly salary
Agriculture, hunting and fishing	262.6
Industry	562.7
Trade	560.9
Transport and storage	770.4

Source: INEC and Comptroller General.

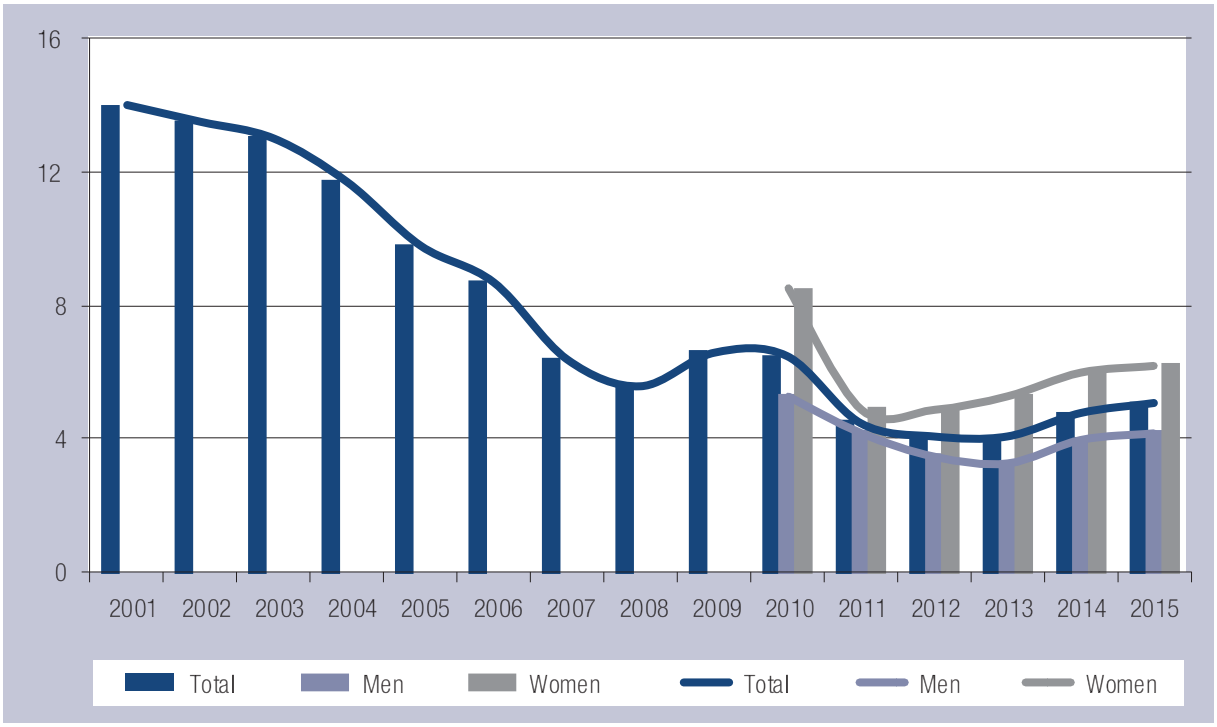
C. POVERTY AND SOCIAL SERVICES

Economic growth over the last two decades contributed to the decrease of the overall poverty rate, as a share of population, from 42.1 per cent in 1991 to 26.5 per cent in 2012. Extreme poverty also declined in those same two decades from 26.0 to 11.1 per cent.[12] Still, in spite of significant results in terms of economic growth, productivity limitations have impeded closing the income per capita gap to that of more developed countries.[13]

Challenges remain in the public provision of social services. Panamanian girls and boys in indigenous communities have significantly less access to basic education, electricity and sanitation than other children in rural or urban areas.[14] Similarly, pockets of urban poverty persist and some settlements very close to the city still suffer from very limited access to drinking water. Addressing these challenges will be vital in order for Panama to close the gap with advanced countries in terms of shared prosperity. The development of a more effective social protection system for the poor will also be crucial in order to accelerate the reduction of poverty in the country.

In order to face these challenges, Panama has launched several programmes to reduce poverty and increase access to social services. This includes a programme of conditional cash transfers that assigns resources to the poorest mothers so their children can go to school and receive basic nutrition and health services. It also includes a programme of social protection for the elderly not covered by pension plans

Figure 4. Panama's unemployment rate total, 2001–2015, and by gender, 2010–2015 (Percentage)



Source: INEC.

and a universal scholarship programme for students. However, the pressure on public finances generated by state subsidies is high. The government spent $1,352 billion on subsidies in 2013.[15] This amount exceeds the contribution of the Panama Canal to the National Treasury, which reached 1,030 million in 2014. Public finances are also under pressure due to massive public investments in infrastructure that have pushed up public debt. Between 2013 and 2015 the ratio between non-financial public sector debt and GDP increased by four percentage points, from 35 to 39 per cent.[16]

Sustained growth over time will make it feasible to gradually reduce the amount of state subsidies. The Panama Canal expansion project, which became operational on June 26, 2016, as well as a series of mega-projects, have injected vitality into the economy and have the potential to help it grow steadily. The expected increase in revenues from the canal may increase contributions to the National Treasury and may thereby generate a positive effect on the reduction of poverty and inequality.[17] The current Government Plan[18] prioritises social equity and sees the logistics and transport, agriculture, tourism and mining sectors as key to the Panamanian economy. The 2015-2019 indicative investment plan contemplates spending more than $19 billion with a broad social agenda in addition to investments in transportation infrastructure, a mass transit plan with two new subway lines, electric transmission and basic sanitation.

D. COMPETITIVENESS

The strengths of the Panamanian economy are associated with its privileged geographical position, its degree of openness and the diversification of its various economic activities. No economic activity, not even the Panama Canal and its related logistics hub, represents more than 20 per cent of GDP. This gives the country more resilience to cope with crisis situations or low cycles, such as those happening in many countries today. This is one of the reasons why Panama was still able to grow about 6 per cent in 2015 and why a similar growth rate is projected for 2016, amid a situation in which several countries in the region are in recession, with a negative 0.3 per cent average growth in Latin America in 2015.[19]

Panama shows a high level of competitiveness in the sectors most exposed to international markets such as the ZLC, the Banking Centre (see box 1), the Panama Canal and Port Services. This has positioned the country as a financial and transportation hub for

the region. Conversely, sectors such as agriculture and manufacturing are lagging behind. Tourism has shown great potential for boosting foreign exchange generation and employment in the country. The mining sector is emerging with remarkable potential and is one of the five pillars included in the national government five-year plan to boost Panama's economy.[20]

The World Economic Forum's (WEF) global competitiveness index shows that the country has made progress. It consistently increased its score between the report of 2006-2007, where it stood at 4.1 in a scale of 1 to 7, and the report of 2013-2014, where it reached 4.5. In 2014-2015 and 2015-2016, Panama obtained a score of 4.4, slightly decreasing from the value obtained in 2013-2014 and in line with the abovementioned output decrease. In 2015-2016, Panama occupied position 50 out of 140 countries. According to WEF, the main competitive weaknesses that Panama presents are the lack of confidence in the state and its institutions, in particular in regard to the fight against corruption and crime (rank 115), and the independence of the judicial system (118). Other major challenges include the quality of primary and secondary education, labour rigidities, innovation and local technological capacity, paying taxes – both time and cost – and the ease of enforcing contracts.

In the 2015-2016 report, Panama ranked at the top of Latin American countries, second only to Chile. However, it had declined some positions in the global ranking. WEF revealed that this fall was due to "a slight deterioration in the functioning of institutions, especially in the fight against corruption". The lack of qualified personnel is also perceived as one of the problematic factors when doing business in the country, and represents a major obstacle that must be overcome in order to enable the country to evolve towards more knowledge-intensive activities.

Comparing Panama's scores with the average for Central America and Latin America, it stands out that Panama is well-positioned in regard to infrastructure and to financial market development. The report notes that Panama remains a leader in port and airport infrastructure, placing the country among the top 10 in the world. This is due to the logistics hub that has been strengthened with the expansion of the Panama Canal and the expansion of the Tocumen international airport. In general, Panama outperforms the Central American average in every pillar. It also outperforms the Latin American average in every pillar except

Box 1. International banking centre

Panama is a dollarised economy[21] that has full financial integration with the international market and free flow of capital. Panama's international banking centre (CBI) emerged based on a Banking Act from 1970 allowing the financial system to be integrated into international financial markets through the participation of a large number of international banks. It plays a key role in the equilibrium between the monetary system and the balance of payments and currently has 91 local and international banks.[22] This includes general licence banks which, according to Panama's Banking Association, are known as the National Banking System, including the National Bank of Panama, the Savings Bank and the multinational Latin American Bank of Exports (Bladex). Recognised as the most important international banking centre of the region, CBI – together with many other hardware and software initiatives[23] – contributes strongly to the perception of Panama as a true centre for international services.

The system operates in the absence of a central bank while having demonstrated so far great economic stability, low inflation and the ability to adjust to external shocks without significant macroeconomic imbalances. In 1998, a new banking law created the Superintendency of Banks, the regulatory body of the system, with full autonomy and independence, and broad powers to practice strict supervision, including consolidated supervision of foreign banks. The Superintendency of Banks has developed a comprehensive regulatory framework that ensures reliable and consistent policies with the highest international standards, ensuring adequate supervision of the main banking risks. Since late 2002, the Superintendency of Banks presents all the financial statistics of international assets and liabilities to the Bank for International Settlements (BIS) in Basel, which helps increase the transparency of its operations. Furthermore, it has incorporated rules related to capital adequacy based on risk-weighted assets according to the Basel guidelines.

In February 2016, the Financial Action Task Force (FATF) removed Panama from its "grey list" of countries with Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regulatory deficiencies. In the aftermath of the "Panama papers" issue, the government created a panel of independent experts to assess practices in its financial centre and propose measures to increase transparency. The government has also committed to the automatic exchange of information on tax matters by 2018, to increase efforts to bring its financial transparency regulations into compliance with the common reporting standards set by the Organisation for Economic Co-operation and Development (OECD).[24]

market size (see figure 5), which confirms the need to pursue an openness development strategy.

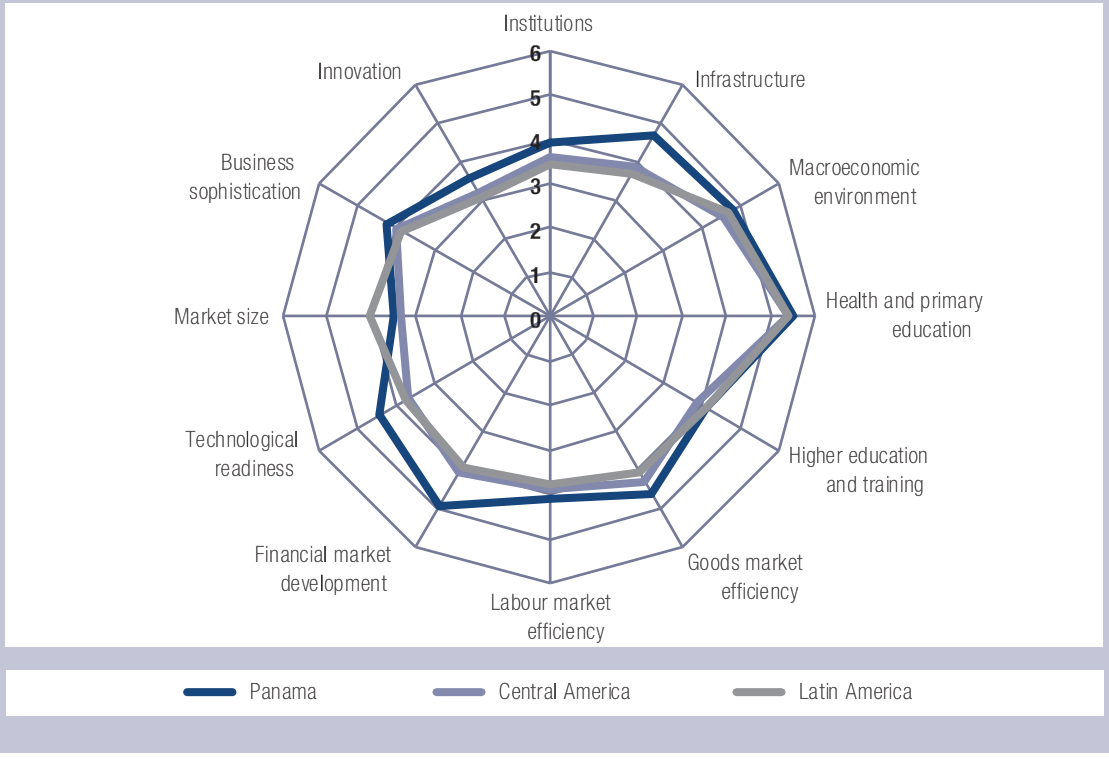
In 2016, the World Bank "Doing Business" general indicator ranks Panama in position 69 of 189 economies, a drop of three positions compared to the previous year. Within Latin America, this places Panama behind Chile, Colombia and Costa Rica.[25] Panama stands out in its ease of obtaining credit (rank 19); ease of starting a business (44); access to electricity (32); and in the ease of conducting foreign trade activities (54). The most problematic areas are the ease of paying taxes (166); ease of enforcing contracts (144); and the ease to resolve insolvency cases (132).

E. FOREIGN DIRECT NVESTMENT

In 2010, Panama obtained a classification of "investment grade" by major rating agencies in the world,[26] reflecting sustained institutional and regulatory work. According to the global competitiveness report of 2015-2016, Panama ranks 9 out of 140 countries in terms of low regulatory restrictiveness to foreign direct investment (FDI). In addition, it has improved its rank regarding the number of procedures to start a business – 38 in 2015-2016 – and its rank in respect of the number of days to start a business – 28 in 2015-2016.[27] These ratings show greater confidence in the country and contribute to further expanding foreign investment. In fact, Panama is one of the main recipients of FDI and the country that has attracted most foreign investment per GDP in the region. Panama also has the highest FDI per capita in Latin America.

Foreign direct investment in Panama has grown over recent years, from $3.2 billion in 2012 to $4.3 billion in 2014. In 2014, its main recipients were wholesale and retail trade, financial and insurance services, mining and transport services, including the maritime industry. FDI between 2012 and 2014 increased mainly in information and communication services; electricity, gas and water supply; financial and insurance services; wholesale and retail trade; and support services (see table 4). This investment came mainly from countries in North America (26.5 per cent), in particular the United States; South America (25.4 per cent), in particular Colombia; Europe (19.1 per cent), and Asia (11.1 per cent), mainly the Republic of Korea.[28]

Figure 5. Selected economies: global competitiveness index by pillar, 2015–2016 (Index 1-7)



Source: UNCTAD, based on World Economic Forum (WEF).

Foreign direct investment further increased 17 per cent in 2015 reaching $5.0 billion and, according to data from the first quarter from 2016, this growing path persists. These investments and the trust of investors are spurred by multiple factors. This includes *inter alia* political stability; accountable fiscal policy; parity with the US dollar; good risk ratings; good living conditions, free from major natural disasters; natural resources; qualified workforce and social security.

Sustained economic growth, a diversified economy and the performance of trade in services have contributed to investments seeking domestic but also foreign markets. CBI and the export of financial services are relevant here. Most importantly, Panama has been able to consolidate its position as a major exporter of port, transport, storage, distribution and transit services through the Panama Canal and this has positively impacted investment levels. This is linked to Panama's geographical location and to large public and private investment projects that were and are being developed, including the expansion of the Panama Canal, aiming to develop logistics facilities and convert the country into a regional logistics centre. The country has the largest and most efficient maritime hub with seven private ports and two oceanic ports, and an international air transportation hub serving over thirty destinations in the American continent.

The regulatory framework in Panama has also facilitated investment inflows. It includes favourable laws for the establishment of multinational operations, tax and immigration benefits, and legislation aiming to protect the interests of both nationals and foreigners. For example, foreign investors are guaranteed free repatriation of capital, dividends, interest and profits arising from their investments. Any investments worth $2 million or more may benefit from the Law on Legal Stability of Investment. Investors do not require any prior authorisation to invest unless they benefit from an incentive scheme or wish to conduct activities that require a concession, licence, permit or other type of authorisation.

Table 4. Panama's foreign direct investment by economic activity, 2012–2014 (Thousands of dollars)

	Foreign direct investment		
Economic activity	**2012**	**2013 (P)**	**2014 (P)**
Total	**3 210 533**	**3 943 232**	**4 309 466**
a. Agriculture, livestock, hunting and forestry	14 274	43 611	47 661
b. Exploitation of mines and quarries	1 149 420	432 633	472 814
c. Manufacturing industries	520 404	326 474	356 796
d. Electricity, gas and water supply	-122 648	258 306	282 297
e. Construction	117 198	103 435	113 042
f. Trade to the wholesale and the retail	954 586	1 105 891	1 208 602
g. Transportation, storage and email	463 498	430 228	470 186
h. Hotels and restaurants	623	1 961	2 143
i. Information and communication	-333 039	294 515	321 869
j. Financial and insurance activities	408 939	643 242	702 984
k. Real estate activities	28 514	11 961	13 072
l. Professional, scientific and technical activities	27 061	31 017	33 898
m. Administrative activities and support services	-51 000	193 511	211 484
n. Education	11 338	7 021	7 673
o. Human health and social services	-359	4 622	5 051
p. Arts, entertainment and creativity	23 150	52 934	57 850
q. Other service activities	-1 426	1 870	2 044

Source: INEC, 2014.
Notes: Difference between partial and total is due to rounding. (P) Preliminary figures.

F. INTERNATIONAL INTEGRATION

Open economies are characterised by the absence of barriers to the free flow of production factors such as goods and services, capital and labour. Economically smaller countries tend to have a higher degree of openness. Panama has an economically open insertion model in many ways, particularly on trade issues. As a small country that provides logistics and commercial services to the region and to the world through the inter-oceanic canal cluster, Panama has a high degree of openness and is the most open country in the region[29] (see table 5). The economic openness degree in Panama, defined as the ratio between the sum of imports and exports, and GDP, has been growing since the 1990s.

In effect, since the 1990s there have been changes in the orientation of Panama's economic openness policy. In October 1991, Panama sent formal notice asking to join the General Agreement on Tariffs and Trade (GATT). This was the beginning of an extensive process of modernisation of the legal framework related to foreign trade. This included the Law of 23 of July 26, 1997, approving the Treaty of Marrakesh established within the World Trade Organization (WTO), and the modification and adoption of other regulations to adjust national legislation to international rules of trade. This framework is the baseline from which subsequently adopted international trade agreements were developed. From an institutional point of view, with the creation of the National Foreign Trade Council[30] and subsequently of the Vice Ministry of Foreign Trade[31] (VICOMEX), the institutions governing foreign trade were updated. Prior to the existence of these institutions, foreign trade had been handled by a multiplicity of public sector bodies without a common goal. The main objectives of the VICOMEX of the Ministry of Trade and Industry (MICI) are to open new markets to export Panamanian products, to attract foreign investment and to promote trade in services.

Table 5. Latin America's economic openness degree, 2014 (Percentage)

	Country	Economic openness degree
1	Panama	128.2
2	Honduras	112.6
3	Nicaragua	101.6
4	Paraguay	87.0
5	Bolivia	85.3
6	Costa Rica	72.3
7	El Salvador	69.3
8	Chile	66.1
9	Mexico	65.8
10	Ecuador	58.7
11	Dominican Republic	56.3
12	Guatemala	56.3
13	Venezuela	49.0
14	Uruguay	48.9
15	Peru	46.8
16	Cuba	45.7
17	Colombia	37.5
18	Argentina	29.5
19	Brazil	25.8

Source: UNCTADstat.

This trend towards openness continued throughout several government administrations. President Pérez-Balladares (1994-1999) first adopted a policy of unilateral trade opening of goods, substantially reducing tariffs. A document was then approved entitled "Guidelines for Foreign Trade Strategy",[32] which established the criteria to be used by those responsible for international trade policy. These guidelines stipulated that foreign trade policy should be an instrument to achieve increased investments and exports, by expanding the markets guaranteed to the investor. In order to achieve this, the network of free trade agreements (FTAs) should be expanded as much as possible, without entering into a process of regional integration. With Moscoso's administration (1999-2004), the policy of unilateral opening was partially reversed and a FTA with Central America became the priority. The Torrijos (2004-2009) government resumed negotiations with the United States and concluded the negotiations with its largest trade partner, ratified by the next administration. The Martinelli (2009-2014) government reduced import tariffs approving three consecutive tariff changes. According to producers, tariff changes affected agricultural production and agribusiness in the country, which had remained stagnant or had decreased over the five preceding years. The measures were partly reversed due to the increase of certain agricultural product tariffs in 2015 through a Cabinet Decree by the Varela government[33] and under international conventions.[34]

For Panama, strengthening the multilateral and bilateral trading system is important to improve interaction with other countries while establishing regional or bilateral trade relations that help to foster growth in exports and investment. The significant number of trade agreements negotiated by Panama is therefore part of the strategy to use international trade for development and competitiveness. These include not only partial scope agreements, but also Panama's accession to the LAIA and to the Secretariat of Central American Economic Integration (SIECA). They also include the Trade Promotion Agreement between Panama and the United States; the Association Agreement between the European Union and Central America; the FTA with Mexico and current negotiations with Israel and the Republic of Korea. Panama hopes to join the Pacific Alliance, comprising Chile, Colombia, Peru and Mexico after signing its trade agreement with Colombia (see table 6).

With this network of trade agreements, Panama is envisaging more transparent rules, more access for its agricultural and agro-industrial offer, and more liberalisation of its services platform. It is also seeking to attract investment with the inclusion of services and investment chapters in new generation FTAs

Table 6. Panama's trade agreement network

Agreement / Partner	Subscription date	Entry into force
Partial scope agreements		
México (AAP.A25TM N°14)	22 May 1985	24 April 1986
Dominican Republic	17 July 1985	8 June 1987
Colombia (AAP.AT25TM N° 29)	09 July 1993	18 January 1995
Cuba	22 June 2009	20 August 2009
Free trade agreements		
WTO Member	06 September 1997	
Central America (text of the FTA, bilateral protocols below:	06 March 2002	
FTA Panama - El Salvador	6 March 2002	11 April 2003
FTA Panama - Costa Rica	7 August 2007	1 January 2009
FTA Panama - Honduras	15 June 2007	8 January 2009
FTA Panama - Guatemala	26 February 2008	20 June 2009
FTA Panama - Nicaragua	15 January 2009	1 January 2010
Taiwan	21 August 2003	1 January 2004
Singapore	1 March 2006	24 July 2006
Chile	27 June 2006	7 March 2008
Peru	25 May 2011	1 May 2012
United States of America	28 June 2007	31 October 2012
Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama)	29 June 2012	1 August 2013
EFTA - Central America (Costa Rica and Panama)	24 June 2013	29 August 2014 (Norway, Switzerland, Liechtenstein)
Mexico	3 April 2004	1 July 2015
Colombia	20 September 2013	Not in force
Trinidad and Tobago	3 October 2013	Not in force
Regional agreements		
LAIA / ALADI	27 April 2012	31 May 2013
Protocol of Incorporation of Panama to SIECA	29 June 2012	21 June 2013

Source: SICE- OAS, 2015.

since 2002. Trade agreements have also removed barriers for trade in services and goods and aimed for preferential access to different markets. Trade policy has also included export promotion that, together with trade negotiations, should lead to more competitiveness and efficient insertion into global markets. This is expected to stimulate the expansion of exporting activities and the creation of more exporting companies. In turn, this has the potential to increase employment and provide new options for consumers. Better trade relations with major partners also have the potential to increase investment.

II

DEVELOPMENT OBJECTIVES

Panama's open economy and its comprehensive network of trade agreements, together with its geographical location and the use of the Panama Canal as a strategic asset, have led to an accelerated process of growth. This confirms that the importance of international trade for development includes income-generating opportunities that affect output and employment levels and potentially impact on investment, production and consumption decisions and, in turn, on structural transformation. Trade can also increase the availability, variety and affordability of inputs that increase domestic supply capacity and of other goods and services with development effects, *inter alia*, medicines, vaccines, food and environmental-related goods and services. This importance has been recognised by the 2030 Sustainable Development Agenda (Agenda 2030) and by its Sustainable Development Goals (SDGs) (see table 7). Other important strategies in Panama have included the attraction of foreign capital and specialisation in the production and export of services. However, the results of this growth have been mainly concentrated on a limited geographical space of 7 per cent of the territory.

While the country's economic progress has allowed levels of poverty to be reduced, and social policies have managed to reduce the gap between the urban and the rural sector, the gaps are still very noticeable. An ongoing effort is required to achieve a greater reduction in these imbalances and makes the role of trade all the more important. Still, while competitive exports are required to harvest the development benefits of trade, a coherent and integrated set of proactive policies are necessary to address the

Table 7. Sustainable Development Goals: selected trade-related goals and targets

Goal 1.	**End poverty in all its forms everywhere**
1.1	By 2030, eradicate extreme poverty for all people everywhere
Goal 2.	**End hunger, achieve food security**
2.b	Correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect
Goal 3.	**Ensure healthy lives**
3.b	Provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the TRIPS Agreement and Public Health
Goal 7.	**Ensure access to affordable reliable, sustainable and modern energy for all**
7.1	By 2030, ensure universal access to affordable, reliable and modern energy services
Goal 8.	**Promote sustained, inclusive and sustainable economic growth**
8.2	Achieve higher levels of economic productivity through diversification, technological upgrading and innovation
8.a	Increase Aid for Trade support for developing countries … including through the Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries
Goal 9.	**Build resilient infrastructure**
9.1	Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure
9.3	Increase the access of small-scale industrial and other enterprises to financial services
Goal 10.	**Reduce inequality within and among countries**
10.a	Implement the principle special and differential treatment for developing countries
10.c	By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances
Goal 14.	**Conserve and sustainably use the oceans**
14.6	By 2020, prohibit certain forms of fisheries subsidies
Goal 17.	**Strengthen the means of implementation and revitalize the global partnership for sustainable development**
17.10	Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda
17.11	Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020
17.12	Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access

Source: United Nations General Assembly A/RES/70/1.

adjustment costs and income inequality that may derive from international trade.[35] This policy mix should be adjusted to Panama's specific development needs.

The last WTO Trade Policy Review of Panama in 2014[36] indicated that the main focus and objectives of Panama's trade policy were to increase FDI and exports. For Panama, the opening process goes hand in hand with these objectives, and it has sought to conclude trade agreements and to improve competitiveness, the business climate and infrastructure. Panama is seeking to attract high value-added investments that promote the training of human resources and the transfer of technology to several economic sectors such as financial services, logistics services, tourism and agriculture. 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.

Beyond trade policy, and according to the Government Strategic Plan 2015-2019, the main challenge in Panama's development process is the need to expand the vision, coordination and strategic action to include the whole country in the natural, human and business wealth. This expansion is required to reduce the gap between growth and inclusion and for better growth, with more equity, balance, environmental sustainability and social, ethnic, cultural and territorial cohesion.[37]

Public policy objectives are focused on effectively influencing the dual dimension of national development: competitiveness and social inclusion. They envisage short-term results and contributing to the goals that Panama intends to achieve in the coming decades.[38] In that sense, it is necessary to improve the quality of education and training of skilled labour, thus matching existing market demand. It is also important to promote innovation, for example through an electronic and transparent government; the promotion of projects such as the interoperability between institutions; the digitalisation of processes and electronic payment systems; and the improvement of social inclusion in the context of a sustainable and inclusive development model.

Regarding the country's institutional framework, the government is also focused on the need to make substantial progress on further improving the quality of public management, which requires defining a space and a scope of actions. Measures and decisions that the government is actually setting up in this regard are as follows:[39]

- Improvement of the planning and public investment system;
- Progress towards budget implementation for programmes;
- Modernisation and improvement of control systems;
- Civil service modernisation;
- Progress towards greater decentralisation of public institutions;
- Promotion of efficiency in the justice system and public safety.

The sectoral objectives for economic growth of Panama focus on sectors which have high potential to create new jobs or impact strongly on the population's socio-economic conditions, such as agriculture and agro-industry, fishing, mining and logistics services.

A. AGRICULTURE AND FISHERIES

Panama's main objectives in respect to these sectors are to increase the competitiveness and productivity of the primary sector; to improve food sovereignty; to promote the development of exportable high value goods; and to improve the socio-economic level of small producers. Enhancing productivity and diversifying the primary sector are especially linked to opportunities associated with trade liberalisation.

Priority actions for these sectors include:

- Strengthening the institutional framework for rural development and competitiveness;
- Market expansion and product diversification;
- Improving the capacity of the rural population to generate income;
- Strengthening technical assistance, credit, marketing and training services;
- Technical assistance for the improvement of productivity and diversification;
- Improving the marketing and transport of primary sector products;
- Improving infrastructure and support services for the production, marketing and higher value added of agricultural, forestry and fishing products.

Technical assistance for the improvement of productivity and diversification includes the development of new products and new technologies.

This should encompass areas such as livestock production; sustainable exploitation of forest resources; sustainable use of forest resources and biodiversity. Support programmes should include training and regulatory components, for example in support of fishing control.

B. LOGISTICS SERVICES

The importance of Panama's geographical position will increase with the expanded canal. The decrease in costs, displacement acceleration through logistical processes and improving the reliability of supply chains lead to benefits for consumers and greater trade flows. The main factors that determine lower costs, lower travel times and improved reliability are, amongst others, greater transparency in procedures, less bureaucracy, increased competition in trade-related services and higher intensity in the use of technology in customs processes. All these factors are being taken into account in Panama today within the context of the National Logistics Plan (PNLog) in order to take advantage of the extension of the canal that will be operational in the second half of 2016. PNLog has identified the inter-oceanic area as an area of vital importance to logistics development. This implies that Panama must seize the available areas in this zone to improve port, rail and roads infrastructure, value-added logistics services and distribution centres.[40]

The main objectives of Panama in this area are to secure the level and overall quality of its platform of logistics services, in order to preserve and increase the competitive advantages derived from its use.

Priority areas in this regard include:

- Infrastructure and value-added logistics services;
- Supportive legal framework;
- Supportive institutional framework;
- Human resources and innovation;
- Foreign trade processes;
- Financing.

III

STRUCTURE AND PATTERNS OF PANAMANIAN TRADE

A. OVERVIEW: OPENNESS AND EXTERNAL BALANCE

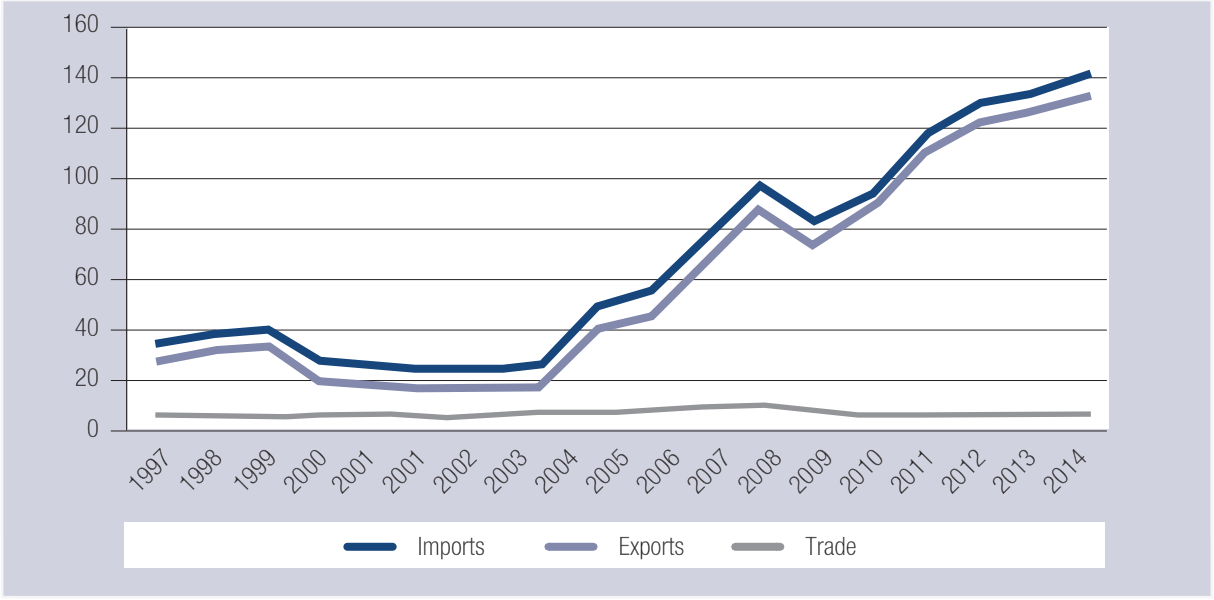
Like in most countries, Panama economic development has been closely related to its foreign trade.[41] Figure 6 presents the evolution of the three most commonly used indicators of trade openness between 1997 and 2014: exports/GDP, imports/GDP and exports + imports/GDP. An interesting feature of the figures is that the rate of imports/GDP is higher than exports/GDP. This reflects the fact that the country registers a persistent trade deficit with the value of imports largely exceeding that of exports, but that the gap is financed through international financing (due to its financial banking centre). These indicators remained fairly stable until 2005. Since this year, Panama's declining terms of trade are one factor affecting the trade balance, but the large increases beginning in 2007 reflect two developments: first, a large rise in oil imports driven by price and quantity, and an increase in construction machinery imports (derricks, dozers, cranes, etc.) related to Panama's strong economic growth, canal expansion and other infrastructure investment.

On the other hand, exports have decreased noticeably since 2008, despite the fact that, *ceteris paribus*, they should have increased significantly as a consequence of the dramatic reduction in transport and communications costs that took place in this period and the entry into force of various FTAs. Due to these two facts, the trade deficit has been worsening.

Panama's current account deficit remains elevated (see figure 7), with FDI as the main source of financing. The current account deficit reached 12 per cent of GDP in 2014, owing in part to strong investment-related imports. In 2014, the current account deficit increased by 7 per cent from the previous year, reaching $5,268 million (see figure 8). The increase reflects a higher deficit in trade in merchandise ($1,170.3 million or 16.8 per cent) and, to a lesser extent, the income balance ($168.2 million, or 5.5 per cent). In 2014, the balance of goods recorded a deficit of $8,146.8 million, an increase of 16.8 per cent from the previous year. This is due to lower levels of: re-exports from the ZLC (12.0 per cent); exports from the Processing Zones (8.3 per cent); goods sold in ports (3.4 per cent), and domestic exports (3.0 per cent).

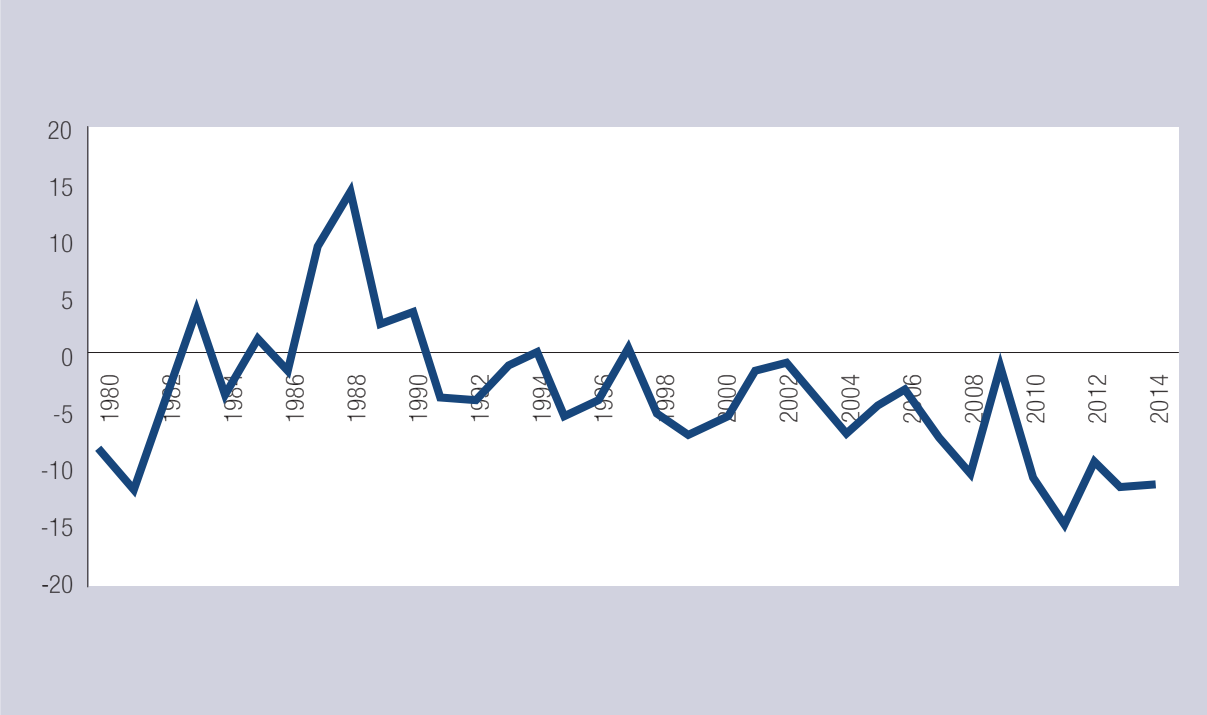
According to the Ministry of Economy and Finance (MEF) Report, in 2015 the overall deficit decreased by 29.6 per cent, mainly due to a lower oil import bill on account of falling international oil prices. In the longer run, the current account deficit is projected to moderate over time (to around 6 per cent of GDP in 2019–20) as investment winds down and the corresponding projects start generating exports.[42] The deficit is expected to continue to be financed by buoyant FDI inflows (including in the mining, logistics and energy sectors).

Figure 6. Panama's trade openness indicators, 1997–2014 (Percentage)



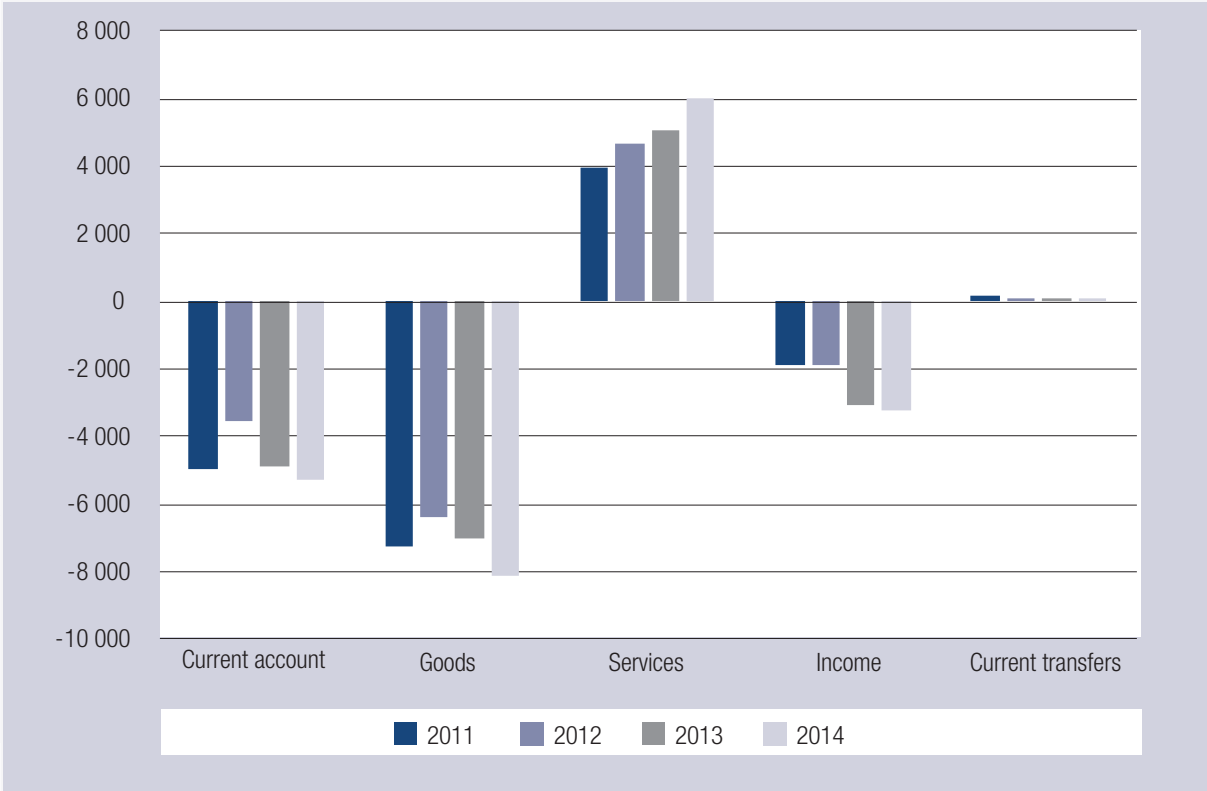
Source: Calculations based on INEC data on trade in goods.

Figure 7. Panama's current account balance as share of gross domestic product, 1980–2014 (Percentage)



Source: Calculations based on INEC data.

Figure 8. Panama's current account balance, 2011–2014 (Millions of dollars)



Source: Report of the General Comptroller of the Republic of Panama, 2014.

B. COLON FREE ZONE

When analysing the structure of Panama's trade in merchandise, it is important to distinguish between Panamanian trade as such and trade that is channelled through ZLC, given the preponderance of the free zone in the country's total trade figures. In fact, ZLC accounts for about 70 per cent of the value of the country's total trade in merchandise.

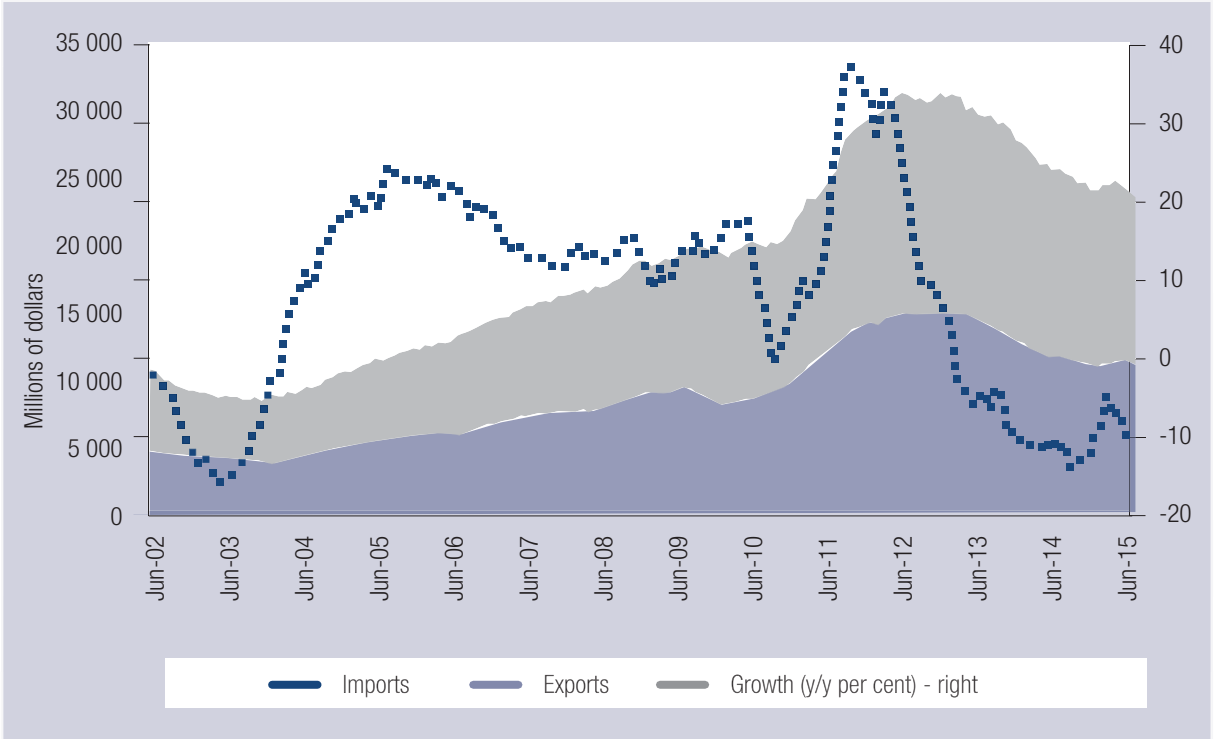
As noted, Panama's openness to trade is extremely high due to ZLC, the second largest free trade zone in the world. ZLC is used as a hub to re-export mainly medium and low-tech goods, so while the majority of Panama's gross exports are medium-tech exports, net (national) exports are heavily dominated by primary products. Most exports from ZLC are transhipped to serve the regional market. The largest destinations include Colombia, Venezuela and Panama, but also include Guatemala, Ecuador, Costa Rica, the Dominican Republic, the United States, Chile, Cuba, Honduras, Peru, Brazil, Nicaragua and El Salvador, absorbing around 83 per cent of all exports from ZLC.

Imports to ZLC largely come from Hong Kong, China, Taiwan, Province of China and the United States, followed by Japan, Republic of Korea, France, Mexico, Italy, Puerto Rico, Switzerland, United Kingdom, Malaysia and Germany. Imported goods include medicines, electric appliances, apparel, watches, perfumes and cosmetics, textiles, gold jewellery, liquors and cigarettes. Trade in goods (imports and exports) in ZLC amounted to $24.0 billion in 2014 ($3.4 billion or 12.4 per cent less than in 2013).

Both re-exports and imports of goods distributed from ZLC decreased to its main destinations. The data report by the Comptroller General of the Republic reveals that activity in ZLC has recorded its lowest level (in comparative terms) in the last years (see figure 9). According to reports from the MEF, from January to June 2015, imports to ZLC were worth $5,192.9 million, which represents a slight decrease of 0.1 per cent compared with the same period of the previous year, while the value of re-exports was $5,580.7 million.

In recent years, ZLC has been exposed to a transformation for both external and internal factors. On the one hand, sales have decreased mainly due to the weaker import demand in most of the countries of Latin America and its main markets (i.e. Puerto Rico, Colombia, Venezuela) (see figure 10 and table 8).

Figure 9. Panama's Colon Free Zone, June 2002–June 2015 (Millions of dollars and percentage)



Source: Calculations based on Comptrollers information.

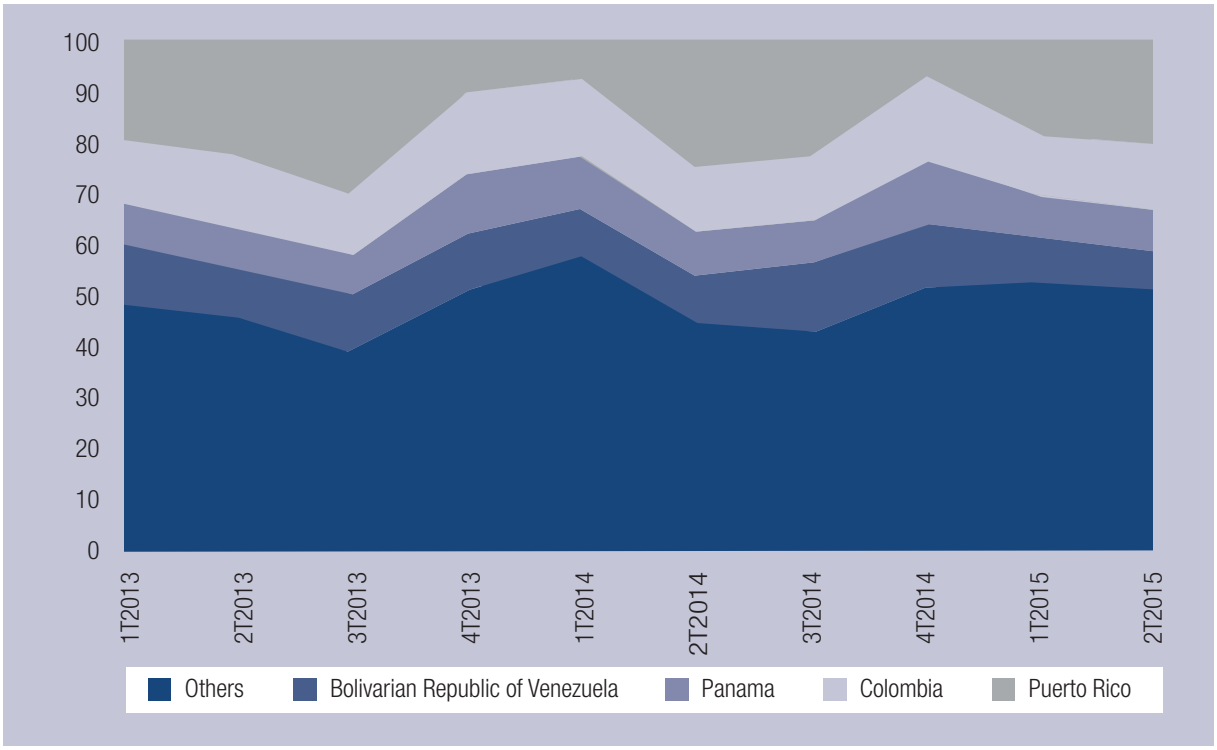
In the case of Venezuela, we have to add elements such as the devaluation of its currency, foreign exchange restrictions, lower revenues and high inflation (60.1 per cent). Venezuelan businesses owe more than $700 million.[43] Venezuela was Colon's largest partner, accounting for about 30 per cent of the port's total business in 2012. The debt increased with the devaluation of Venezuela's currency against the US dollar. The Bolivar dropped more than 31 per cent since the beginning of the year, with the official exchange rate in 2015 at 6.3 Bolivar per dollar. Some re-exports towards Colombia have also affected the ZLC since the application of a mixed rate tariff affecting mostly distributing companies operating within the ZLC.[44] Recently, Panama received a favourable decision on a claim to the WTO about this issue, but Colombia reported that it plans to appeal this ruling. These negative factors remained in 2015.

A sustained commercial downturn at the ZLC has resulted in the loss of jobs over the past years. In addition, it is estimated that in the past three years more than 400 users have withdrawn their operations from the free zone. There are now about 2,600 businesses there. The Colon Free Zone Users Association claims that the slowdown is due to changes in supply chains in which retailers are purchasing items directly from suppliers, especially in China. However, it has also been argued that these results are due to the lack of diversification in their customers, which in relative terms has not changed despite the problems they have had.

One of the biggest challenges faced by the ZLC is that the "Re-export certificate" is not recognised in the countries to which goods are re-exported.[45] Markets are being affected because some countries, such as Costa Rica, Guatemala, El Salvador and Peru, do not recognize the native country the goods came from for cargo transhipment stopping in Panama. This causes companies to send goods directly from the country of manufacture to the destination country obviating transit through Panama in order to avoid customs charges upon arrival.

Growing this hub requires being highly competitive, constantly modernising to be at the forefront of modern technology and providing a better service. In order to do this, ZLC is trying to expand its operations into new markets, improve technology and government efficiency, attracting not only commercial but also logistics and industrial companies to establish their regional operations in the area, and improve

Figure 10. Panama's Colon Free Zone, re-exports, 1Q2013–2Q2015 (Percentage)



Source: Calculations based on Comptrollers information.

Table 8. Panama's main destinations of re-exports from the Colon Free Zone, 2011–2014 (Millions of dollars)

Destination	2011	2012	2013	2014	Percentual variation 2013-2014
Puerto Rico	3 263.4	3 507.3	3 063.9	2 098.4	-31.5
Colombia	1 851.6	1 887.9	1 909.1	1 839.5	-3.6
Bolivarian Republic of Venezuela	2 571.2	3 029.9	1 717.0	1 453.8	-15.3
Panama	1 176.0	1 362.2	1 280.9	1 243.1	-3.0
Costa Rica	595.0	651.2	646.3	644.8	-0.2
Dominican Republic	543.0	587.0	524.3	523.5	-0.2
United States of America	399.5	396.3	479.6	510.9	6.5
Ecuador	579.5	513.3	555.1	495.0	-10.8
Guatemala	456.5	493.7	502.2	468.0	-6.8
Honduras	349.8	379.8	429.1	359.4	-16.2
El Salvador	285.1	281.3	288.7	283.0	-2.0
Nicaragua	208.7	231.2	224.8	289.2	28.7
Chile	237.3	270.7	299.1	273.0	-8.7
Cuba	229.6	254.8	259.0	241.5	-6.8
Mexico	208.3	184.6	268.8	232.2	-13.6

Source: INEC.

its benefits for new investments, adapting more technology capacity, trade facilitation and programmes to improve people's skills and knowledge. In this respect, efforts to restructure ZLC were made through the implementation of a new law which has been in force since 2016 (Law 8 of April, 2016) to make the ZLC more dynamic as a platform for FDI including tax, migratory and labour incentives. All these steps are focused on highlighting the role of ZLC as the main hub for the import, export and re-export of goods to the whole region, reinforcing its trade facilitation role.

C. NATIONAL TRADE IN MERCHANDISE

1. Exports[46]

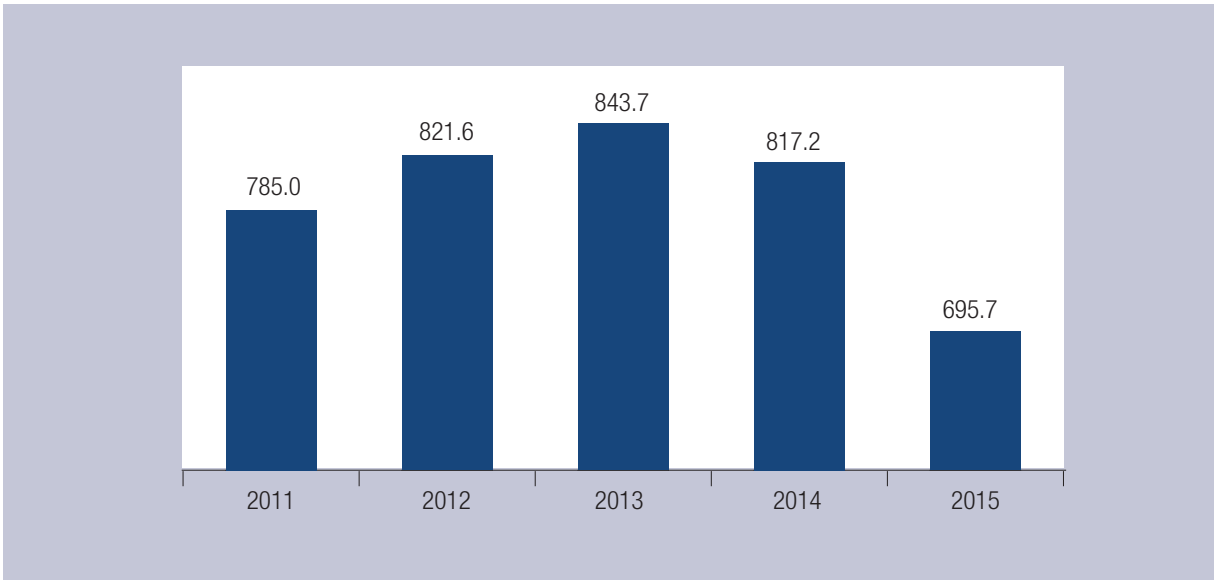
Excluding the ZLC, the value of domestic good exports stood at $817.2 million in 2014, representing a decrease of 3.0 per cent from the previous year (see figure 11). Because of weakened global demand, average earnings fell 5.5 per cent due to the lower prices of certain food products and metals. In 2015, the value of domestic exports fell 14.9 per cent to $695.7 million, the worst record since 1997. The contraction of exports is partly explained by a reduction in the exportable supply of agricultural and fish products, but in addition it is due to a decline in the price of some petroleum products and gold, as Panamanian domestic exports continue to rely heavily on a few agricultural and non-agricultural products.

Indeed, export concentration is a major characteristic of Panama's export structure (see table 9). In 2013, Panama exported close to 492 products[47] (in 628 HS lines) while, for example, Mexico registered exports of almost 4,000 products.

The Herfindahl-Hirschman Index (HHI, see figure 12), as a more sophisticated measure of export diversification,[48] clearly shows that Panama only increased its diversity in export products in a very cautious way over the period, and still has a high export product concentration. That is, Panama's national exports are very concentrated which can be related to the country's strong concentration in animal products and vegetables/fruits.

Panamanian exports (see figures 13 and 14) have been focused mainly on agricultural and agro-industrial products (bananas, fish and crustaceans fresh or chilled; flours, meals and fish pellets; other fresh or chilled salmon, as well as pineapples, cane sugar and beef).

Figure 11. Panama's Free On Board value of national exports, 2010–2015 (Millions of dollars)



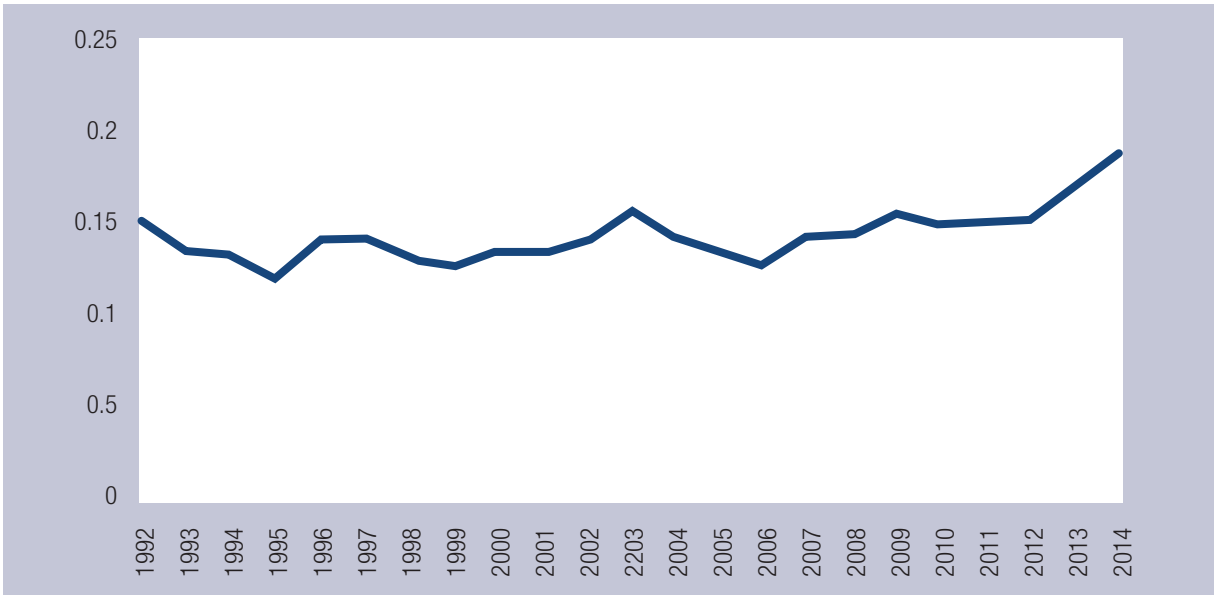
Source: INEC.

Table 9. Panama's export concentration

Year	Ten Per cent	Twenty Five Per cent	Fifty Per cent	Seventy Five Per cent	One Hundred Per cent
2013	1	3	10	23	492
2010	1	3	8	21	516
2005	1	3	6	18	470
2000	1	2	7	22	570
1995	1	1	3	15	422

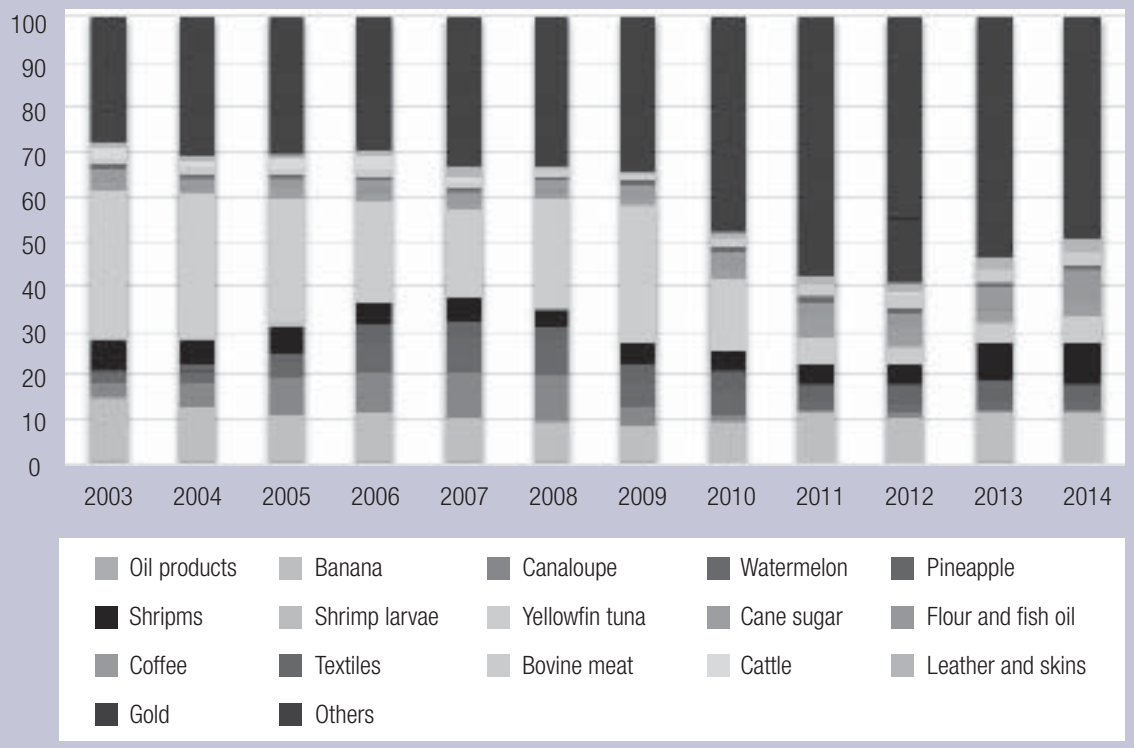
Source: Calculations based on Comptrollers information.

Figure 12. Panama's Herfindahl-Hirschman Index in commerce



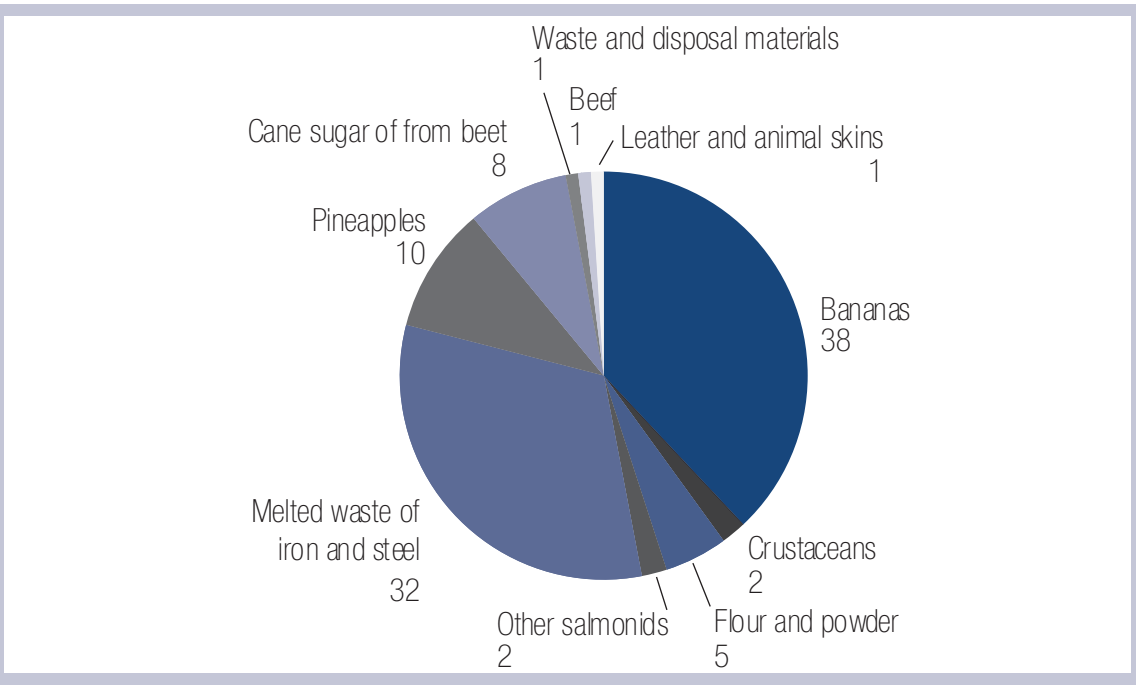
Source: Herfindahl-Hirschman index.

Figure 13. Panama's export of goods, Free On Board value, 2003–2014 (Percentage)



Source: Calculations based on General Comptroller Data.

Figure 14. Panama's total weight of exports, 2014 (Percentage)

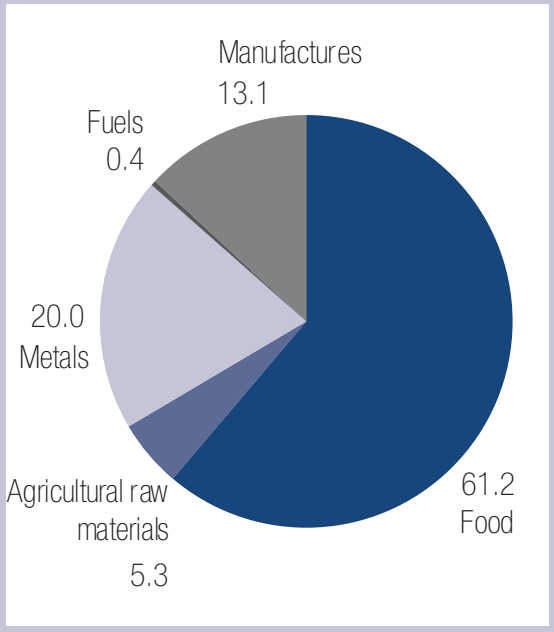


Source: Calculations based on General Comptroller Data.
Note: Figures have been rounded.

According to the Comptroller's Office, the value of exports in the first half of 2015 was $348 million, a contraction of 14.7 per cent compared to the $408 million of exports in the first six months of 2014. According to the authorities, the contraction is partly explained by a reduction in the exportable supply of agricultural and fish products. Panama's distribution of exports across broad sectors for 2014 underlines the country's dependence on natural resource-based exports. The two major sectors are food and agricultural raw material making up more than two thirds of the country's national export basket (see figure 15).

The top 10 export goods are all exclusively fishery products or vegetables/fruits and make up almost two thirds of the country's net export basket. These categories are led by fruit (bananas, pineapples, watermelon), which accounts for 18.1 per cent of the total; fish and crustaceans, fresh or chilled (12.7 per cent); sugar and confectionery products (4.3 per cent); meat and edible offal (4 per cent); and beverages, alcoholic liquids and vinegar (3.0 per cent) (see table 10).

Figure 15. Panama's sectoral profile of trade (Percentage)



Source: INEC.

Table 10. Panama's top five products exports at Harmonized System 6 digit level, 2000/2005/2014

Description (6 HS)	2000	Market Share (%)
Bananas	148 522	19.3
Frozen shrimps and prawns	59 403	7.7
Fresh or chilled salmonidae	42 912	5.6
Cigars, cheroots and cigarillos containing tobacco	37 677	4.9
Fresh or chilled fish fillets	32 381	4.2
Description (6 HS)	**2005**	**Market Share (%)**
Melons and watermelons	118 019	12.2
Fresh or chilled fish fillets	101 740	10.6
Bananas	96 781	10.0
Frozen yellowfin tunas	85 772	8.9
Fresh or chilled salmonidae	77 144	8.0
Description (6 HS)	**2014**	**Market Share (%)**
Bananas	92 880	11.4
Frozen shrimps and prawns	78 795	9.6
Flours, meals and pellets of fish, etc	38 217	4.7
Fresh or chilled salmonidae	35 203	4.3
Waste and scrap, cast iron	34 044	4.2

Source: Intracem, 2015.

By export destination, major export markets for Panama's domestic exports include the United States, Germany, China, Costa Rica and the Netherlands (see table 11).

The United States was the top export destination for Panama's national export goods with an export share of almost 18.1 per cent. Historically, the United States has been the most important market for Panamanian exports, accounting for more than a third of the export market. Still, after the FTA, exports have declined, both in absolute terms and relative to the total. More than 22.6 per cent of Panama's national exports went to the EU-27, in particular Germany (10.7 per cent), the Netherlands (5.2 per cent), Spain (2.9 per cent) and Italy (2.8 per cent). Central America and Mexico absorb almost 12 per cent of Panama's net exports, above all Costa Rica (6.7 per cent). Among the BRICs, China is the main trading partner absorbing 8.5 per cent of Panama's net exports. However, South America and Brazil played a subordinate role for Panama's net exports.

It is desirable to strengthen trade relations between Panama and the East Asian countries, which have shown poor performance during the past decade. For Panama, the development of new export markets is necessary in order to achieve more growth and reduce excessive dependence on United States of America and Latin American markets. East Asia is one of the most dynamic regions of the world and offers good opportunities for these exports. There is great potential to develop Panamanian exports of crops and agribusiness products to East Asian nations. This is a process that is already underway because many East Asian nations are liberalising their trade through regional agreements. The implementation of an FTA with East Asian nations may not seem to be a priority for Panamanian trade policy; however, it should not be discounted in the future. Taking into account possible sensitive sectors, the signing of such an agreement could lead to a more fluid and mutually beneficial trade relationship.

2. Imports

According to data from INEC, the value of domestic imports excluding those corresponding to companies operating in the ZLC reached $13,707.2 million in 2014, with a growth of 5.2 per cent compared to the previous year (see figure 16). Import value fell 11.5 per cent in 2015 to $12,136 million. This was due both to the low cost of oil derivatives and a demand for materials for the canal enlargement that was lower than previous years. The import of goods used in construction, both in terms of construction materials and capital goods, stands out due to the economic growth this industry had, generating the largest contribution to the increase of the economy's value added.

Major categories of imported products included: fuel, machinery, mechanical appliances, automobiles and automobile parts, electrical reproduction and audio machinery and machinery to melt iron and steel (among them the locks installed in the expansion of the Panama Canal) (see table 12). These goods were supplied mainly by the United States, China, Mexico, Costa Rica and Republic of Korea. $2,049.5 million were imported in fuel from the Petroleum Free Zone and $1,243.1 million in goods were imported from the ZLC.

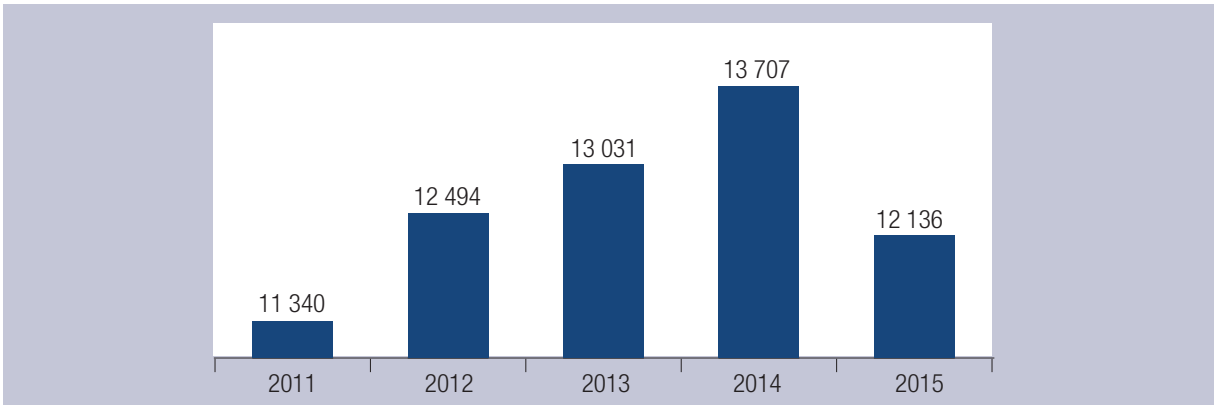
Table 11. Panama's main destinations of national exports, 2010–2014 (Millions of dollars)

Destination	2010	2011	2012	2013	2014
United States of America	211.5	163.3	161.0	152.8	157.4
Germany	4.1	12.7	8.8	49.1	87.2
China	36.1	38.8	33.8	51.3	69.5
Costa Rica	49.5	52.4	54.3	50.0	54.9
The Netherlands	50.6	34.5	48.2	39.7	42.9
Vietnam	5.8	8.7	7.0	11.6	35.0
Taiwan, Province of China	36.5	34.7	33.2	39.5	30.3
Colon Free Zone	15.5	28.9	29.3	32.2	29.8
Spain	19.9	16.2	16.1	19.1	24.0
Italy	14.4	20.0	33.2	29.0	22.6
India	7.3	19.1	21.9	28.3	22.1

Source: INEC.

In the longer term, there have been no significant changes in the composition of Panama's imports over the past two decades, which essentially consist of manufactured products as shown in table 13 (68.9 per cent of total imports in the period 1995-2013). The leading imports include mineral fuels, which accounted for 20.5 per cent of total imports in 2013, followed by food and agricultural raw products in total imports which remained broadly stable during the 1995-2013 period, representing 11.8 per cent of the total in 2013.

Figure 16. Panama's Cost, Insurance and Freight national import value, 2010–2015 (Millions of dollars)



Source: INEC.

Table 12. Panama's Cost, Insurance and Freight value of main imports by tariff heading, 2013–2014

Destination	2010	2011	Variation	
			Millions of dollars	*Percentage*
Germany	4.1	12.7	8.8	49.1
China	36.1	38.8	33.8	51.3
Costa Rica	49.5	52.4	54.3	50.0
The Netherlands	50.6	34.5	48.2	39.7
Vietnam	5.8	8.7	7.0	11.6
Taiwan Province of China	36.5	34.7	33.2	39.5
Free Zone of Colon	15.5	28.9	29.3	32.2
Spain	19.9	16.2	16.1	19.1
Italy	14.4	20.0	33.2	29.0
India	7.3	19.1	21.9	28.3

Source: INEC.

Table 13. Panama's composition of imports (Millions of dollars)

Imports	1995	2000	2005	2010	2013
Agricultural Raw Materials	20 008	16 179	21 716	32 796	40 653
Food	268 816	394 049	517 848	1 056 962	1 495 294
Fuels	341 223	627 491	745 201	1 730 459	2 676 036
Manufactures	1 831 604	2 308 973	2 822 041	6 237 428	8 726 309
Metals	42 906	30 882	44 774	71 769	73 170
Other	395	358	425	14 571	21 905
Total Imports	**2 504 952**	**3 377 932**	**4 152 005**	**9 143 985**	**13 033 367**

Source: Calculations based on Comptroller General.

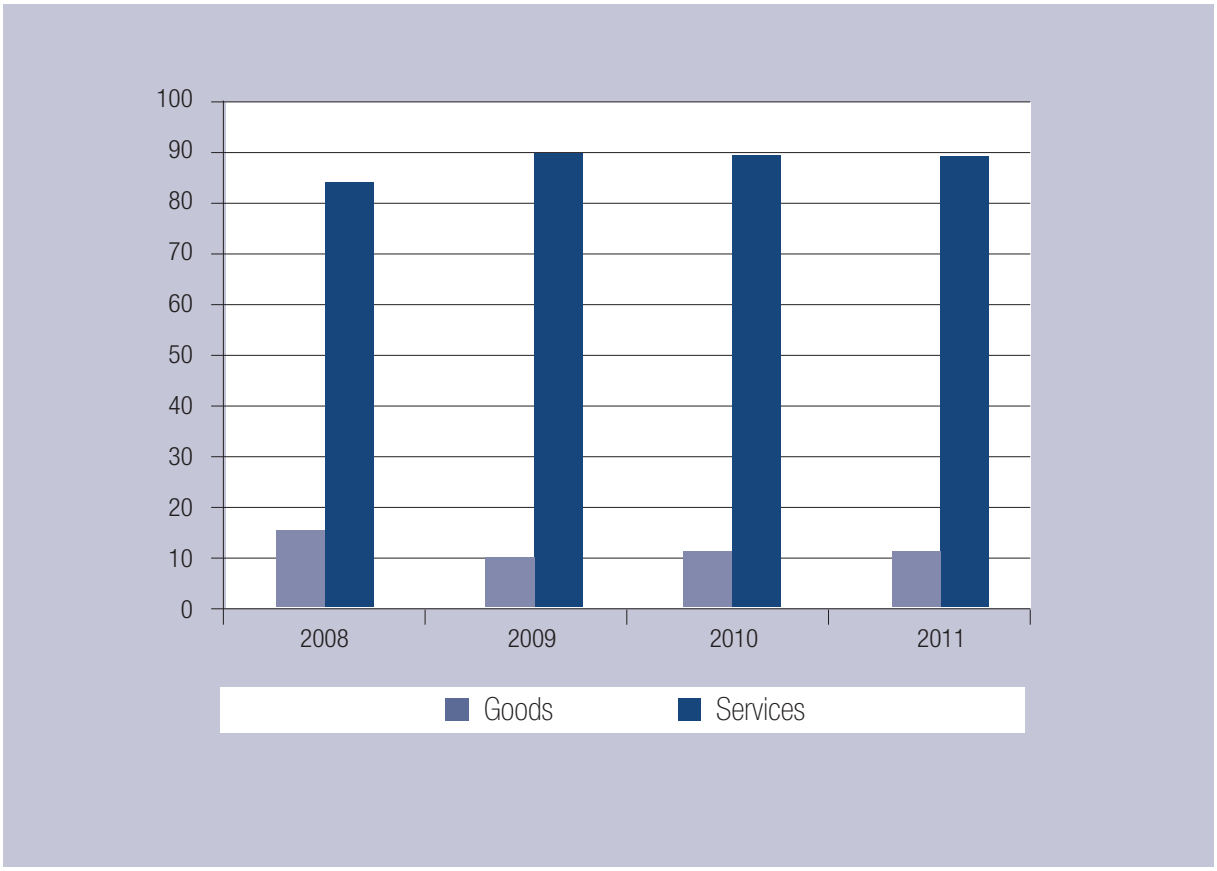
D. TRADE IN SERVICES

As regards trade in services, services account for about 90 per cent of the total Panamanian exports of goods and services (see figure 17).[49] Service activities are concentrated around canal cluster activities, tourism, banking, telecommunications and other related activities. As shown in figure 18, trade in services persistently registered a large surplus, enabling the economy to partly offset the deficit in trade in merchandise.

Table 14 shows the balance of services in which the growing dynamism of service activities is appreciated. The surplus of services trade in 2014 was $6,006.6 million, and increased by 18.6 per cent from the previous year, as a result of increased exports. Service exports totalled $10,901 million, representing 23.6 per cent of nominal GDP. The main exported categories are: maritime transport including the Panama Canal (33.2 per cent), travel (32.3 per cent) and air transport (17.2 per cent).

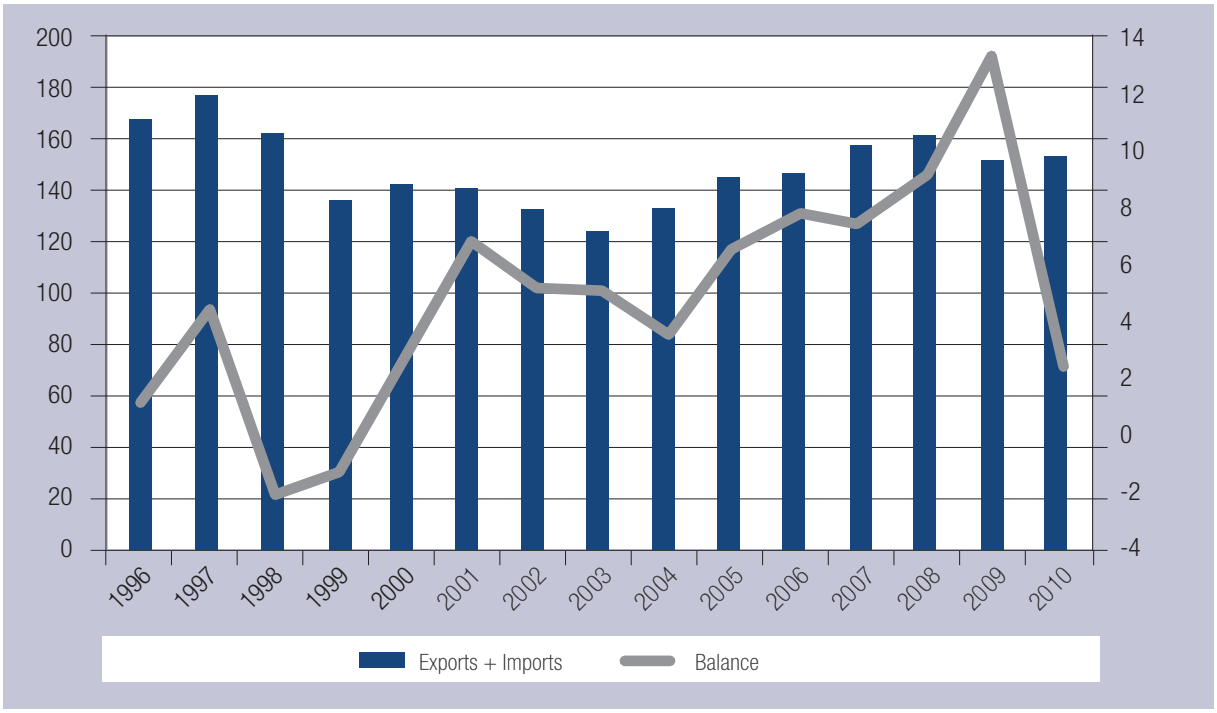
Overall, trade in services is an increasingly important part of Panama's economy, which is largely services-based. Such a large services component of the balance of payments is unusual for a Latin American country, but reflects the unique aspects of the Panamanian economy. In many years, the services surplus has balanced out most of the merchandise deficit. At the same time, it should also be noted that Panama's sectoral composition of GDP suggests that its poor income distribution is closely associated with an economic model that concentrates wealth in a limited number of services and other activities. It is thus desirable and feasible to stimulate export of goods with added domestic value that will positively impact laggard sectors such as the primary and secondary sectors as well as other geographical areas outside the inter-oceanic corridor. It is therefore necessary to adopt policies that stop the recent downward tendency experienced in the exports of both agricultural and non-agricultural products.

Figure 17. Panama's composition of net exports, goods and services, 2008–2011 (Percentage)



Source: National Competitiveness Centre of Panama (CNC).

Figure 18. Panama's trade and trade balance as a share of gross domestic product (Percentage)



Source: CNC, with data from INEC.

Table 14. Panama's services balance summary, 2012–2014 (Millions of dollars)

Category	Exports			Imports		
	2012	2013	2014	2012	2013	§2014
Total	**9 302.2**	**9 850.7**	**10 901.0**	**4 606.1**	**4 792.4**	**4 900.4**
Transport	4 691.6	5 063.7	5 373.4	2 360.9	2 386.0	2 107.3
- Maritime	3 085.5	2 999.1	3 206.7	1 561.5	1 458.7	1 498.5
-- Freight	-	-	-	1 561.5	1 458.7	1 498.5
-- Others	3 085.5	2 999.1	3 206.7	...	...	...
--- Panama Canal	2 247.9	2 224.0	2 340.9	..	..	..
--- Ports	837.6	775.1	865.8	...	...	...
- Air	1 606.1	2 064.6	2 166.7	799.4	927.3	608.8
Travel	3 012.8	3 233.2	3 469.8	514.5	619.1	892.3
Communications	265.1	324.9	405.9	70.0	62.0	59.7
Construction	4.2	4.0	108.6	...	...	34.2
Insurance	153.7	145.3	146.6	214.3	220	221.8
Financial services	670.9	566.3	521.4	629.9	607.9	494.6
Computer and information services	57.2	31.4	47.5	15.4	13.6	14.4
Charges for the use of intellectual property n.i.e.	12.1	12.6	8.3	96.9	80.9	98.7
Other business services	288.6	266.9	652.9	613.9	695.0	860.8
Personal, cultural and recreational services	45.2	64.9	61.6	17.4	27.0	33.3
Government goods and services n.i.e.	100.8	137.5	105.0	72.9	80.9	83.3

Source: INEC.

E. TRADE POLICY ENVIRONMENT AND INSTRUMENTS

1. Trade liberalisation agenda

In the mid-1990s, Panama carried out a trade liberalisation programme within an economic openness programme (including its accession to the WTO, which resulted in considerably lower tariffs and the elimination of non-trade barriers). According to the WTO, tariff rates were lowered significantly from over 15.86 per cent in 1996 to a simple average of 7.98 per cent in 2013, while undue non-tariff measures focused on a few sectors subject to particular domestic policy objectives were eliminated after the country's accession to the WTO.

Panama has been actively promoting further integration into the world economy through FTAs. A total of thirteen FTAs have come into force since the first one in 2003. Agreements with the United States, Canada and the European Union came into effect during 2012 and 2013. An FTA with the European Free Trade Association (EFTA) states (Iceland, Liechtenstein, Norway and Switzerland) jointly negotiated with Costa Rica came into effect in 2014, and covers trade in goods, services, investment and government procurement. EFTA states eliminated all custom duties on industrial products (including fish) immediately, whereas Panama will do so after a transitional period, with all trade in such goods to be duty free by 2031 at the latest (see table 15).

Panama has now signed agreements with all four members of the Pacific Alliance. The FTA with Mexico came into effect in 2015. This agreement will eliminate almost all tariffs in goods within five years of coming into effect. The FTA with Colombia will immediately suppress import tariffs on 49 per cent of manufacturing goods, with another 50 per cent to become duty-free within 12 years. It also establishes duty-free quotas on primary products, with the quotas progressively increasing over time. Panama is an observant state in the Pacific Alliance, composed of Chile, Colombia, Mexico and Peru. Signing FTAs with all four members is a prerequisite for accession to the Alliance.

The share of trade with FTA partner countries is rising rapidly. Partner countries with which an FTA is currently in force represented about 45 per cent[50] of trade in

Table 15. Panama's free trade agreements in effect

Partner country	In effect since	Percentage of duty-free lines		Reduction program ends
		2013	Final	
El Salvador	11 April 2003	82.44	82.44	2013
Taiwan, Province of China	1 January 2004	95.07	95.07	2013
Singapore	24 July 2006	76.18	97.42	2021
Chile	7 March 2008	74.3	97.3	2022
Costa Rica	23 November 2008	88.7	97.5	2026
Honduras	8 January 2009	78.1	87.2	2026
Guatemala	20 June 2009	84.89	97.39	2028
Nicaragua	21 November 2009	86.5	90.5	2024
Peru	1 May 2012	58.05	96.5	2029
United States of America	31 October 2012	73.32	99.97	2031
Canada	1 April 2013	75.7	98.8	2031
European Union	1 August 2013	50.89	94.62	2027
EFTA				
- Liechtenstein	29 August 2014	59.51	93.24	2028
- Norway	29 August 2015	59.51	93.24	2028
- Switzerland	29 August 2016	59.46	93.27	2028
- Iceland	5 September 2014	59.48	93.29	2028

Source: Ministry of Trade and Industry web page.

goods, and 40 per cent of FDI inflows, in 2013. More precisely, exports and imports of goods with partners with FTAs currently in force amounted to about 70 and 34.7 per cent respectively in 2013 (see figure 19). Colombia and Mexico combined represented around 2 per cent of exports and 8 per cent of imports, while FDI flows with these countries amounted to 14 per cent of total FDI flows.

Recent and forthcoming FTAs are expected to have a significant effect on total trade in goods. Estimations indicate that, all else being equal, signing an FTA should increase bilateral trade by 77 per cent.[51] Given their weight in bilateral trade, the FTAs with the United States and the European Union are expected to increase Panama's total trade by about 18 per cent and 7 per cent respectively. Similarly, the FTAs with Mexico and Colombia should cause an increase in trade of about 6 per cent. The FTAs that have been signed with major partners will also support FDI flows over the medium term.

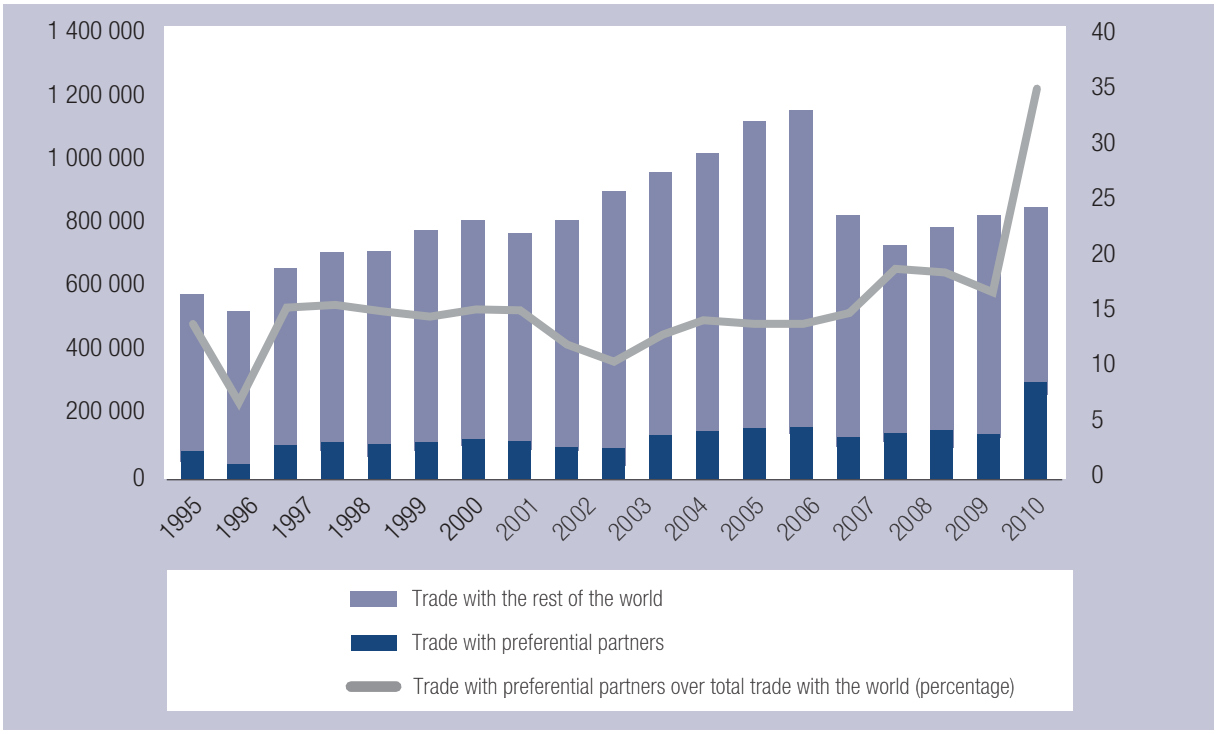
2. Tariffs and non-tariff measures

The United States-Panama Trade Promotion Agreement (TPA) entered into force on 31 October 2012. The TPA is a comprehensive FTA that provides elimination of tariffs and removal of barriers. It also includes important disciplines relating to customs administration and trade facilitation, technical barriers to trade, government procurement, investment, telecommunications, e-commerce, intellectual property rights and labour and environmental protection. In table 16, we show the cumulative share of the duty-free tariff lines of different FTAs.

The structure of the rules of origin in Panama's FTAs are all similar (see box 2). As the TPA with the United States is the most detailed FTA (not necessarily different in structure), these provisions are detailed in this section. Broadly speaking, products that originate in either the United States or Panama are eligible for the FTA rate. A product is eligible under the US-Panama TPA if it is:

- wholly obtained or produced entirely in the United States or Panama;
- entirely produced in the United States and Panama and each of the non-originating materials (inputs) that are part of the good (product) being exported have met the relevant product-specific rule of origin;
- entirely produced in the United States or Panama from originating materials (inputs).

Figure 19. Panama's preferential trade vs. non-preferential, 1994–2013



Source: UNCTAD.

Table 16. Panama's tariff items duty-free per year, by partner

Partner country	Year*	Total tariff lines	In percentage																
			2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Chile	2008	8 912	64.4	64.4	64.4	64.4	73.8	73.8	73.8	73.8	74.3	93.1	93.1	95.0	95.0	95.1	97.0	97.0	97.0
Costa Rica	2009	8 947	0.7	87.3	87.3	87.4	87.4	89.2	89.2	89.2	89.5	89.5	97.6	97.7	97.9	98.0	98.0	98.1	98.1
Guatemala	2002	8 940	85.3	85.3	96.2	96.2	96.2	96.2	96.2	96.7	96.7	96.7	96.7	96.7	97.1	97.1	97.1	97.1	97.1
Honduras	2009	8 939	0.3	65.1	65.1	65.1	65.1	76.5	76.5	76.5	76.5	76.5	80.8	80.8	80.8	80.8	80.8	82.6	82.6
Nicaragua	2009	8 936	87.4	87.4	87.4	87.4	88.3	88.3	88.3	88.3	88.3	91.2	91.2	91.2	91.2	91.2	91.2	91.2	91.2
Singapore	2006	8 904	60.7	76.2	76.2	76.2	76.2	76.2	96.8	97.3	97.3	97.3	97.3	97.3	97.4	97.4	97.4	97.4	97.4
El Salvador	2003	8 126	80.1	80.4	80.4	80.4	80.4	81.7	81.7	81.7	81.7	81.7	81.7	81.7	81.7	81.7	81.7	81.7	81.7
Taiwan Province of China	2004	8 580	71.3	71.3	71.3	71.3	95.1	95.1	95.1	95.1	95.1	95.1	95.1	95.1	95.1	95.1	95.1	95.1	95.1
United States of America	2012	8 846	0	0	0	75.1	99.2	99.2	99.2	99.2	99.2	99.2	99.2	99.2	99.2	99.2	99.2	99.2	99.2

Source: UNCTAD.
* Year of entry into force

Box 2. Economic rationale and effect of rules of origin

The reason why countries want to determine the origin of goods lies in the existence of differentiated restrictions on international trade. Rules of origin would not be necessary in a completely open world economy because all commodities would be treated in the same way regardless of their origin. Even in a system where trade-restrictive measures were applied on a non-discriminatory basis, it would not be necessary to know the origin of a commodity since the measures would be applied across the board for all countries in the same way. But the reality is different: countries do not apply the same trade policy measures towards all other countries in international trade of goods. Rules of origin are an important factor in determining the tariffs to be imposed on specific goods and whether quantitative and other trade restrictive measures may be applied to imported goods. Consequently, the manner in which these rules are formulated and applied may have an enormous impact on the flow of trade and investment. A country's manipulation of origin rules can substantially affect direct investment and other business activities of companies seeking to establish origin in that country. Furthermore, at a time when increasing numbers of companies are globalising their production networks, the significant differences in national rules of origin can work to disrupt the free flow of trade. Unnecessary complications and confusion arise when the same product may have several different countries of origin depending on the country for which it is destined. This greatly diminishes the exporter's predictability of trade. In addition, a change in the rules of origin may force globalised producers to add certain manufacturing processes in that country, with substantial resulting costs.

Properly formulated and applied, rules of origin should have a neutral effect on trade. Arbitrary formulation and application, however, will result in a country's either expanding or reducing its trade restrictive measures, and an increase in the likelihood that such measures will distort trade. In principle, taking advantage of preferential market access opportunity by meeting rules of origin would require the following basic steps to be followed:

- Determine the product's tariff classification;
- Determine whether there is an advantage to claiming preferential treatment;
- Identify the rule of origin under the FTA;
- Document origin;
- Keep records.

Product specific rules are listed by HS Code in Annex 4.1 of the Agreement. If the product is produced in the United States or Panama and contains non-originating inputs (non-United States of America and non-Panamanian content, including content from an unknown origin), the exporter will need to look at the specific rule of origin for the product to determine whether it originates under the United States of America-Panama TPA. Although rules of origin under the United States of America-Panama TPA differ by product, they typically fall within three general categories, consisting of: (i) a change in tariff classification (tariff-shift); (ii) a regional value-content requirement; or (iii) a combination of change in tariff classification and regional value content. Due to special characteristics, rules of origin could fit into one or more set. The qualification criteria for the FTA with the United States are as follows in table 17.

There is a limited *de minimis* exception (Chapter 4, Article 4.6) available for most products where the non-originating inputs do not exceed 10 per cent of the adjusted value of the product. However, there are restrictions on this exception for various agricultural products (Chapter 3, Section F). Different rules, including *de minimis* rule, apply for textiles and apparel products.

Other non-tariff measures such as sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT) could have an important bearing on the ability of Panama to take advantage of trading opportunities under its FTAs. Given the relative concentration of Panama's export products in agricultural and fishery products, such non-tariff measures could act as major obstacles to its exports. Table 18 indicates the number of shipments from Latin America and the Caribbean that were rejected by the United States Food and Drug Administration by type of SPS violation. This highlights the importance of addressing exporters' ability to comply with required SPS measures.

Table 17. Use of qualification criteria under United States-Panama Free Trade Agreement

Criteria	Percentage
Change of Tariff Classification	98.98
Exception to the Tariff Change	24.6
Value Requirement	2.78
Other Requirements	7.97

Table 18. Panama's rejections by cause, 2003-2012

Cause	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additive	0	0	0	0	0	0	0	0	0	1
Aulteration/Missing document	2	0	0	0	2	0	0	0	0	0
Bacteria	0	28	2	1	1	0	0	0	0	0
Hygienic condition/ controls	9	30	7	24	2	7	9	18	5	4
Labeling	1	2	1	2	1	5	5	0	6	1
Other causes	1	0	0	0	0	0	1	0	0	0
Other contaminants	1	0	0	0	0	0	0	0	0	0
Pesticide	1	0	0	0	0	0	0	0	0	0

Source: Food and Drug Administration.

IV

AGRICULTURE

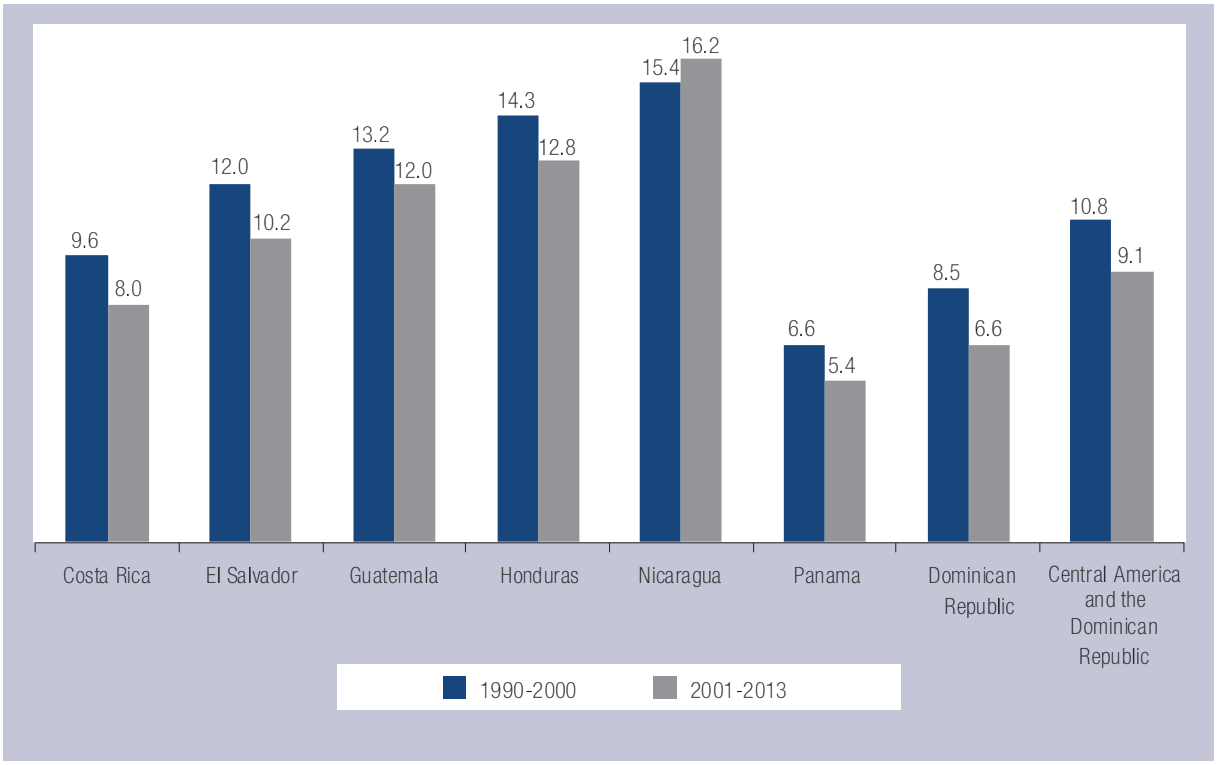
The contribution of the agricultural sector to GDP has been declining steadily over time. It represented more than 25 per cent in 1950, a little below 15 per cent in 1970 and declined even more since the 1970s when legislation strongly encouraging the services sector was adopted. It accounted for 2.2 per cent of GDP in 2015. This behaviour is consistent with the trend recorded in other countries in the region (see figure 20).[52] Due to the particularities of its service-oriented economic structure, Panama has the lowest levels of agricultural GDP contributions to total GDP.

The growth of agricultural GDP was thus well below the growth of total GDP (see figure 21). The elimination of Tax Credit Certificates in 2009 contributed, together with the international crisis, to the sharp fall in agriculture value added that year. It caused an agro-exportable product crisis, most notably in watermelons, melons and squashes.[53] This confirms the high sectoral dependence on subsidies and the feeble supply and export capacity.

Despite the downward trend in its relative importance in the generation of GDP, the number of people employed within the agricultural sector has remained relatively high and has not decreased in absolute terms.[54] This confirms the low level of productivity in the sector. In addition, the profits of participants in the agricultural sector could have been undermined because international prices for fertilisers – an important agricultural input – have risen significantly. Moreover, in spite of the increase in international prices of major agricultural products in the last decade, an abundance of supply in a world of timid demand together with the appreciation of the US dollar, a downward trend has dominated food prices in recent years.[55] In 2015, the food price index averaged at 164 points, almost 19 per cent less than in 2014 and the fourth consecutive annual decline (see figure 22).

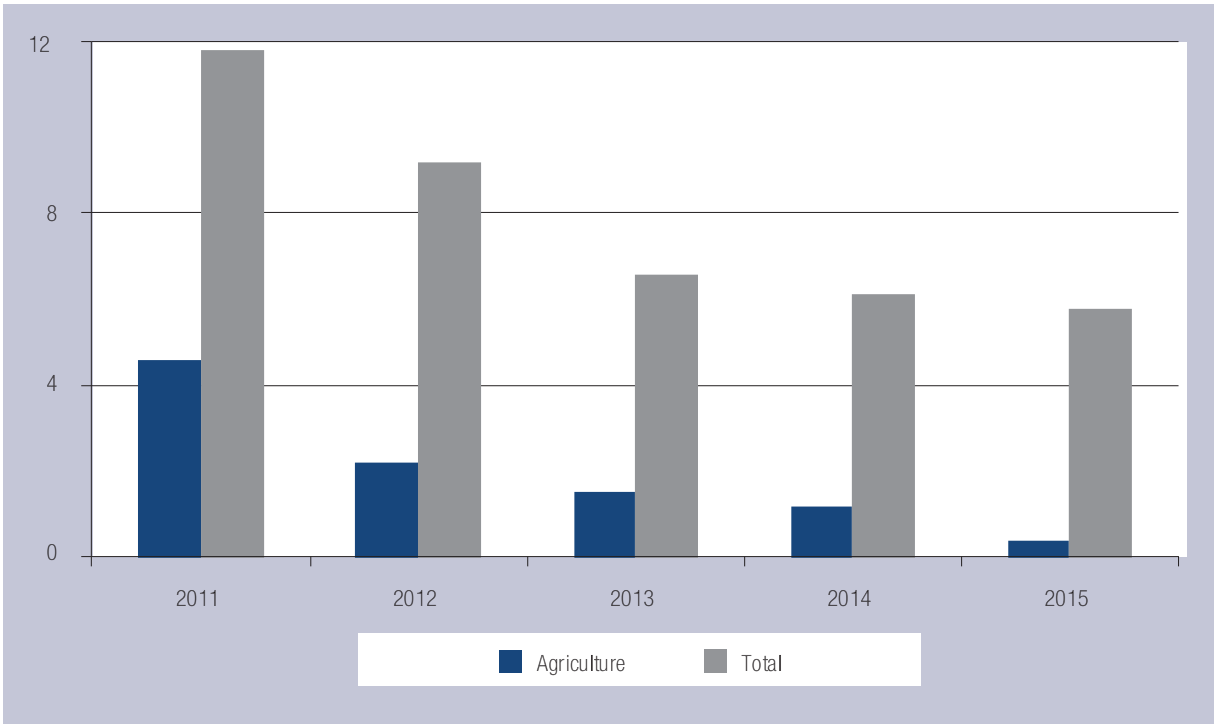
Agriculture represents the main economic activity in the interior part of the country and the main source of employment in the provinces and indigenous regions. The low productivity of the sector and reduced profits for participants can therefore increase inequality within the country. The development concerns surrounding the performance of the sector are compounded by the effect that a decrease in agricultural activity may have on the internal displacement of people from rural areas to major cities. This also increases social pressures

Figure 20. Central America and the Dominican Republic's contribution of agriculture to total real gross domestic product, 1990–2000 and 2001–2003 (Percentage)



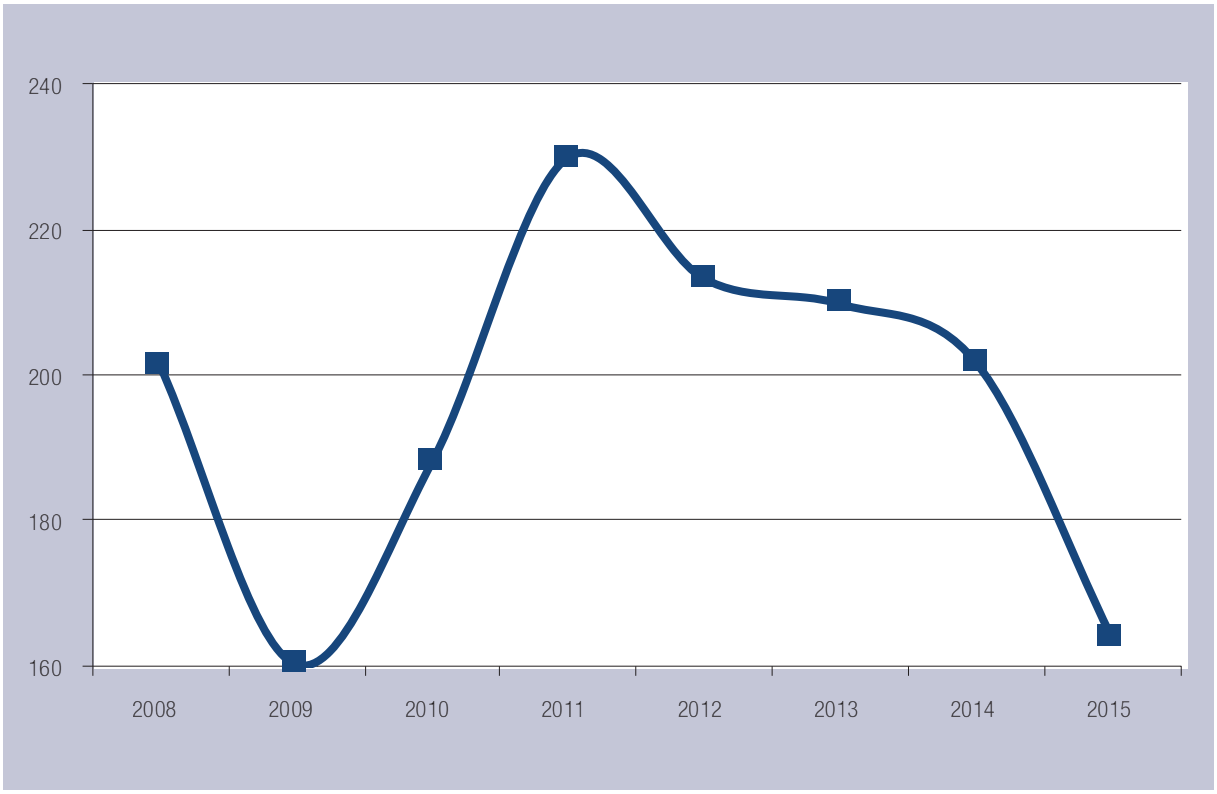
Source: Economic Commission for Latin America and the Caribbean.

Figure 21. Panama's gross domestic product growth rate, agriculture and total, 2011–2015 (Percentage)



Source: INEC.

Figure 22. Food price index, 2008–2015 (Index)



Source: Food and Agriculture Organization of the United Nations.

faced by the main cities in the country. In parallel to structural transformation policies and strategies for insertion of agricultural activities in global value chains (GVCs), specific policies to strengthen the agricultural sector are called for in order to address inequality concerns.

Different problems coexist within Panamanian agriculture depending on the model of agricultural production. The agro-export model is generally located in areas where communication is easy, where there are better soils and where irrigation systems are in use. It is more capital-intensive and uses technology and a qualified work-force. The most representative items under this model are cucurbits, sugar and cattle. The traditionally protected economic model is characterised by farming which is practised intensively and with very unequal income, from medium-low to high. Small, medium and large producers coexist, with small and medium producers who have difficulty accessing agricultural credit. Generally, producers use machinery and there are roads to farms but few irrigation systems, use of agrochemicals and medium-quality seeds. The cultivated items are basically directed to the domestic market and have traditionally been protected as sensitive items: rice, corn, beef and pork, dairy, tomatoes, coffee and citrus. The subsistence model is characteristic of poor farmers with very low crop productivity, who rely on soils with low productivity levels, have poor access to roads and a lack of or absence of technology. Items are cultivated for family consumption and are generally rice, corn, beans and yuca. Livestock items are usually chickens and a few pigs.

The last agricultural census was conducted in 2011 to determine the main characteristics of agricultural operations. Compared with the census conducted during the previous decade, the results showed an increase of 5.4 per cent in the number of farmers and a reduction of 2.6 per cent in land tenure.[56] This trend should continue during this decade due to rural producers shutting down activities and to the pressure to allocate land to more profitable real estate and tourism activities.

Basic grains such as rice, corn and beans make up most of Panama's agricultural production. These are followed by tropical fruits and vegetables, roots and root vegetables. Livestock production is led by beef and milk cattle, chickens, eggs, pigs, apiculture and goats. The country currently has a deficit mainly in basic grains and in some vegetables while meeting demand for animal protein with the current production.[57] The rest of the demand is met by imports. Although the numbers are not high, the production of agricultural and livestock goods is an important source of food and income for the rural population. The production of some agricultural goods from 2000 to 2013 has shown high variability in volume, with decreases in the last three years in items such as rice, potatoes, onions and tomatoes.[58] There are some diversification opportunities with products such as sorghum, cocoa, achiote, guava, papaya, ñampí, peppers, flowers and foliage.

The exported products are classified as "traditional" and "non-traditional". Products considered traditional – such as bananas, sugar and coffee – have been exported for decades. Non-traditional products – such as fruits, horticultural and ornamental products – started to be exported more recently when new production technologies were incorporated and market intelligence was expanded.

The productivity of most of the main products has not changed much since 2000.[59] In general there is low productivity in the sector, which generates low salaries. The median monthly salary in the primary sector is amongst the lowest compared to other economic activities.[60] These conditions encourage investment in other sectors of the economy, especially in the services sector, fuelling the vicious circle of low productivity and low wages and contributing to the countryside being abandoned and running out of generational change. A phenomenon that is taking place in rural regions is the low presence of young people involved in agricultural and livestock activities. Most of the producers – 63 per cent – are over 45 years old and 22 per cent are 65 or more.[61] (see figure 23)

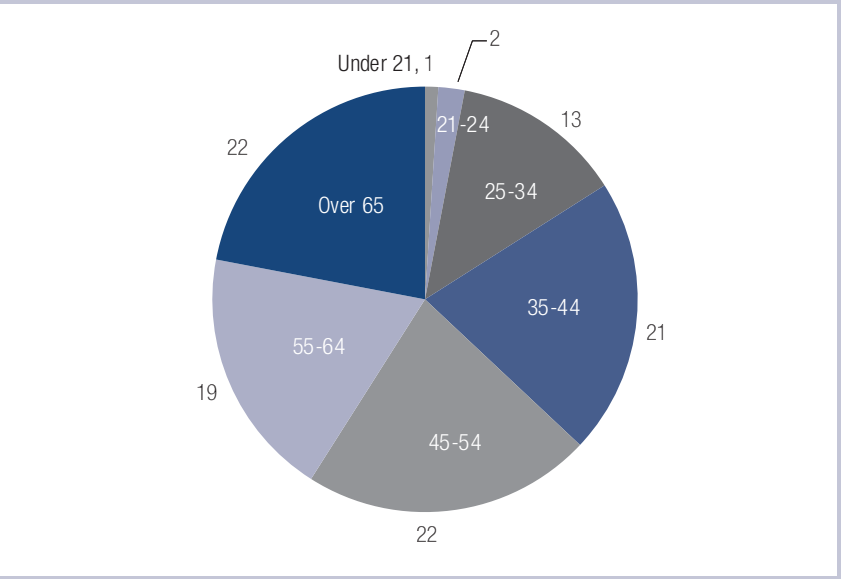
An agricultural sector with low productivity cannot guarantee the provision of domestic and foreign markets. It is therefore very important to apply policies that improve the productivity of the sector. This is relevant for the population who has seen the basic food supply become more and more expensive. It is also a key competitiveness factor for the agribusiness activities that require inputs both in quantity and quality. This is particularly important as the agribusiness sector currently accounts for about 70 per cent of the national industrial sector.[62] Finally, an agricultural sector with higher productivity is urgently required to generate better export grade food.

There is an opportunity, with most products, to expand production by cultivating more land and by

using technology that positively impacts productivity. However, there is limited capacity to promote research and technological innovation applied to the sector. In addition, in some cases, land previously used for agriculture could be recovered if producers perceive that food production can be a profitable business, both for domestic consumption and for exportation. The need for adequate land planning is one of the lessons from the diagnosis made by the private sector in the province of Chiriquí (see box 3).

The strategic guidelines to boost the sector have been clearly defined since the end of last decade. These include, amongst others: promoting agro-exports, promoting research and technological innovation, strengthening infrastructure to support the sector and improving the commercialisation system. However, there have been serious deficiencies in terms of the design and execution of action plans, which has deepened the problem over time. The institutional system is weak and its capacity to respond has been

Figure 23. Panama's age distribution of agriculture producers (Percentage)



Source: Ministry of Agricultural Development, 2010 Census of Agriculture.

Box 3. Diagnosis of agriculture in the province of Chiriqui

Chiriquí is the most important province in terms of food production. Its diagnosis may provide lessons relevant for public policy as the profile that emerges for the sector is not very different from the reality of agriculture in other provinces in the country. In this province there are 35,528 farms, most of which are smallholdings and small and medium-sized. There are 35,045 producers, of which 76 per cent – 23,000 – are over 45 years old. Some 45 per cent of the land in the province is used for improved pastures, 14 per cent for traditional grass growing, 13 per cent for temporary crops and 9 per cent for permanent crops. This reveals that livestock is the predominant activity.

According to the mapping done, one of the biggest problems in the development of agribusiness is the bureaucratic complexity to establish a company, since there are several public institutions regulating the activity. Land planning is significantly poor and there is no compatibility between potential and current use of the land. There are no suitable plans for proper watershed management and the use of water requires a water balance study to define and distribute its use, production and supply to the population.

Policies dictated at a national level do not respond to the specific needs of the different subsectors that exist in Chiriquí. Therefore, a decentralised management model should exist to help establish the necessary measures to effectively address the specific bottlenecks in all sectors of the province.

Source: 2025 Country Vision, Panamanian Association of Business Executives (APEDE) Chiriquí, August 2014.

limited by a lack of integration of the public agricultural sector. An example of deficiencies in the design and implementation of actions is the project called “Cold Chain” (see box 4).

Agricultural policy has been aimed at supporting areas and producers with a certain ability to compete in the markets, especially the export market. On the other hand, small and subsistence producers have been supported by welfare programs in order to alleviate rural poverty. The National Bank of Panama and the Agricultural Development Bank (BDA) have financial programmes but to access them the producer must pay in advance and provide guarantees that most of the time they do not have.

Box 4. Project "cold chain"

Cold Chain refers to the controlled management of temperature and humidity of perishable products in order to maintain their quality and safety standards from the time the crop leaves the field or point of origin throughout the distribution chain and until it reaches the final consumer. The project was structured at a national level so that it could contribute to the development of the agricultural sector, to the reduction of losses and production costs.

In 2014, infrastructure planned for the project was launched, including four collection centres. These centres are located in Dolega, Cerro Punta and Volcán in Chiriquí province, and in El Ejido in the province of Los Santos. However, the collection centres lack the equipment and tools necessary for producers to use them adequately. The Food Unit MercaPanamá, a multimillion infrastructure that is part of the Cold Chain project in the capital, was inaugurated more than a year ago without access roads, water supply or an occupancy permit. In addition, it is located next to a hospital complex.[63]

Currently, Cold Chain’s operations are almost non-existent and therefore unable to benefit producers. The Health Ministry now intends to use the Cold Chain project warehouses as a deposit to centralise the storage and distribution of medicine.

V

FISHERIES

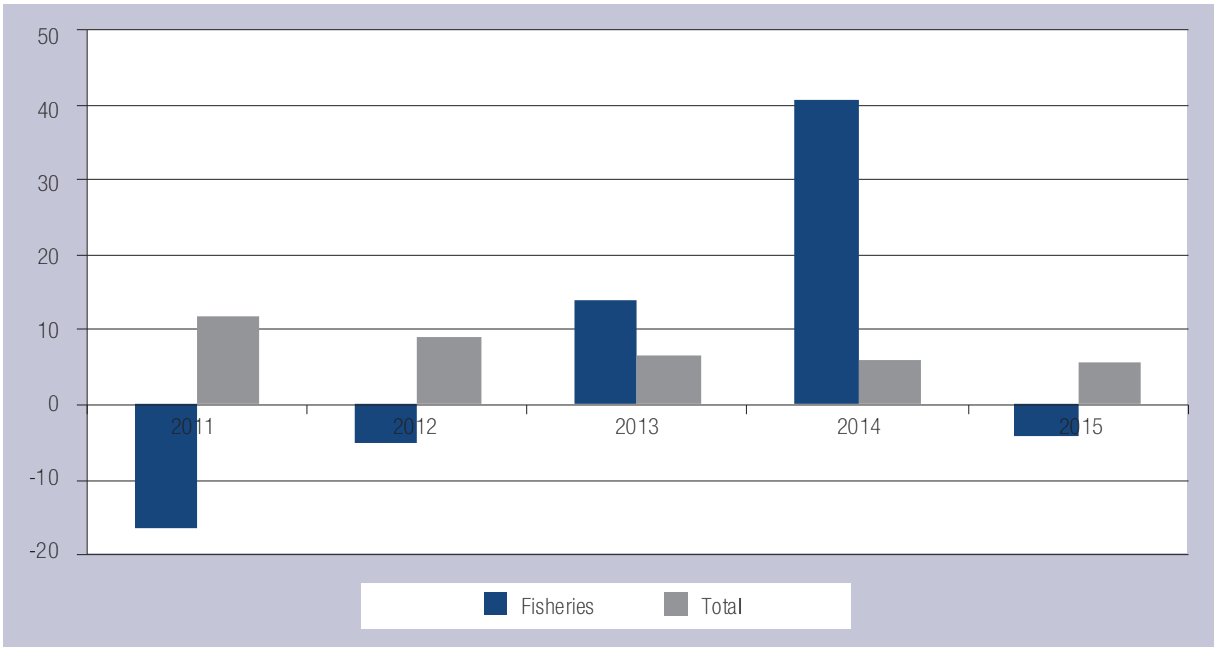
The sector is relevant for exports of goods but the contribution of fisheries to GDP has been under 1 per cent since 2011 and has evolved with volatility. The sector had a sharp contraction between 2008 and 2012, also linked to a decline in seafood exports during the period.[64] Fisheries then recorded double-digit growth in 2013 and 2014 driven by demand from the world's leading importers.[65] Exports reached $166 million, a 16.7 per cent increase in value and a 28 per cent increase in volume.[66] In 2015, exports decreased 6.8 per cent in value to $155 million in spite of an increase of 1.9 per cent in volume, leading to a decrease in the industry's value added of 4.3 per cent (see figure 24). This confirms the importance of international trade, and therefore of trade policy, for the development of the sector.

The largest exports both in terms of volume and value have been shellfish; fresh or chilled fish such as salmonids and tilapia; frozen fish such as tilapia, tuna, herring, dogfish and sharks; and fillet and other fish meat. Shellfish accounts for the biggest share of the value of total fisheries exports in 2015 – 44 per cent – and for the second highest share of exported volume in the same year – 29 per cent. In the same year, fresh or chilled fish accounted for 34 per cent of the value and 39 per cent of the volume, and frozen fish for 17 per cent of the value and 27 per cent of the volume. Together, these three categories represented 95 per cent of both the value and volume of total fisheries in 2015[67] (see figure 25). Fillet and other fish meat accounted for 5 per cent of the value and 4 per cent of the volume in 2015. Of these main categories, frozen fish had the biggest value and volume growth between 2011 and 2015.

The major export destinations in 2014 were the United States, with a very important 56.1 per cent share, Viet Nam (13 per cent), Costa Rica (4.9 per cent), Spain (4.9 per cent) and Italy (3.3 per cent). In 2015 exports to the United States fell 14.2 per cent causing a decrease of 16.2 per cent in revenues. The new generation of trade agreements signed by Panama with the United States, the European Union, Canada, Singapore, Taiwan Republic of China, Chile, Peru and Central America grants the country with a preferential tariff (zero tariff) on fishery products, a condition that positively impacts exportations. These preferences do not apply to some internationally protected species and to a small group of varieties that are sensitive in the market of some trading partners.[68]

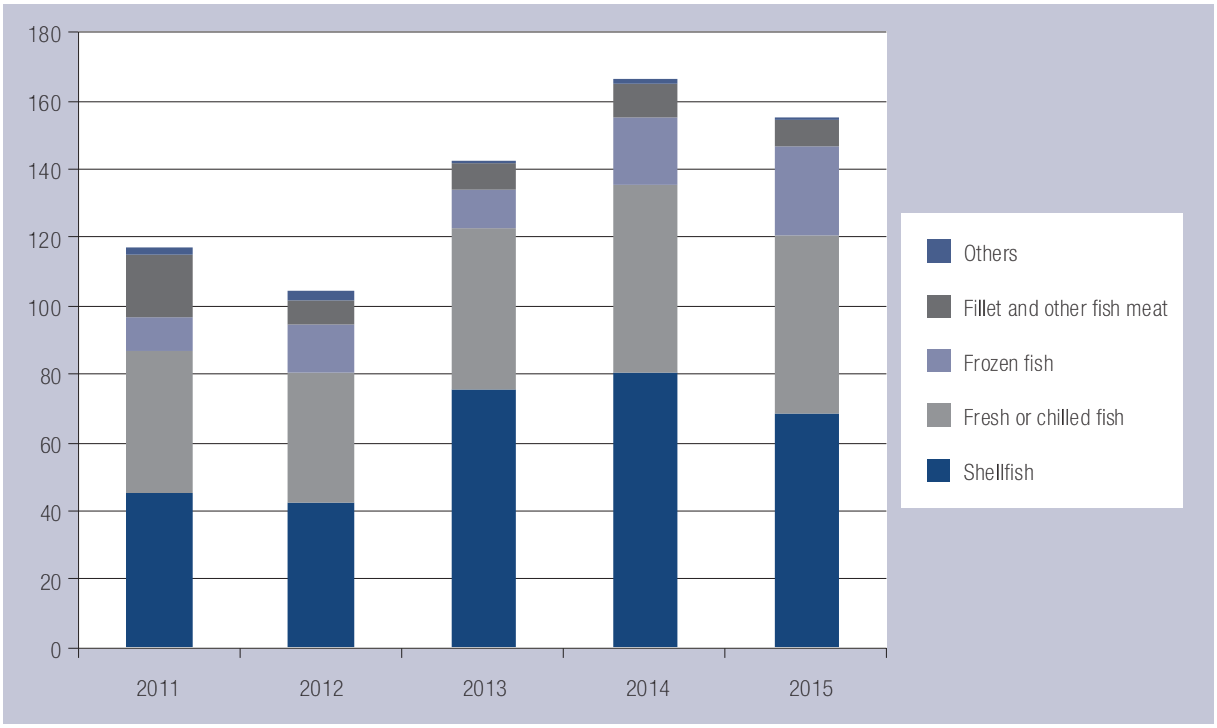
In these agreements, as well as in partial scope agreements, rules of origin for these products stipulate that they are recognised as originating from Panama or from the trading partner when caught, or raised in the case of aquaculture, in waters or the territory of the parties. Rules of origin also recognise what is fished in

Figure 24. Panama's gross domestic product growth rate, fisheries and total, 2011–2015 (Percentage)



Source: INEC.

Figure 25. Panama's value distribution of seafood exports, 2011-2015 (Percentage)



Source: INEC.

international waters by vessels with flag from Panama or from the partner country, which is a preferential rule for the country.

The fisheries sector is divided into three sub-sectors: industrial, artisanal and aquaculture. The artisanal subsector is mainly dedicated to catching fish, shrimp and lobster in the coastal zone. In the local market, artisanal fishing production sustains the needs of the population. The fishing industry in Panama has evolved since the 1950's artisanal fisheries, incorporating industrial fishing activity, which was developed in Panama in the 1960s to catch herring and anchovies for the production of fishmeal and oil for export. Industrial fishing gave rise to a greater diversification of the country's offer in the market, using more efficient means of navigation and capture of the species. It is largely done in international waters. Main activities in the industrial subsector include fishing and processing of shrimp and tuna. This subsector is focused on products that serve as inputs for further processing and it fuels the importance of the sector for the export of goods, including the fishing of high value-added species for international markets. Industrial fishing is the segment that has best developed fishing in Panama.

The main activity of the aquaculture subsector is the production of farmed shrimp to export. The main aquaculture export item in Panama is shrimp.[69] It is produced mainly (55 per cent) in farming areas which occupy more than 9 million hectares. Shrimp volumes allow the current production to be exported to international markets, where the main importers are the United States, Europe and Japan. Aquaculture is also emerging as a promising activity and it should be better promoted, for example by informing stakeholders of the species that are most profitable and have more demand. The monitoring of the aquaculture sector involves various public sector institutions, including the Ministry of Agricultural Development (MIDA), the Ministry of Health (MINSA) and the Panamanian Food Safety Authority (AUPSA). In 2006, the Aquatic Resources Authority of Panama (ARAP) was created[70] as the institution responsible for aquatic resources in Panama.

In Panama, 95 per cent of fishing occurs in the Pacific Ocean due to the oceanographic conditions of the Panama Bay, one of the three seasonal upwelling areas in the American Pacific. These are important fishing areas because they enjoy winds that move the upmost parts of the ocean and allow the emergence

of colder and deeper nutrient-dense layers, which are more conducive to life of marine species. Despite these favourable conditions, overfishing in the Pacific tropical region is affecting the population of some marine species.[71] Sector activity is regulated by ARAP, whose mission includes preventing overexploitation of resources and ensuring compliance with international standards and conventions. In addition, overfishing may be underestimated as 60 per cent of the fish produced between 1950 and 2010 was not reported and an estimated 40 per cent of total catch – including tuna, lobster, seafood and shark – is not reported.[72] This calls for a restructuring of the fishing industry.

The importance of the sustainable management of resources is confirmed by damage that has occurred in mangroves and coral reefs due to sedimentation derived from deforestation. These habitats are reproductive niches relevant for the development of various species that are traditionally important for the Panamanian fishing industry. This causes a current potential threat, including for industrial fishing and exports, which are a key determinant of the overall performance of the sector. On the other hand, it may be important to further discuss the prohibition of the use of long fishing or longline boats of artisanal and industrial fishing in territorial waters[73] to assess the real impact it may have on the development of species and to weight it against the impact on fish production.

Recently, ARAP announced that Panama is implementing a new Information System for the Evaluation of Water Resources and Water Quality (SIERAC), which provides information on the current status of fishery resources in the country, including the status of sharks and the state of the oceans. The system aims to develop ARAP's capacity to assess and manage water resources, through the development and implementation of a tool that processes and analyses the data generated at landing sites. The programme "keeps production figures for fisheries and aquaculture, as well as registration of fishing and aquaculture projects updated."[74] Evaluations by SIERAC enable the establishment of policies, rules, strategies, plans and programmes that are appropriate and effective for sustainable development.

In the private sector, the National Association for the Conservation of Nature (ANCON) and the National Fisheries Foundation (FUNAPESCA) have pledged to join efforts and promote the better use of fishery resources in Panama. The focus is in the promotion of sustainable economic activities, such as responsible fishing. They also plan to promote research in an area where in general there is little research, and to take advantage of research programmes available to FUNAPESCA to promote better practices.

FUNAPESCA and the National Association of Panamanian Fisheries (ANDELAIPP) presented the "Survey Results for Integrated Fisheries Management" to the fishing industry authorities, fishermen associations and businesspersons. The survey was conducted from early 2015 for the artisanal, industrial and aquaculture fishing subsectors across the country. Approving a new law on fisheries was considered a priority for 86.2 per cent of the respondents. A new National Plan for Aquaculture Development should be developed, according to 87.7 per cent of the respondents. Finally, 93.8 per cent indicated that fishery administration promotes technological improvement and innovation in aquaculture and fisheries.

There is room to increase exports through aquaculture and mariculture, and Panama has been leading this issue in the region. Associativity and networks are considered important factors in fishing. The implementation of a single window is recommended in order for all institutions, including the Ministry of Environment, to align incentive measures.

VI

INDUSTRY AND AGRIBUSINESS

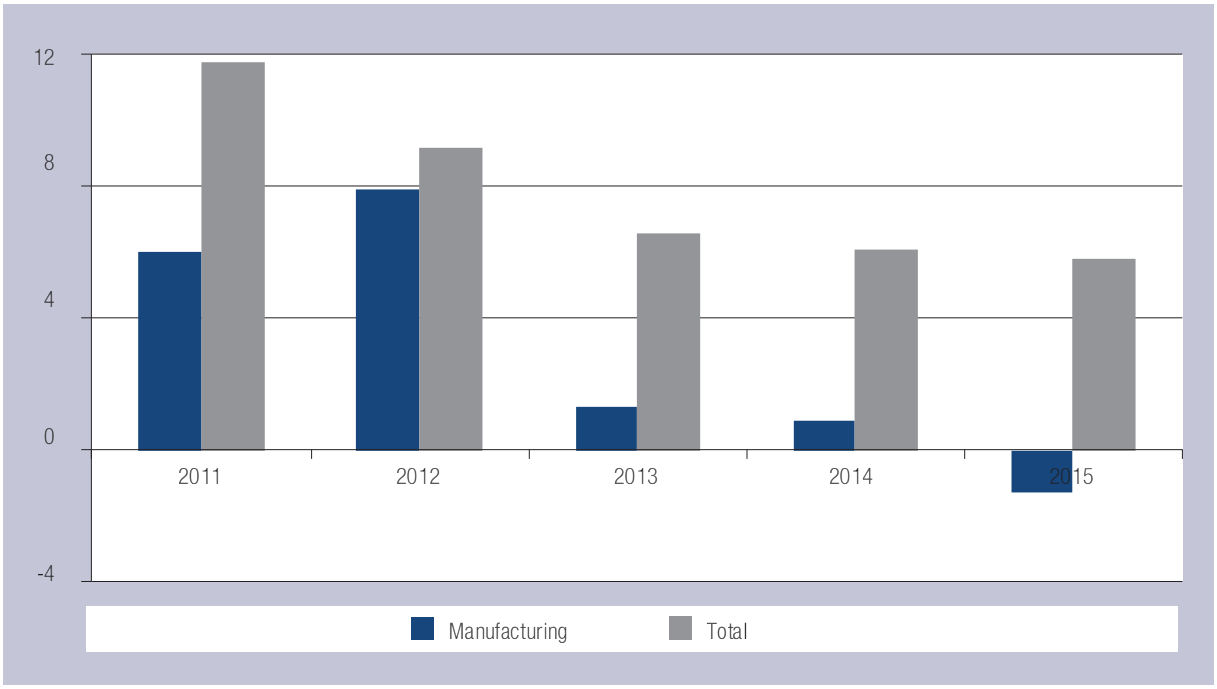
The manufacturing sector has had a modest and even somewhat decreasing contribution to GDP in recent years, where the share of manufacturing in total GDP decreased from 6.5 to 5.4 per cent between 2011 and 2015. This declining trend has existed in the last two decades, in spite of some nominal value increase in manufacturing output. Industrial activities have indeed maintained a performance below the overall economy. Since 2001 that sectoral output has grown less than total GDP, with a decrease in the industry's value added of 1.3 per cent in 2015 (see figure 26).

The diversification of activities has also been reduced in the last twenty years. Most of the value added generated by the sector comes from the food and beverage industry, followed by construction materials. The geographic distribution of manufacturing activities in the country is also heterogeneous, with the province of Panama accounting for 80 per cent of manufacturing production.[75]

The manufacturing sector is more important in terms of employment than output. In 2014, the manufacturing sector accounted for more than 120,000 direct jobs, thus absorbing 7.4 per cent of the employed labour force. However, only 49,885 of these manufacturing jobs – less than half – were formal jobs.[76] In addition, the contribution of the manufacturing sector to the generation of new employment has stalled during the last decade, with 119,192 jobs in 2005 and 124,868 jobs in 2014.[77]

The performance of the sector has been somewhat correlated to the level of incentives it has received and it can be argued that its decline over time may be linked to the end of certain incentives. In the mid-1980s an incentive law[78] created more favourable conditions for the installation of industrial companies. One of the most important incentives was the fact that imported raw materials paid a tariff of 3 per cent. For businesses to be eligible to qualify for these benefits, it was necessary that they were enrolled in the Official Register of National Industry (ROIN). The duration of the registers was 10 or 15 years depending on whether the companies were established in some particular districts or in the province of Colon. In 1995, a law called the "universalisation of incentives"[79] extended the incentives to all companies until the year in which the incentives for the last company registered in the ROIN expired. In this context, and together with a protectionist import substitution model that was maintained for several decades, the sector had some nominal growth during the late 1990s, contributing 11.96 per cent to GDP in 1996.[80]

Figure 26. Panama's gross domestic product growth rate, manufacturing and total, 2011–2015 (Percentage)



Source: INEC.

In 2009, after a decrease in the industry's nominal output in the last decade, and seeking to attract new investment to the sector, the government introduced other measures for the promotion and development of the industry.[81] An instrument called Industrial Development Certificate (CFI) was created for companies making investments in certain areas and that could be used to pay taxes. Most importantly, the law is applicable to certain investments in research and development activities, quality and environmental management systems, and human resources training. This process is still in force but it can be considered somewhat burdensome and growth in the sector is still underperforming compared to the economy overall.

Currently the government is in a period of consultation with the private sector in order to adopt a new law that includes measures that can cope with the elimination of ROIN, which expired in December 2015. MICI has stated that it has a proposal for a comprehensive policy for the industrial sector which highlights its current needs, amongst others: a stable regulatory framework that facilitates the growth of the sector; clear strategic guidelines to start the action plan in priority areas; and incentives to strengthen company competitiveness and that help attract FDI and strengthen local industry areas. It also stated that it is working on a legislative initiative to reduce bureaucracy in industrial affairs. Some of the components that constitute the new legal framework for the sector include:

- The creation of the National Industrial Competitiveness Programme (PNCI);
- A new National Industry Registry;
- A one-stop window for industry procedures.

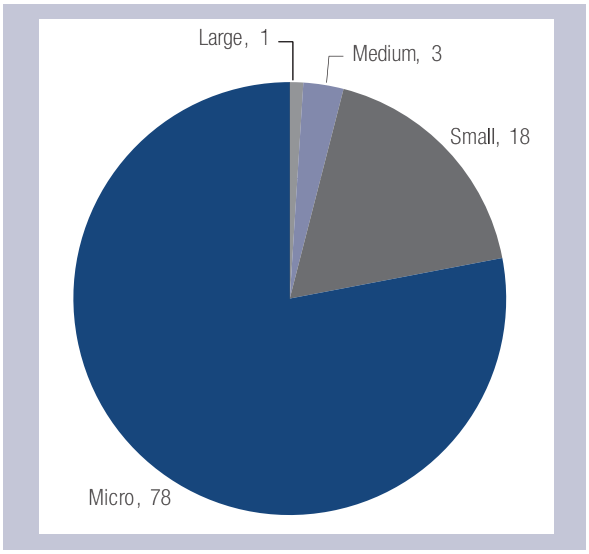
The development of a market economy that is open, competitive and productive involves supporting the manufacturing sector to produce lower cost and higher quality inputs, including raw materials, utilities and equipment. A clear industrial policy should therefore be put in place to promote the adoption of the most effective production, organisation, management and marketing technologies in line with lowering costs and raising product quality. This requires improving access to information, innovation, applying new technologies, efficient inventory management and better administrative and financial organisation.

Penetration into international markets is important to gain scale and promote competitiveness, building on the network of new and future FTAs. Thus, it is necessary to ensure that the sector has access to market intelligence, for example to identify trade opportunities, transport and access to financing conditions. To increase supply and export capacity, and also to attract new domestic and foreign investment (which will further develop export industries), it is critical to improve deficiencies in job training, to improve infrastructure, to have legal and institutional stability and predictability, and to have streamlined and facilitating government procedures. Industrial policy should go hand-in-hand with the development of value-added logistics services and it particularly important to make the most use of transport and logistics systems along the Panama Canal, the Export Processing Zones, and the special Panama-Pacific development area.

Agribusiness

Agribusiness is defined as the transformation of raw materials from the agriculture, aquaculture and forestry sector, through post-harvesting handling, preservation and processing. This can occur at different technological levels - homemade, artisanal, semi-industrial and industrial – in order to obtain products that can be marketed in the domestic and international markets. Agribusiness accounts for 70 per cent of the industrial sector in Panama.[82] Its producers are mostly micro-entrepreneurs, which generate 78 per cent of employment in this sub-sector (see figure 27). According to INEC data from a study of geographical distribution, in 2013 the agro-food industry was composed of about 2,400 companies

Figure 27. Panama's distribution of employment in the agribusiness subsector by company size, 2013 (Percentage)



Source: INEC, Study on the Characterisation of Agribusiness Companies, 2013.

classified in 14 branches. Of these, 26 per cent are located in the province of Chiriquí, 24 per cent are located in the province of Panama and 15 per cent in the provinces of Herrera and Los Santos.

There is a great need to foster networks and associativity in order to raise the level of competitiveness in the agribusiness subsector. It is also critical to strengthen backward and forward linkages to providers and consumers (see box 5). The government's strategy for growth in the subsector has been based on five initiatives: i) the expansion of the irrigation system to increase the production of inputs for the subsector; ii) the construction of access roads to connect the production to providers and to markets; iii) the development of a cold chain; iv) the restructuring of incentive and assistance policies v) and the creation of a commercialisation institution, the Panama Trade and Investment Agency (PROINVEX).

Even though these initiatives are valid, reality has shown that there are serious coordination problems that hinder the implementation of programmes and projects able to turn initiatives into tangible results. The problematic requires actions at national and subnational levels that go beyond the action sphere of a single agency or government institution. Such action agendas need to carry out specific projects involving the active participation of private sector operators and society as a whole.

The transport, storage and communications sector has been one of the largest contributors to total GDP.

Box 5. Techno-food Industrial Park

An example of a new trend in the agribusiness area is the production and logistics multisector conglomerate taking shape through the private investment of a supermarket chain with presence throughout the entire country. In 2014, the chain transferred the processing centre for the brands fresh products outside of the capital city, investing in a Techno-food Industrial Park located west of the canal, between Capira[83] and La Chorrera. The investment amounts to about $ 100 million and develops, within this complex, all products sold by the chain in terms of meat, dairy, fruits and vegetables, and bread derivatives.

Aside from generating a thousand new jobs, this example is important as it is the first private company that bets on a logistics centre of this type and size in the country. It might be therefore a good example of how processing and logistic activities should be chained together through projects that increase efficiency and productivity.

VII

LOGISTICS SERVICES

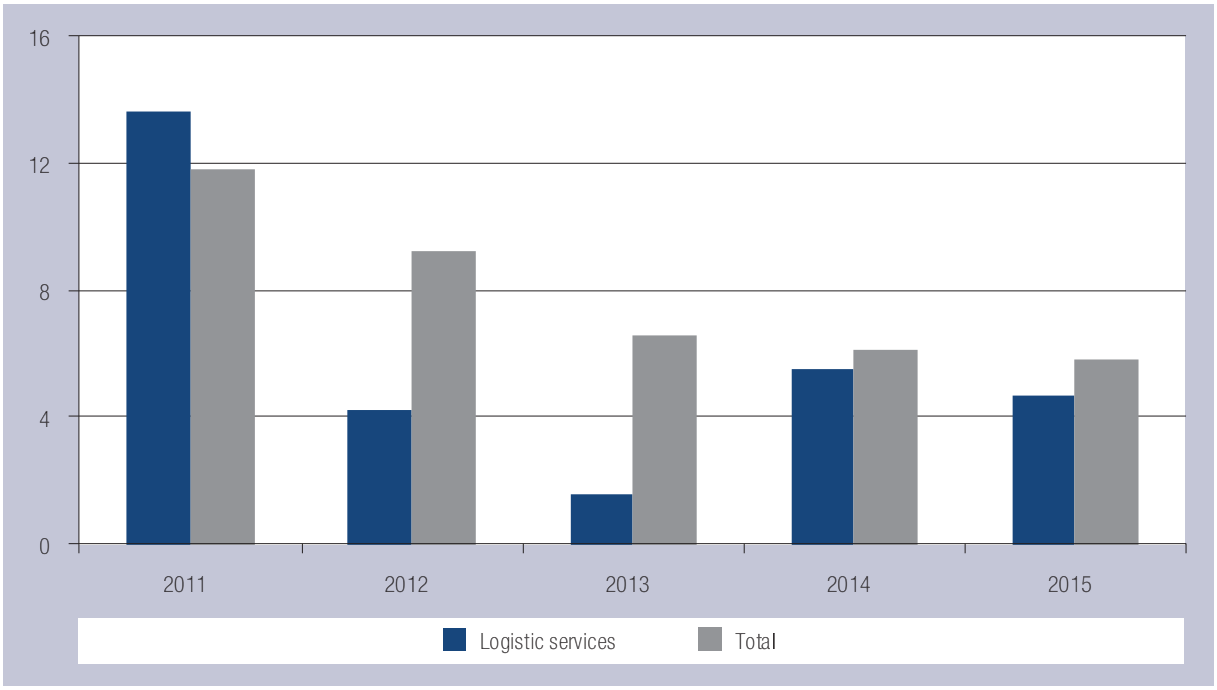
Between 2011 and 2015, its output increased from $4,375 million to $5,115 million. Still, the sector's GDP growth has been underperforming in relation to the overall economy since 2012 (see figure 28) and this led to a slight decrease of the sector's contribution to total GDP from 16.0 per cent in 2011 to 14.3 per cent in 2015. Although stabilising at around a 14 per cent contribution to GDP since 2013, this slight decrease has moved the sector from the second largest contributor, after the wholesale and retail sector, to the third largest contributor to total GDP, also after the construction sector that has grown continuously.

Within this large subsector, transport and logistics account for the biggest part of output, mainly due to transport activities. Within transport activities, the Panama Canal and air transport reveal some of the biggest contributions to sectoral GDP. Fastest growing activities include air and rail transport. The Panama Canal had one of the lowest growth rates in the sector between 2010 and 2012,[84] revealing that, despite its undeniable importance, it has been a mature economic activity in recent years. This points to the relevance of the canal's expansion as a strategy to generate greater dynamism in this important activity. In fact, there had been some decrease in demand from some canal routes, namely from the East Coast of the United States to Asia, from Asia to the East Coast of the United States and from the West Coast of South America to Europe.[85] In addition, some shipping companies temporarily turned to Europe as a distribution centre due to the post-Panamax[86] vessels that could not be accommodated in the canal.

This is a very capital-intensive and productive sector. Its contribution has increased since 2000, the year in which its greatest asset, the Panama Canal, was transferred to the country. Transferring the canal to the Panamanian state was the beginning of a process where the country's geographical position and its main asset could be harnessed as engines of development. The logistics service cluster is today one of the most dynamic engines and emerges with even greater potential thanks to the completion of the canal extension, allowing the canal to accommodate post-Panamax ships carrying 12,600 containers, compared to the 4,500 carried by non-post-Panamax ships. The canal expansion involves the construction of two new post-Panamax lock complexes, one on the Pacific side and one on the Atlantic side, new access channels and dredging and improved water flows.

The country has positioned itself as the most important international value-added logistic services centre in

Figure 28. Panama's gross domestic product growth rate, transport, storage and communications and total, 2011–2015
(Percentage)



Source: INEC.

the continent. Its infrastructure both in terms of ports, airports and the Panama Canal is complemented by investment incentives in free zones and opportunities derived from trade agreements. Still, this requires acknowledging that the boundaries between different components of transport and logistics value chains are blurring. For example, port services competitiveness is determined by the quality of its support services and on how they contribute to the effectiveness and quality of transport services. As another example, traditional logistics services – warehousing, loading and unloading, consolidation, distribution – need to be complemented by the so-called value-added logistics services, *inter alia*, repackaging, assembly, individualisation, quality control and testing. Currently, the main value-added cargo services from Panama are cargo labelling and tagging, computer configuration, software updating and repackaging. In addition, ZLC is handling the logistics of spare parts and venturing into new businesses such as electronic commerce.

Still, the main logistics value chains in Panama reflect the duality of its economy and the heterogeneous transport conditions faced by national and international freight (see table 19).[87] International transportation predominantly uses maritime transport while domestic cargo is transported by land. International cargo has a range of logistics transportation services that can be considered world class while services for national cargo operate to lower standards. The improvement of national transport and logistics services is critical to connect output from the country to domestic and international markets in competitive conditions.

Logistics activity is mostly concentrated in the trans-isthmus corridor linking the two oceans. The main logistics hub in the country is in Panama City in the Pacific and its surroundings, serving the capital's production and consumption activity. The second junction is located in the Atlantic side, in the city of Colón, and is linked specially to ports and to the ZLC. Another important junction outside the Interoceanic Region is located in David, capital of Chiriquí, in the border region with Costa Rica which includes the towns of Boquete, Bugaba and Barú. The province is important for the agricultural production that supplies domestic consumption and is transported by land to the major consumption centres nationwide.

A. LOGISTICS ASSETS

Panama has the needed infrastructure to develop a global multimodal logistics centre. This is further enhanced as the existing infrastructure is in an advanced stage of expansion and modernisation. Its location, coupled with the ability to provide quality services and competitive rates, has positioned the country as a front line cargo transhipment centre. Towards the end of the last decade, the reconstruction of the transisthmian railroad and the recovery of the reverted areas – former United States military bases – have added value to the process of forming Panama's logistics cluster around its main asset, the canal. The cluster is a sum of logistics facilities for international trade, linking the two oceans, including ZLC and the airports. Shippers have benefited and will further benefit in the future due to cost reductions achieved by shipping companies through economies of scale. Also, increased competition and the use of transhipment services have increased transportation alternatives and their frequency.

Table 19. Panama's main logistic value chains

Main national value chains Foods and beverages; beef; construction material; dairy and derived products; edition products; fish; chemicals; sugar.
Main foreign trade national value chains Imports: antibiotics; medicine; tourism and freights cars; shoes; textile manufacturing. Exports: antibiotics (CFZ); medicine (CFZ); tourism and freights cars (CFZ); shoes (CFZ); textile manufacturing (CFZ).
Main Mesoamerican value chains Medicine; beef; fish; dairy and derived products; paper and press; shoes (CFZ); paper and cardboard packaging; beauty products (CFZ); aluminium tanks; monitors and film projectors (CFZ); textiles and confections (CFZ).

Source: Inter-American Development Bank study, table elaborated by ALG based on foreign trade databases and UN COMTRADE, 2011.

1. The Panama Canal

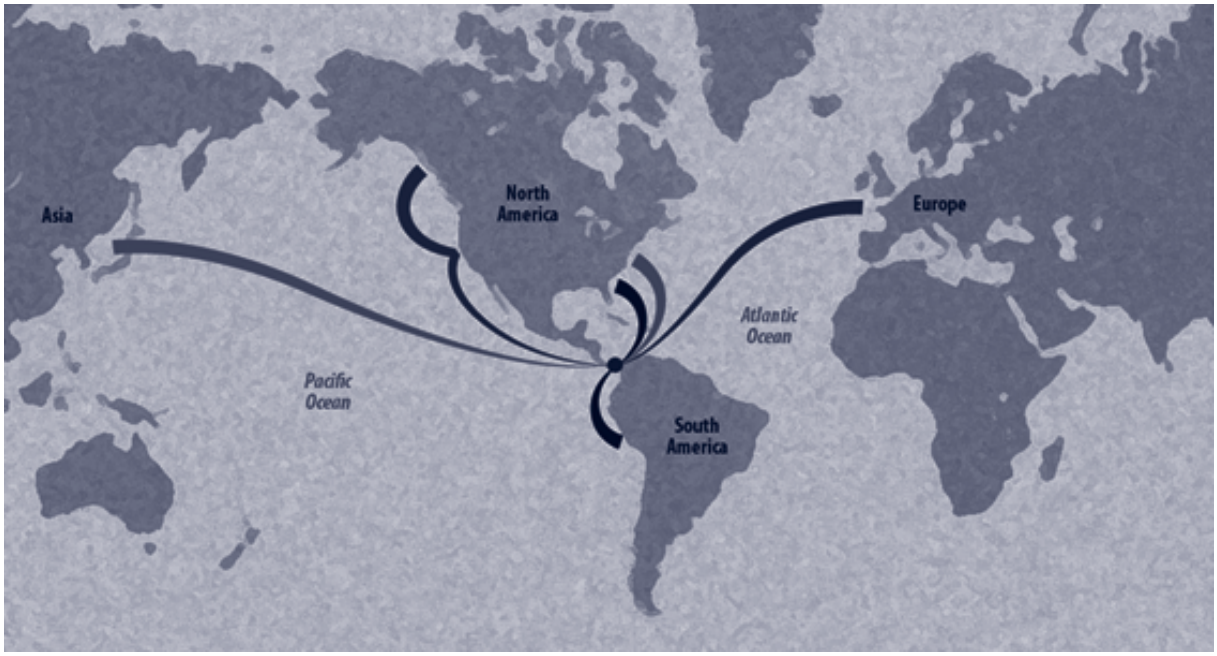
The canal has a major impact on the Panamanian economy as it represents the heart of the logistics cluster, one of the largest sources of export services in Panama. Since its inauguration in 1914, the Panama Canal connects the Atlantic and Pacific Oceans, providing service to the global maritime industry. With an area of 83 kilometres, the canal has become the most economic, safe, efficient and competitive way for inter-oceanic shipping. It has an average traffic of more than 13,000 ships a year, about 36 ships per day, from 80 countries operating in 160 trade routes, binding all markets competitively, mainly Asia, Europe, North and South America. The Panama Canal operates under a 24 hour and 365 days a year continuous work system, making the route available at all times to all ships wishing to move from one ocean to another.

With an effective traffic scheduling system, the canal ensures expedited transit of each boat if weather conditions, demand and the ship's own conditions allow it. The main trade routes with traffic in the Panama Canal are the east coast of the United States and far East Asia; the east coast of the United States and the west coast of South America; Europe and the west coast of South America; Europe and the west coast of the United States and Canada; and coast to coast within the United States, including Alaska and Hawaii (see figure 29). There has even been some expansion of ports in the east coast of the United States due to the enlargement of the Panama Canal.

Traffic through the canal has been declining in the period between 2012 and 2014, unlike the tonnes of cargo transported and tolls charged due to the increasing international trend in the size of boats.[88] In the 2014 fiscal year, the Panama Canal recorded a total transit of 13,482 tall and small commercial draft ships which transported 225 million long tonnes of cargo, and generated $1,910.3 million in tolls (see table 20). The increase in revenue is linked not only to the increase in cargo quantity but also to the increase in rates in 1 October 2013. The Panama Canal Authority (ACP) estimated that revenues will grow 40 per cent in the first fiscal year after the canal expansion.[89]

Although hostage to global trade trends, the canal's share of global trade freight should remain around 6 per cent. One strong competitor is the route between West and East Coast ports in the United States, encompassing connecting rail and road freight. The Panama Canal is now less expensive but it still takes longer than the coast-to-coast route. Refrigeration capacity on post-Panamax vessels should offset the disadvantages that would otherwise

Figure 29. Panama Canal: main routes



Source: Georgia Tech Panama Logistics Innovation and Research Centre.

Table 20. Panama Canal: transits, tolls and cargo, 2010–2014

Fiscal year	Number of transits	Tolls (Dollars)	Long tons of cargo
2014	13 482	1 910 256 973	224 884 091
2013	13 660	1 849 679 052	209 884 569
2012	14 544	1 852 409 775	218 054 902
2011	14 684	1 730 052 192	222 357 111
2010	14 230	1 481 962 773	204 854 465

Source: Panama Canal Statistics and Model Administration Unit.

exist in transporting perishable products by the slower canal route. The other main competitor for certain global routes is the Suez Canal, which can handle more traffic and larger ships than the Panama Canal.[90]

The main types of ships transiting the canal are container ships, passenger ships, liquid bulk cargo, rolling load (roll on-roll off), general cargo and refrigerated cargo (reefers). The biggest traffic according to market segment by oceangoing ships is from dry bulk carriers that transited 3,339 ships for the 2014 fiscal year, followed by container ships with 2,891 ships and tankers with 2,079 transits. The participation of these market segments corresponds to 28, 24 and 17 per cent of the total number of transits respectively. In addition to allowing post-Panamax vessels, the canal expansion will also enable increased demand from larger tankers, such as those transporting liquid natural gas.

The modern set of ports on both oceans, the connecting railroad, airports and a modern road network – currently being expanded – complement the canal. Moreover, the Panama Canal Administration is proceeding with the preparatory work to develop the Master Plan for the Interoceanic Zone.[91] The plan aims to identify the best use of the land near the Panama Canal, from the Atlantic to the Pacific. The plan is necessary to develop projects in an orderly way and to get the most out of the geographical position of the country. Priority will be given to port, logistics and maritime industry activities.

2. Airports

Regular air transportation has grown steadily, above the national GDP growth rate. This points to the consolidation of the passenger transhipment centre. The successful management of COPA airlines and good public-private partnerships in the subsector have contributed positively. Panama has five international airports, of which four are for commercial public use and one – Howard – for private use, and ten domestic airports. The five international airports have immigration control and customs services. Moreover, Panama has some 40 minor airfields and landing strips with runways for smaller aircrafts. These runways provide the main air transport infrastructure for rapid communication with remote areas.

The main airport is Tocumen International Airport, which thanks to its geographical location has become the regional hub for several commercial and cargo airlines. It connects passengers and moves cargo to more than 34 countries and 84 destinations all around the world.[92] In 2014, the airport moved 7.2 million people. Many visitors came from North America (12.8 per cent), Central America (13.9 per cent) and South America (8.5 per cent) because of connections and flight frequencies to several destinations. Tocumen International Airport also moved passengers in Europe (45.6 per cent), as a result of direct flight connections from and to Panama by Air France, KLM and Iberia. The movement of passengers from European countries is increasing every year and new European airlines are connecting with Panama, making the region an interesting market.[93]

Faced with increasing numbers of domestic and international passengers, the government projects an expansion plan for several terminals and airports. In Tocumen International Airport, the airport in the capital city, the project to expand the existing terminal known as Pier North was completed in 2012, increasing operating capacity by more than 50 per cent. The South Terminal is being built and is 50 per cent complete, at a cost of $800 million. The new terminal will allow Tocumen to handle 20 million passengers a year, almost doubling the current capacity.[94]

Tocumen S. A. is moving forward with the plan that will recommend what land will remain under its management and which part will be concessioned or

sold for the development of complementary economic activities. As part of this process, the administration also plans to install a free zone for manufacturing light loads. This is to attract companies to the cargo area of the airport and process products with value added.

3. Ports

Panama is a country with an important border line at the Pacific and Atlantic oceans. This provides an extraordinary opportunity to develop a network of national seaports dedicated not only to handling containerised cargo, but also a large variety of cargo either for local or international markets. Although international ports are performing well, short sea shipping accounts for a very small portion of the sector's GDP, revealing that the geographic potential of the country has not translated into an advantage to place national production in international markets.

Atlantic ports include:

- Manzanillo International Terminal (MIT), operated by Stevedoring Services of America;
- Colon Container Terminal (CCT), operated by Evergreen International Corporation;
- Colon Port Terminal – Cristobal, operated by Hutchinson Port Holdings;
- Colon 2000, operated by Cruise Terminal.

Ports in the Pacific include:

- Panama Balboa Port Terminal S.A., operated by Hutchinson Port Holding;
- PSA Panama International Terminal, a port terminal which began operations in December 2010, built by a Singapore Government public company on the west side of the Pacific entrance to the canal;
- A planned new container transhipment port project in Corozal, west of the canal[95] (the administration of the Panama Canal has begun prequalification processes and negotiated tendering to award the concession for its design, construction, development and operation).[96]

The main and largest ports are located on the Atlantic coast and are managed by private companies with worldwide importance. High performance services are offered at reasonable operating costs. This important economic activity has been able to generate considerable dynamism and efficiency. Panamanian ports have shown sustainable growth on container movement, becoming leaders in Latin America and the Caribbean. In 2014, the aggregate container movement reached about 6.77 million TEUs (see table 21). The national port system moved 82.5 million metric tonnes and grew 5.5 per cent, mainly through increases in bulk cargo (10.6 per cent) and containerised cargo (2.6 per cent). Bulk and containerised cargo represented 42.9 and 56.0 per cent respectively of the total system load.

In 2014, cargo volume increased through greater transit of crude oil and grains. The increase in the first case is due to Ecuadorian exports of crude oil bound for the North American refineries in the Gulf of Mexico and the increase of liquefied petroleum gas from the United States heading to the west coast of Central and South America. The load of grains has increased through the increased flow of soybeans and sorghum from the east coast of the United States to China and corn to Japan, China and various destinations on the west coast of Central and South America.

The most active ports were the Panama Ports Co. Balboa (5.6 per cent more)[97] and the MIT (2.2 per cent more). The Panama International Terminal was also very active but represented only 3.4 per cent of the total movement of containers.[98]

Table 21. Panama's cargo movement in the national port system, 2010–2014 (Thousands)

Movement of cargo	2010	2011	2012	2013	2014
In metric tons:	57 002.2	64 830.8	76 580.4	78 234.4	82 501.4
Bulk	18 306.1	17 542.0	26 770.9	31 988.3	35 392.5
General	1 012.7	1 405.4	2 886.6	1 221.0	893.9
In containers	37 683.3	45 883.4	46 923.0	45 025.1	46 215.1
Containers in TEU	5 593.2	6 629.9	6 857.7	6 561.4	6 774.0

Source: INEC, 2014.

4. Railway

The Panama Railroad is operated by Kansas City Southern Railways from the United States with an investment of $60 million, and moves cargo and passengers between the terminal cities of Panama and Colon. Therefore, it also promotes international trade through the ZLC. Containers can also be transferred by truck but inadequate road infrastructure limits the logistical performance of truck transfers.

The railroad has experienced strong growth since the beginning of its operations in 2001, doubling the cargo transported every two years. This renovated and modernised means of transport offers efficient intermodal connections for world trade, complementing the existing canal and other infrastructure. On average, 2,000 containers are transported daily in both directions, reaching an annual turnover of approximately 650,000 units. The maximum capacity of services has been estimated at two million containers per year.[99] The journey covers about 76 kilometres and it takes 1 hour and 15 minutes to travel between the two terminals. There are on average 10 daily trips in double-stack trains in each direction depending on demand. The infrastructure has created a dry channel for cargo transported on post-Panamax ships that can now perform their transhipment activities in any port terminals.

Figure 30. Panama's railroad

Source: Georgia Tech Panama Logistics Innovation and Research Centre.

The transport railroad model includes the Pacific terminal which is laterally connected to the port of Balboa, and its terminal in the Atlantic, which is divided into two lines (see figure 30). The first line goes directly into the Cristóbal port and allows for easy loading and unloading of containers, and the second line terminal reaches the Coco Solo, which serves MIT and CCT through intermodal facilities. Thus, it allows shipment from Balboa and expeditious unloading of containers bound for the Cristóbal and MIT terminals in the Atlantic. The Cristóbal terminal allows the boarding of passengers and containers with a service within the port. The MIT terminal is located next to the MIT Logistics Park, 500 metres from the port of Manzanillo and 2,000 meters from the port of CCT. The railway expects that, with the expanded canal and the larger number of transits, demand for their services by port terminals will also increase.

5. Land freight transport

Land freight in Panama plays a role of paramount importance in the import and export of goods, mainly between ports and the ZLC but also connecting with the rest of the country and passing through the border with Costa Rica and the rest of Central America. Some 80 per cent of the load from Panama to Central America by road transport comes from the ZLC and the remaining 20 per cent from other parts of the country, and is mostly perishable products such as meat, sausage, dairy products and vegetables.[100]

However, this type of transport faces various obstacles that prevent greater efficiency. For example, main infrastructure and roads, although paved, need conditioning due to heavy transport network segments that causes their deterioration. More efficiency in customs is also needed.

6. Free zone

ZLC, created in June 1948 and the largest free trade area in the western hemisphere, serves as the largest centre for collection and distribution of goods for Latin America and the Caribbean. It is located at the central point of the Americas toward the Atlantic entrance to the Panama Canal, in the city of Colón. This makes it a natural distribution centre serving regional markets in Central America, South America and the Caribbean. It is surrounded by four ports specialised in containerised cargo, two cruise terminals, an international airport under construction and a railway terminal.

The synergy of these factors has led to the development of a project called "Multimodal Logistics Centre of the Americas" (CELMA). This involves using existing facilities and seeing the area as a load distribution and associated services centre, at a regional and global level. The purpose is to complement the multimodal transport facilities and the goods-transferring operations linked to ZLC to generate new and efficient economic activities with higher value added to the national economy. The ZLC has recently decreased its commercial transactions due to the fall of more than half of the value of re-exports to Venezuela and Colombia.

7. Special economic zones

To increase local investment and attract new investors, the country has laws that facilitate the establishment of Special Economic Zones (SEZ). SEZs are segregated areas located in different strategic points of the country that receive tax, immigration and labour benefits aimed at promoting the development of specific economic activities. One of the most important SEZs is the Panama Pacific area which is strategically located at the southern entrance of the Panama Canal in the former Howard Air Force Base. This SEZ has already attracted around 140 companies, contributing to investment inflows and to the availability of inputs relevant to generate supply capacity. It has direct access to the Panamerican Highway, connecting Panama with Central and North America. It is adjacent to the port of Balboa in the Pacific Ocean, and only 15 minutes from downtown Panama City, 45 minutes from Tocumen International Airport and one hour away from the largest port complex in containers located in the Caribbean Sea.

B. INSTITUTIONAL FRAMEWORK

The importance of the transport and logistics sector for the country, and the real and potential links it has with other economic activities, imply that many institutional bodies are involved in shaping, regulating or conditioning these activities. These include, *inter alia*, MICI, MIDA, ARAP, the National Secretary of Science and Technology, the National Security Council, the National Service of Migration and the National Customs Authority (ANA). Other relevant institutions in the logistics sector include ZLC's administration, the Agency of the Panama-Pacific Special Economic Zone and the Tocumen International Airport. Some other relevant sectoral institutions are detailed below.

1. Maritime transport sector

Maritime transport in Panama is regulated by the Panama Maritime Authority (AMP) and governed by law No. 57 of 6 August 2008, as amended by law No. 41 of 14 June 2013, the General Law on the Merchant Marine. The law proposes a comprehensive regulation of the registry of ships with a balance between the needs of the users and the responsibilities of Panama as a maritime administration. It defines the responsibilities of each actor in the process of registering a ship – including the owner, the resident agent and auxiliary enterprises of the registry – and defines AMP's sphere of competence in the field of maritime communications.

Also very relevant is law No. 56 of 6 August 2008, as amended by law No. 41 of 14 June 2013 and by resolution ADM-016-09 of 9 February 2009, and its regulations. It is known as the General Panamanian Ports Law and it establishes the rules governing port activities and maritime installations, the use of property granted on concession and the provision of maritime services, whether public or private. Port services are public and must be supplied free of discriminatory practices with regard to the ships, cargo or passengers to which they are provided. This law also stipulates that the port development plan must be directed towards promoting private investment in port activities.

AMP authorises the granting of concessions for the development, use and operation of state goods and services. This includes the construction and operation of maritime and port installations, as well as the issuing of operating licenses to parties interested in carrying out commercial activities in port precincts or areas within AMP's jurisdiction. Concessions are granted under contract and operating licences by administrative resolution, subject to payment of the inspection fee. The state retains ownership of the property on concession and the concessionaire is unable to claim or obtain title to build improvements.

2. The Panama Canal

Law No. 19 of 11 June 1997 specifies that the canal may not be sold, assigned or mortgaged. The regulatory authority is ACP, a Panamanian government entity created under Title XIV of the National Constitution. It has exclusive responsibility for the operation, administration, functioning, preservation, maintenance, improvement and modernisation of the canal, and for its related activities and services, in

accordance with existing constitutional law. This aims to ensure that the canal functions safely, continuously, efficiently and profitably. Law No. 19 authorises ACP to delegate the performance of certain works or services, in full or in part. In this regard, ACP has its own system of public procurement.

The comprehensive programme to expand the capacity of the canal was adopted as a result of law No. 28 of 17 July 2006. The project had an estimated cost of $5,250 million. On 22 October 2006, the canal expansion was approved by a national referendum and ACP was given the responsibility for carrying out the works. The expanded canal opened on 26 June 2016.

3. Air transport

Civil aviation is regulated by law No. 21 of 29 January 2003, which replaced decree law No. 19 of 1963. Another important regulatory instrument is law No. 89 of 1 December 2010, which promotes the development of commercial aviation and, in this context, sets out the conditions under which domestic airlines can hire foreign pilots as technical crew. This is allowed provided they do not exceed 15 per cent of the total number of the company's employees in Panama. The regulatory authority, the Civil Aviation Authority (AAC), was created by law No. 22 of 29 January 2003 as an autonomous state body responsible for directing and regulating air transport services, regulating and providing air navigation services, and administering airfields, including their regulation, planning, operation, surveillance and control.

Law No. 23 of 29 January 2003 defines the regulatory framework for the management of Panama's airports and airfields. The state can create companies that provide public airport and airfield management services, which must act in accordance with the principles of efficiency, transparency and equal treatment. These are public limited companies governed by the Law on Public Limited Companies and the Commercial Code. 100 per cent of the shares are registered, state-owned and in the custody of MEF. Law No. 23 also created the Special Fund for the Development of National Aviation Infrastructure, which relies on a minimum annual contribution approved by the Cabinet Council, provided by the company that manages Tocumen International Airport.

4. Land freight transport

The industry of land transportation in Panama is regulated by the Authority of Land Transit and Transport (ATTT). Law 34 of July 28, 1999, later modified by law 42 of 22 October 2007, created this entity and defined its functions.

The sector has many laws and regulations, many of which reflect the results of different negotiations carried out to decrease trade barriers and costs, with a view to promoting international trade and strengthening the competitive advantage of Central American markets. In this context, the most important and influential legal aspects are in road transport, international trade and border-crossing operations. Some important regulations of the transportation industry include law 10 of 24 January 1989, regulating the weights and dimensions of lorries, aiming for reducing regulatory divergence and facilitating regional trade. Resolution No. 65-2001, Aug 14, 2001, and its annex No. 65-2001, 22 March 2002, regulate the Customs international system of inwards transit.

C. OPPORTUNITIES AND CHALLENGES IN THE LOGISTICS SECTOR

From a logistics point of view, Panama serves three different load segments with different performance levels: international logistics; ZLC and Central America logistics; and domestic logistics. Panamanian transport and logistics infrastructure is particularly concentrated in the environment of the Panama Canal cluster, providing various services (see table 22). The logistics sector generates approximately 30,000 jobs. It is expected that in the coming years this figure will increase to 60,000 and 70,000 jobs.[101]

The Logistics Performance Index (LPI) indicates the worldwide perception that Chief Executive Officers and executives have of the competitiveness of this important sector. Panama improved its position in 2010 and, after a decline in 2012, the country rose 16 places in 2014 to position 45, and rose five places more in 2016 to position 40 (see table 23). Panama gained first place in Latin American in 2016, overtaking Chile which had been in the first regional place in previous years and was in position 46 in 2016.

Some of the strengths that underlie the development of logistics services are the strategic geographical position and the availability of adequate infrastructure

Table 22. Panama's services and activities around the logistics cluster

Services	Activities
Services to vessels	Ports Canal operation Supply boats Repair and maintenance of ships Dredging Pilotage services Shipping agencies Shipping lines Classification of ships Merchant navy Marine fuel
Services to the load	Ports Container repaire Colon free zone Special economic areas
International cargo transportation	Road transport in the interior (load) Railway Air transport Trans-isthmus pipeline
Tourism	Tour operators / cruises
Legal services	Maritime legal services
Telecommunications	Telecommunications
Financial services	Financial intermediation (banking, insurance and reinsurance)
Training	Maritime logistics specialist training

Source: UNCTAD.

Table 23. Panama's Logistic Performance Index, 2007–2016

Year	Rank	Score	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
2016	40	3.34	3.13	3.28	3.65	3.18	2.95	3.74
2014	45	3.19	3.15	3.00	3.18	2.87	3.34	3.63
2012	61	2.93	2.56	2.94	2.76	2.84	3.01	3.47
2010	51	3.02	2.76	2.63	2.87	2.83	3.26	3.76
2007	54	2.89	2.68	2.79	2.80	2.73	2.93	3.43

Source: World Bank.

services in some sectors. These include, most notably, the canal, ports, the railroad, telecommunications and financial services. There are investment opportunities to expand infrastructure in the reverted areas of both the Pacific and Atlantic sectors.

Nevertheless, there are capacity constraints in several aspects of the transport infrastructure. These include constraints in rail services, which are affected by peaks of demand for transhipments occurring on weekends. It also refers to accessibility and connectivity problems between different logistics assets located in the inter-oceanic area due to congestions in the road network. Most notably, the congestion to ZLC and its neighbouring ports considerably affects traffic increasing transport costs and affecting product quality. Nowadays, this derives from a single-access road, with one-lane per direction. Moreover, there are still insufficient suppliers in other infrastructure sectors. For example, there is a low level of advanced manufacturing in information, communication and technology (ICT) services.

The sector faces challenges in all the main load segments. Regarding international cargo, Panama must make its facilities more and more attractive to

cargo owners, making sure the cargo not only passes through the ports but enters a value-added logistics centre to transform the cargo into something more valuable. These additional services require prompt improvement of local traffic flow and, in general, the final result depends on the efficiency in operating the linkages between the logistics assets of the cluster and the value-added services that can be generated. The expansion of the canal has motivated private and public actors to form a hub of value-added logistics services, moving beyond the mere transhipment model.[102]

Be that as it may, the demand for logistics services is still concentrated in auxiliary services, with only some value-added services provided in ZLC. The rapid growth of port traffic in the Pacific coast has caused capacity constraints limiting the growth of additional services to vessels. Furthermore, except for the Panama Pacific Special Economic Area and in spite of enabling legislation,[103] the country does not have world-class logistics infrastructure close to maritime ports dedicated to logistics operations and providing space for rent to specialised operators. Several agencies are trying to promote logistics platforms projects but, without a clear development plan for the sector, there is a risk of oversupply and dispersion.

As far as national cargo is concerned, a comprehensive approach is necessary to address inefficiencies and reduce costs in local transport, handling, customs and other institutions involved in foreign trade. The existing know-how in Panama's international logistics has not been transmitted to internal logistics and therefore domestic production has not been able to benefit from the country's global position. This situation causes an increase in the cost of Panamanian products, undermining their competitiveness in the domestic and international markets. At the national level, this increases the cost of living due to the high prices of consumer products, especially perishables. At the international level, despite having excellent global accessibility, this situation results in the inability to place Panamanian products in global markets due to their high costs.

Logistics services provided to small local producers are almost non-existent, limited to transport, mostly in small vehicles for minor volumes and domestic transport. This affects their opportunities to access foreign markets. Traffic congestion[104] and inefficiencies in customs operations also rank as the biggest challenges for businesses. There are important weaknesses in processes, systems and infrastructure at land border crossings, causing inefficiencies in freight transport and road safety problems. Inspections have inadequate facilities and lack non-intrusive equipment. There is a slow implementation of the foreign trade single window and of the automation of services from different trade-related agencies. In the Paso Canoas border, in Chiriquí, the crossing is subject to delays, especially due to the repetition of processes at Costa Rica and Panama. All of these factors contribute to reduced efficiency and increases costs for producers and exporters, compounded by the possibility of affecting quality standards of goods exported to regional markets.

In this regard, Panama has an Authorised Economic Operator (AEO), institutionalised by Executive Decree No. 988 of 2 October 2013. AEOs can undergo expedited administrative procedures for exports, reducing inefficiencies and costs. An entity is considered an AEO when it has proven to be a reliable and secure entity in its international trade operations. Such proof is given through the compliance with international safety standards, requirements and obligations established by the customs administration.[105] The implementation of the AEO programme began in 2014 with natural or legal persons who are exporters. Other players in the foreign trade logistics chain will be able to join according to the plan and implementation stages established by ANA.

There is no regional integration of customs controls and there are limitations in the tracking and monitoring processes. The improvement of customs procedures should be continuous and incorporate regional and international best practices. With this objective, ANA is currently in the consultation and dissemination stage of a new Customs Act which collects existing rules and rules that complement the Central American Uniform Customs Code (CAUCA) and Central American Uniform Customs Code Regulation (RECAUCA) in a single Cabinet Decree. It balances government spending from ANA versus the services given to users. This initiative seeks to reduce transaction costs in international trade, streamlining times in the clearance of cargo by strengthening the legal framework.[106]

Other problems and weaknesses in the logistics sectors are in line with the overall results of the abovementioned global competitiveness index analysis for Panama. There is still a lack of business environment to drive mega-projects with multimodal and multipurpose dimensions. In ZLC, unilateral

market restrictions for local terrestrial cargo carriers undermine competition. The perception of corruption is still high. The institutional framework requires greater coordination between various state agencies involved in efforts to carry out major projects. There are insufficient human resources suitably prepared to address the needs of some target sectors, such as aviation mechanics, bilingual programmers and customs technicians. Logistics companies indicate they experience an acute shortage of labour, with 45 per cent of companies facing difficulties to find qualified personnel, especially young people with the required "soft" and other technical skills.[107] Technical and vocational training is not yet focused on the needs of the global market.

D. TRADE AGREEMENTS

Recognising the importance of trade agreements as a key component of trade policy, Panama has developed a network of multilateral, regional and bilateral trade agreements. This aims not only to gain market access and promote exports but also to create favourable conditions for investment, technology transfer and the provision of services that contribute to the supply capacity and competitiveness of the logistics sector. Participation in trade agreements also addresses barriers to trade as these agreements are increasingly focused on regulatory measures that may have an impact on trade.

Following its accession to the WTO in 1997, and the negotiation of its schedule of specific commitments under the General Agreement on Trade in Services (GATS), Panama took an active part in the Doha Round negotiations, especially in sectors that are important to Panama such as financial, maritime and tourism services. Panama is also part of the Trade in Services Agreement (TISA) negotiations, which involves 23 parties representing around 70 per cent of global trade in services. Panama is perhaps considering TISA as an opportunity to expand trade in services and to address barriers to trade in services including lack of transparency, forced local ownership and discrimination in obtaining business licences and permits in areas of great importance for the country such as maritime and logistics services.

Panama is also involved in several bilateral and regional agreements which have resulted or may result in deeper liberalisation of specific services sectors and subsectors. Among the strategies identified as having a direct impact on trade is the explicit intent by the government to ensure the representation of logistics services in its bilateral and regional agreements (see table 24).

Multimodal operations – defined as the carriage of goods by at least two different modes of transport on the basis of a multimodal transport contract from a place in one country at which the goods are taken in charge by the multimodal transport operator to a place designated for delivery situated in a different country – are not included in FTAs, but are part of a possible mode on the TISA negotiations. This may be positive as nowadays many operations in international trade are based on multimodal procedures and may be acknowledged and accepted in transparent, reasonable and non-discriminatory conditions, which is part of what Panama is looking for as a logistics hub.

Some trade agreements also allow for parties to include, in accordance with their legislation, restrictions on the provision of services by foreigners regarding national treatment, most-favoured nation treatment, local presence and market access. These non-conforming measures are usually included through an annex for measures reflecting current legal measures not complying with certain disciplines of the agreement and through an annex on sensitive issues where parties can maintain or adopt new measures in the future to move away from the provisions of certain disciplines of the agreement. Some examples of restrictions include:

- Application of direct shipping restrictions with limitations on national treatment and most-favoured nation market access;
- Nationality or residency requirements for registration under the country flag;
- Nationality or residency requirements for providing maritime or auxiliary services;
- Restrictions on shareholding for the provision of maritime activities;
- Conditions of employment on ships, linked to the nationality of the crew;
- *De facto* restrictions for lifting of land cargo between countries of the region and restrictive customs measures.

Other restrictive policies may include protectionism through export and import tariffs, discriminatory customs charges and port usage depending on the ship's flag. These may encompass pilotage and other fees and discriminatory provisions on maritime auxiliary services. Unfair competition may derive from agreements on bilateral and unilateral cargo reservations with other countries, and from access

Table 24. Measures relating to maritime and logistics services in trade agreements

Trade Agreement	Services Chapter in TFA	Chapter or section on maritime and/or logistics services
United States of America	Yes	Letter of understanding and joint statement on maritime issues: • Treatment of existing reciprocity between the two countries to not collect tax for tonnage of freight and the faculty of transport equipment of cargo (containers) and empty stowage equipment between their respective ports. Joint press statement from the United States and Panama (emphasis placed on the historical relationship between the two countries with regard to maritime transport services): • Agreement on the immediate elimination of the fee (50 per cent) for non-urgent repairs to United States ships in the territory of Panama, as well as repairs of fishing nets, expressly excluding the application of the rule of origin for such repairs; • Non-discriminatory treatment for the suppliers of maritime services of both parties; • Programme under which at least thirty Panamanian citizens shall receive education and training at United States merchant marine academies; • Opportunities for Panamanian citizens to participate in the US Coast Guard Academy.
Chile	Yes	--
Peru	Yes	Chapter of maritime services: • Benefits for services of carriage of goods by sea and maritime auxiliary services supplied by a supplier of a party shipping services and service providers related to shipping or maritime auxiliary services; • Cooperation to eliminate any obstacles that may impede the development of maritime trade between ports of the parties; • Free access to ports, permanence and leaving of the ports, the use of port facilities and facilities guaranteed by this in connection with business operations and navigation for vessels, crew and cargo. This provision also applies to the allocation of docks and facilities for loading and unloading; • Recognition of documentation of ships; • Cooperation in cross-border flows of information, training and best practices.
Singapore	Yes	Annex on maritime transport: • Reciprocal treatment for tonnage taxes and other fees and charges for ships, maritime services and ports-scale, subject to notification; • Transport vans, lifts, containers and empty tanks between ports of one party are permitted subject to provisions of internal navigation. These provisions also apply to equipment or stowage material whenever it is owned or leased by the ship; • Some service providers can navigate between ports for the purpose of transporting their own load.
Canada	Yes	--
Mexico	Yes	--
Taiwan Province of China	Yes	--
EFTA	Yes	--

Trade Agreement	Services Chapter in TFA	Chapter or section on maritime and/or logistics services
European Union	Yes	*Maritime transport services section:* • Access without restrictions to the international maritime market and trade routes on a commercial and non-discriminatory basis; • Not less favourable treatment than that accorded to its own ships will be granted to vessels navigating under the flag of the other party, or operated by service providers of another party with regard to access to ports, the use of infrastructure and auxiliary maritime services of the ports, as well as fees and related charges, customs facilities and the assignment of berths and facilities for loading and unloading; • No cargo sharing arrangements shall be applied in future bilateral agreements with third countries concerning the services of maritime transport, including trade bulk, liquid and solid, and regular. Already existing sharing agreements shall end within a reasonable time; • Ensure that any existing or future measures taken with respect to international maritime transport services are not discriminatory and do not constitute a disguised restriction on international maritime transport services; • International maritime service suppliers shall be permitted to have an establishment in their territory.
Central America	Yes	*Annex on international land freight transport (also applied in bilateral protocols with each country in Central America):* • Non-discriminatory treatment for the international land transport service between the parties; • Freedom of transit through the territories of the parties; • Free competition in the procurement of transport (without prejudice to the country of origin or destination), and free access to all its national territory, including free-trade areas and any other portion which, by its nature, can be considered offshore, such as export processing zones; • The incorporation of international terrestrial transit regulations regime, adopted by the parties through Resolution No. 65-2001 – COMRIEDRE.
Guatemala	Yes	*Annex on maritime transport agreement:* • Strengthen the participation of their vessels in shipping between its ports, without preventing the participation to maritime transport ships carrying other flags, between its ports and ports of third countries under their respective laws; • Cooperation in order to eliminate any obstacles that may impede the development of the maritime trade between its ports and that could interfere with various activities related to trade; • National treatment with respect to the collection of tax and port rights, access to ports, freedom of access, permanence and leaving of ports, the use of port facilities and facilities guaranteed in connection with business operations and navigation; • Establishment and operation of shipping companies, shipping and freight forwarding agents; • Development of auxiliary maritime industries between its ports; • Temporary admission of equipment or machinery of the companies of one party to the territory of the other party, to carry out services, repairs, equipment, commercial diving, inspection, cleaning, among others, without causing any kind of rate or tariff, provided that they comply with legal provisions of each party on the temporary admission of goods; • Facilities at immigration permits, special permits, landings, cooperation and best practices.
SIECA	Treaty on investment and trade in services	• Adoption involves measures that do not mean upper restrictions or commitments lower than those adopted in the Central America FTA, bilateral protocols with each country and annexes of non-conforming measures annexes.

Source: UNCTAD, based on the Free Trade Agreements.

limitations to publicly managed port concessions and government control of port terminal operations.

The above type of restrictions not only reduces opportunities, but also increases freight and other administrative costs of goods. Panama has no major restrictions in this sector in its FTAs, especially in the maritime sector as it is an open and competitive activity, with the exception of some legal limitations (see table 25).

Table 25. Legal limitations for the sector in Free Trade Agreements

Sector	Restriction	Legal rule
Maritime transport	Only Panamanians may obtain a pilot license in the canal or ports. However, a foreigner with a license obtained prior to 1999 may keep providing services. Ship owners or Panamanian ships engaged in international shipping must give preference in hiring Panamanians, those married to Panamanians, or parents of Panamanian children living in Panama. A crew agency operating in Panama shall appoint a Panamanian with residence in Panama and registered as the company representative for all administrative, judicial and extrajudicial matters.	Agreement 006-95 of May 31, 1995 and Decision 020-2003 August 14, 2003 Decree Law 8 of 26 February, 1998
Land freight transport	Concessions for public transport, lines, routes and terminal services may only be issued to Panamanian and national-owned companies. Operation certificates will be only awarded to Panamanians. The driver of a cargo or passengers vehicle must be a Panamanian, a foreigner married to a Panamanian or a foreigner with children born in Panama.	Law 19 of February 19, 1956 Law 34 of July 28, 1999
Air transport services	Only Panamanians and companies with majority ownership of Panamanians may operate air transport services under the Panamanian flag. At least 60 per cent of subscribed and paid capital of a company organised under the Panamanian legislation engaged in domestic air transport must be owned by Panamanian individuals. In the provision of special air transport services by aircrafts registered in Panama or the repair or maintenance of these aircrafts, only Panamanians can obtain the following positions: (a) crew and other aeronautical technical staff; (b) pilots; and (c) staff for inspection, maintenance and grounding of aircraft, engines or other equipment. Panama may limit the number of foreigners working as land based staff. The government of Panama may determine the number of international and domestic airports and may require the appointment of a legal representative in Panama.	Law 21 of January 29, 2003 Decree Law 7 of February 10, 1998 Law 23 of January 29, 2003

Source: UNCTAD, based on the Free Trade Agreements.

E. PROGRESS

Opportunities in the logistics sector cannot be adequately faced without state policy and a long-term vision, with five-year plans that change with every new government. To address this issue, recent changes were made to create the appropriate institutional framework to carry out this national effort. In November 2014[108] the Logistics Cabinet was created, with the coordinator appointed by the Minister of the Presidency. In March 2015, the government established the Secretariat of Competitiveness and Logistics of the Ministry of the Presidency,[109] where the Logistics Cabinet was placed. The Cabinet integrates authorities from the Ministry of the Presidency, Ministry of Foreign Affairs, MEF, MICI, Ministry of Public Works, Ministry of Housing and Land Management, the National Secretary of Science and Technology, AAC, ACP, AMP, ANA, ATTT, the Secretary of the Metro, Tocumen S.A. and ZLC. Recently, the Logistics Cabinet Permanent Advisory Committee incorporated representatives of the Logistics Business Council (COEL), which had been created two years before to integrate various private sector business associations and to have a single participatory front before the government.

The objective is to achieve the integration of different perspectives to promote international, regional and local load segments, and to promote logistics development in the western region, thereby satisfying potential demand and creating more income and employment. In this regard, the relevant government agencies are working together to promote the convergence of public and private actors around priority areas, with support from international financing institutions: the Development Bank of Latin America (CAF) and IDB. In October 2015, the Logistics Cabinet established a road map to boost the development of the sector.

An important component of this road map is a national logistics strategy that develops a vision between 2025 and 2030, as a product of public and private consensus that responds to global trends and transcends changes in governments. It seeks to turn Panama into an integrated centre of excellence for maritime logistics and competitive services, consolidating Panama's position as the main maritime and logistics platform for global trade in the Americas, by developing activities that generate value-added services. It also aims to promote secure trade through intelligent systems and compliance with international trade rules, and to ensure environmental sustainability in the development of economic activities.

To this effect, the strategic plan calls for a legal framework that promotes and guarantees free enterprise, legal certainty, competitive market structure and sustainable development. This implies a continuous and thorough check of the relevance of legal instruments. It also aims to improve the regulatory and institutional framework to strengthen the maritime and logistics cluster, including by ensuring effective communication between public and private actors, and coherence and continuity in the medium- and long-term. The strategic plan should also recognise the central role of innovation and technology for the development of the sector and address the development and education of human resources. In this regard, private sector operators point to the need for a logistics school.

In terms of infrastructure, the country needs to increase its port capacity as a result of the canal's expansion. The construction of a new port in the Pacific is in its prefeasibility stage, and is expected to be concessioned by ACP in 2016 in order to enter the construction phase. This relates to another important component of the road map: a master plan for transport and logistics infrastructure in the interoceanic zone. This aims to prioritize investments, initiatives and projects in the canal area and promote the development of higher value-added logistics services in the country. Furthermore, the road map also envisages the development of an air cargo centre or airport free zone and the reconversion of ZLC's business model to supply logistics services and commercial places at worldwide level, to attend to global trade trends.

The implementation of an integrated customs system is also identified in the road map, including the integration of information and documentation regarding international trade. Reliable and timely information, as well as document traceability and physical traceability of both goods and means of transport, is critical to support trade facilitation objectives. The revision of the customs legal framework is also being promoted to comply with Panama's integration protocol into SIECA and align it with CAUCA and RECAUCA. A new Cabinet Decree text to compile the customs provisions into a single legal text is under consultation. It will ensure the transparent and efficient implementation of regulations, matching Central American processes while maintaining the competitive advantages of Panama's geographical position.

Within the Logistics Cabinet agenda, the revival of the discussion on the revision of a transportation bill to present before the National Legislative Assembly's Transportation Committee is also a priority.

VIII

FINDINGS AND RECOMMENDATIONS

A trade policy framework for Panama needs to usefully reflect the country's development goals of achieving balanced, inclusive and sustainable development. The overall aim is to establish a market-driven, development-led, sustainable trade policy capable of catalysing economic growth, reducing poverty and improving living standards. This requires a coherent approach among the different dimensions of trade policy, *inter alia* negotiations, market intelligence and trade promotion.

Regarding trade negotiations, the country is expanding and densifying its network of trade agreements. This has been important to obtain market access for some of the country's traditional exports. Still, in some cases the progress in securing trade agreements has not been satisfactorily reflected in the increase or in a greater dynamism of national exports. This is, to some extent, also linked to a global trade slowdown. Sales abroad continue to be concentrated in a few markets and have still not been able to provide a solid basis for the diversification and upgrading of exportable goods. Trade negotiation initiatives need to consider additional opportunities in different markets, including for example in the Asian region and in the Caribbean, thereby contributing to reducing risks related to the concentration of export destination markets.

The implementation of FTAs, including addressing problems that arise during these implementation processes, is very important and in this regard the coordination and response capacity of the competent authorities should be further reinforced. A notable achievement is the steps towards the full implementation of the electronic single window for foreign trade, applicable to imports, exports and re-exports. It can play an important role in simplifying procedures and in reducing costs by making it possible to electronically access procedures from different institutions involved in international trade, including MICI, MIDA, MINSA and ANA.[110]

As far as trade promotion is concerned, initiatives should cover both international markets that are already important for Panamanian exports and new market opportunities, contributing to the diversification of destination markets. This should include a higher focus on quality and innovative characteristics that exist or may be developed in the export offer. A comprehensive, innovative and coherent marketing strategy should be designed to support exports that contribute most to development goals, and this should be reflected in the participation in international fairs, business roundtables, road shows, direct business contacts between exporters and potential clients and other export promotion initiatives. Logistics and financial support for the participation of exporters in these initiatives could be considered, provided it does not introduce market distortions. Innovating on marketing strategies may include evaluating the need for country or sectoral brands, which may help to convey the characteristics that are intended in exports.

Market intelligence is also critical to provide the necessary guidance to the private sector about the opportunities – current and potential – and information – requirements, procedures and incentives – on foreign markets. This is particularly important as many exporters fail due to limited capacity to know and therefore meet foreign demand and foreign consumer preferences. Market intelligence initiatives can also address lack of information and knowledge on procedural and contractual matters. This guidance can be translated in training, information notes, reference materials, advisory guidance on internationalisation and overall knowledge-sharing with companies venturing into international markets. Other stakeholders involved in trade-oriented value chains could also benefit from market intelligence services, for instance upstream producers, input providers and the public sector.

Attaining these objectives requires further strengthening of human and financial resources assigned to develop and implement trade promotion and market intelligence policies. A reinforced institutional framework, embodied in an enhanced export promotion agency – as in other neighbouring countries such as Chile, Colombia and Costa Rica – should be considered. The establishment of trade promotion offices in strategic foreign locations could also facilitate the implementation of trade promotion and market intelligence initiatives. It could also be important to provide data and information to potentially interested foreign investors. Institutionalising these trade offices with prepared trade officers abroad could benefit from partnerships and coordination with the Ministry of Foreign Affairs, as synergies exist if foreign diplomacy infrastructure can be used. The current institutionalisation of an information exchange mechanism between the Ministry of Foreign Affairs and MICI can facilitate the availability of trade-related information in some foreign locations where trade offices are not feasible or are still in the process of being implemented.

Similarly, further strengthening the investment promotion institutional framework is necessary to enhance FDI in strategic sectors, in support of national productive mechanisms. PROINVEX, the investment promotion agency ascribed to MICI, was created in 2009 to manage a one-stop-shop integrated information system that allows investors to easily identify all the instruments available to support FDI. Notwithstanding, it requires more human and financial resources to cover an active agenda of initiatives to promote the benefits of investing in Panama. Both trade and investment promotion would benefit from a clear plan that defines operational priorities in line with long-term development goals of the country. Trade and investment promotion policies need to be aligned, as export capacity benefits from certain investment inflows and, conversely, investment decisions also depend on export opportunities.

Institutional coordination with a view to promote trade policy benefits from guidance and endorsement at the highest institutional level, for example the Presidency. Roundtables and multi-stakeholder consultation can contribute to the necessary coordination, including by addressing budgetary issues. This coordination is critical to achieve policy coherence and therefore effective results in trade policy and its linkages with other policy areas.

In any case, open markets require legal and institutional frameworks to address possible unfair competition effects. These may derive, for example, from subsidies, dumping, under-invoicing, smuggling, errors of classification, non-compliance with rules of origin and non-compliance with intellectual property rights. Although legislation is in place, some of these practices seem to persist in the market which calls for increased attention and for a more prominent role for the Authority for Consumer Protection and Competition (ACODECO).

In addition to the need to reinforce all dimensions of trade policy, evolving international trends point to the growing importance of addressing behind the border limitations to achieve additional increases in the extensive margin of trade. With the worldwide intensification of trade negotiations and lower tariffs throughout, trade policy is increasingly focused on non-tariff factors, including policy and regulatory frameworks.

In particular, compliance with SPS measures and TBT requires not only a thorough knowledge of these potentially complex measures but also technical preparedness in productive and export processes to fulfil the requirements. This calls for strengthened capacities of Panamanian institutions to promote the adoption of best practices and improvement of technical regulations in line with the standards required by destination markets. For the agriculture and agribusiness sectors, these institutions may encompass for example MICI, MIDA, MINSA and AUPSA. It is important to review national standards and verify whether is feasible and convenient to align them with international standards. Regional regulations can be viewed as a stepping stone to gain capacity to comply with international requirements.

It is also important to pursue certifications based on international standards so that the capacity to comply with requirements is recognised in the broadest manner.[111] In the agriculture and agribusiness sectors, this may also comprise organic, bio-ethical and other certifications. In this context, it is important to have effective and efficient national bodies responsible for standardisation, accreditation, metrology and conformity assessment processes. Services providers in these areas, including consultancy services, should operate in competition whenever feasible to induce effectiveness and cost reduction. It is also important to increase awareness among producers, especially SMEs and small-scale entrepreneurs, of the potential benefits of implementing and certifying international standards.

Therefore, further to acknowledging the multidimensional role of trade policy, it is also necessary to pursue coherence between trade policy and other policy areas such as industrial, technology, macroeconomic, investment, employment and infrastructure policies.[112] In this regard, trade policy should go beyond its important role of increasing export-related income. It also needs to connect with industrial policy to move towards a development model based on innovation and market competitiveness. Trade policy must contribute to attracting investment, allowing for inflows of inputs, technology and knowledge to improve productive processes and business models, to reduce domestic production costs, and to allow for a more diversified and more value-added offer of products, both goods and services. This diversification and upgrading is of central importance to an inclusive approach that expands the potential benefits of international trade to the whole country.

This requires, on the one hand, capitalising on the areas where the country reveals comparative advantages as sources of income and of backward and forward linkages to the rest of the economy. It is necessary to continuously improve competitiveness in these areas to keep on competing in global markets, and to continue to attract foreign investment, even in a less favourable regional and global context. On the other hand, it also requires defying existing comparative advantages and providing forward-looking policy support to the sectors and value chains that can potentially contribute more to development goals, either by favouring inclusion, diversification or upgrading. This should be reflected in all dimensions of trade policy, pursuing negotiations, implementation and promotion initiatives that support the country's industrial policies.

This entails improving competitiveness factors which may include physical infrastructure, the institutional infrastructure linked to trade facilitation, logistical conditions and human capital endowments. The expansion of the canal is an important step but challenges also include strengthening the country as the logistics hub of the Americas, by densifying the interoceanic cluster with complementary activities and value-added services. They also include building supply and export capacity throughout the country, increasing inclusiveness and improving the connectivity of areas outside the interoceanic area to become a world class logistics hub.

Panama needs to particularly improve the areas that have revealed to be underperforming in terms of contributing to the country's competitiveness. This includes the need for technology, innovation and education policies at the centre of a well-designed and coherent domestic agenda to increase productivity and competitiveness. These policies should define the axis of productive and exporting culture and are dependent of long term strategies. Such policies benefit from productive networks and clusters which require bottom-up initiatives and endorsement by public policies. These allow for economies of scale and resource pooling, and to some extent facilitate the socialisation of the benefits of investments in education, technology and innovation. Examples include the development of technology centres for agriculture, agribusiness and industrial sectors. The scope of such centres may encompass not only knowledge generation but also technology transfer and technology extension services. It could also include the adoption of best practices from comparable realities to address productivity and competitiveness lags and to facilitate greater participation of local producers in national, regional and global value chains.

The strategy should result in a competitiveness agenda that should have a coordinated approach to the national and subnational dimensions to enhance inclusiveness. Actions at the national level are necessary to provide strategic guidance and backbone infrastructure, including macro-projects. The decentralised subnational level complements this by translating this guidance into operational projects closer to local realities and producers. Local competitiveness centres could integrate viable and fundable project portfolios addressing issues such as product innovation and process efficiency, equipment and infrastructure, and other supply and export capacity enhancers. In the context of a private sector with more in-depth knowledge of specific operational activities and of a public sector with limited resources, the private sector needs to participate and support this strategic framework, including by developing the necessary feasibility studies and by implementing projects.

To that end, the creation of a pre-investment fund could be considered to co-finance the preparation of project portfolios financed by the financial system. In addition, is necessary to improve credit and insurance supply for micro and small agriculture activities and agribusiness. This could be facilitated by productive networks and by the cooperation of institutions such as the Authority for Micro, Small and Medium Enterprises (AMPYME) and the Autonomous Panamanian Institute for Cooperatives (IPACOOP). Financial services providers and developmental financing institutions can also play a key role. The latter include BDA and the National Bank of Panama. The design and implementation of access to credit and overall financial inclusion policies need to consider the challenge of high informality in the country.

Finally, a well-designed and effective policy framework needs to be evidence-based.[113] High-quality, disaggregated, timely and reliable data is required to properly identify trade barriers and opportunities.

The implementation of a well-designed and coherent policy framework that covers all the above mentioned dimensions is called for to maximise development gains from the opportunities generated by FTAs, investment opportunities and a singular strategic geographical position. Multi-stakeholder consultations, most notably with the private sector, are necessary and government efforts in that regard should continue.

A. AGRICULTURE

Trade policy is highly relevant for the competitiveness of the agriculture sector as it has the potential to enable affordable access to inputs, to encourage adoption of improved standards and pursuance of certification by international standards, and to generate scale contributing therefore to supply capacity. In this regard it is important to pursue structural transformation that facilitates the desired diversification and upgrading strategies for the sector. Panama should implement trade policy initiatives that are in line with such strategies. This includes negotiations that are paced, sequenced and with content that does not prevent the country from designing and implementing public policies that are needed to strengthen the sector, including with a view to attaining development objectives such as poverty alleviation and territorial inclusion. In addition, negotiations should seek preferential treatment for development. Efforts regarding market intelligence, for example regarding sanitary requirements and trade promotion of agricultural products are also required.

The provision of supplies to vessels using the canal and ports in Panama could be an illustrative example of how it might be possible to link products from Panama to foreign markets. Even when it is not feasible to find direct connections between products and international markets, it is necessary to determine if it is possible to link such products to regional and global value chains by connecting them to other activities in Panama that are export-oriented. The analysis of backward and forward linkages can contribute to identifying opportunities to link agricultural activities to export-oriented activities. Trade policy can therefore have a multiplier effect, not only through directly supporting agricultural activities, but also by indirectly strengthening activities such as industrial and agribusiness activities that use agricultural inputs. This also includes niche products like the handmade *cutarras* of Panama. In both cases, it is important to improve commercialisation processes, as detailed in the analysis of logistics services.

A large part of the operating costs for agricultural exporters in the region is related to transportation. In 2007 the government funded a pre-feasibility study for the creation of a regional collection centre for perishable products in Panama. In the consultation phase, several companies and institutions in Argentina, Costa Rica, El Salvador, Guatemala, Nicaragua, Panama and Peru showed interest in participating in the multimodal centre. It would include refrigeration and logistics facilities for vegetables, legumes and fruits exported to the United States and Europe. It is important that the country moves forward with this project which would link the logistics and agricultural sectors by creating favourable conditions for investment with cutting edge technology in Panamanian agriculture. In the same line, it is important to determine how to move forward with cold chain services and linking them with logistics facilities.

The incorporation of new technology is critical to increase production and export capacity with higher productivity levels and to seek intensive agriculture, whenever appropriate. This should go hand-in-hand with efforts to train and adapt producers and to certify production processes and sanitary processes in compliance with international measures. This can also include organic, sustainable food and origin certifications. It should also be aligned with possible initiatives to develop non-traditional exports of agricultural products, as was previously done with pineapple. Other innovative exports could revolve around flavoured sugarcane and coloured peppers, as appropriate. These policies are highly relevant to penetrate export markets and should be pursued coherently with trade policy in order to guarantee access to such markets. Access to credit needs to be improved and, therefore, financial inclusion policies should be put in place within a policy mix that also seeks the stability, security and competitiveness of the financial services sector in the country.

Networks of agricultural producers can be instrumental to generate scale, for example in pooling resources and production capacity. This has the potential to facilitate access to credit, to achieve more efficient distribution and marketing and to optimally pursue training, certification, technology improvement and research initiatives. Such networks need to be catalysed and strengthened by both the public and private sector, including professional and business associations.

Public action is required to implement land management policies, including watershed management and soil management aimed towards providing efficient, productive and sustainable use of natural resources. This may require strategies such as changing seeds and items produced according to the potential of the natural resource. Creating an updated agricultural and forestry information system would support these strategies. A decentralised component of this land and water management can be considered when it allows specific local challenges to be effectively addressed.

Reform of public institutions into a coherent framework is necessary to support the agricultural sector. This is aimed towards territorial inclusion, increased production and export capacity. This

reform should include simplifying processes and reducing bureaucracy. Most importantly, a coherent policy and regulatory framework requires institutional coordination, not only between institutions directly linked to the agricultural sector, but also between these and institutions from other policy areas such as trade, infrastructure and industrial development.

This set of initiatives aims to create a virtuous cycle of increased productivity, less dependence on subsidies, investment attraction, improved supply capacity, more exports and a more inclusive territory. This would reduce incentives for rural exodus, mostly from younger generations that seek job opportunities in the cities particularly when faced with no alternatives. Still, great importance should be placed on the implementation of such initiatives. The agricultural sector should have a fundable action plan for each productive category to increase productivity on farms, involving the participation of producers in the main producing regions. The action plan should consider two elements with different characteristics: the items for export and the items for the domestic market. In both areas, technology transfer programmes and partnerships should be contemplated. The farmers who produce to survive should be integrated into the market gradually through other types of actions that require educational and health coverage and investment in infrastructure for access to regional markets.

The definition and implementation of such action plans should take into account several criteria such as costs, time for implementation and the potential impact in strengthening the sector. For example, transport infrastructure for the distribution of agricultural products may have a very important potential impact in the sector and it may require significant investment and time to implement. Reducing bureaucracy can have a lower potential impact and it may require less investment and time to implement (see figure 31). This implementation assessment requires specific analyses.

B. FISHERIES

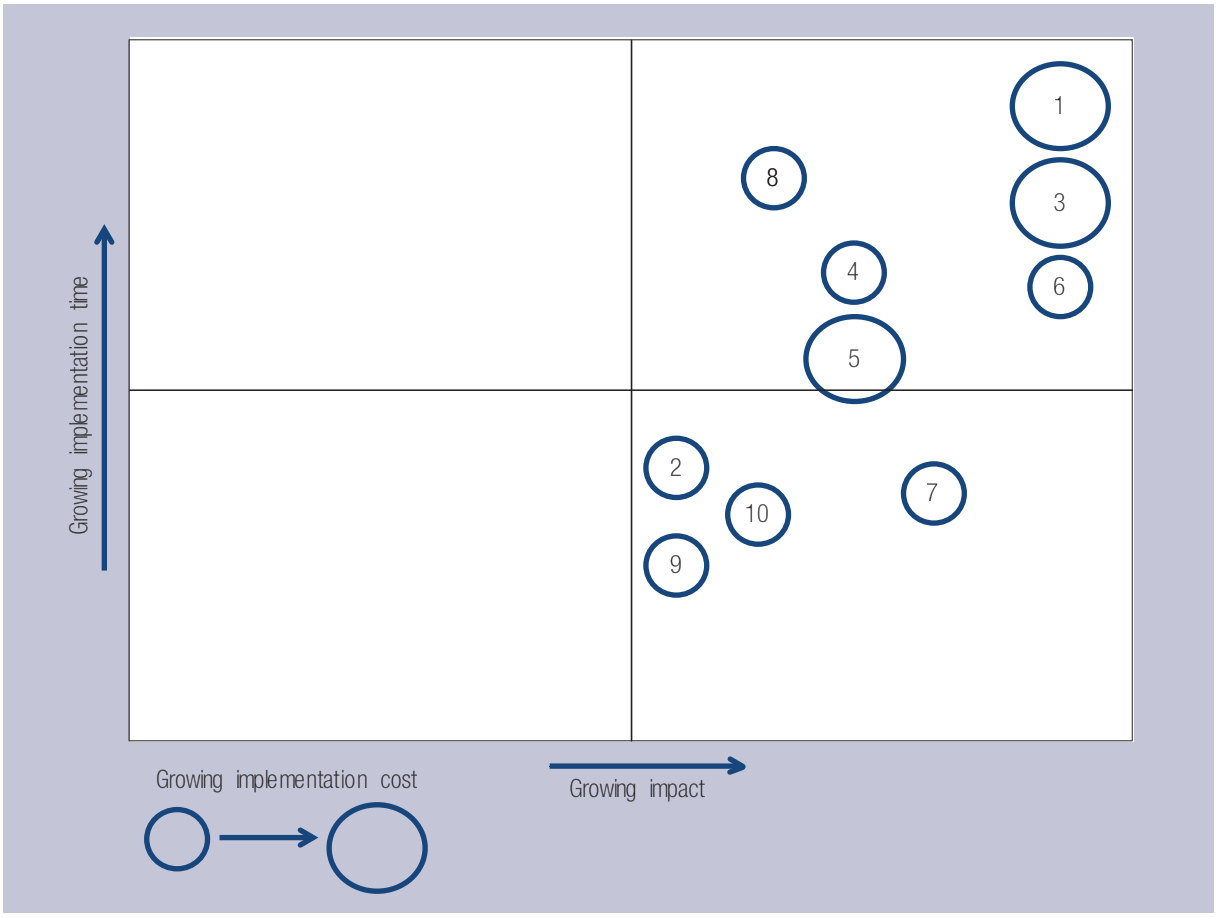
The performance of the sector is intimately related to foreign markets and trade policy is therefore very important for the competitiveness of the sector. Demand from international markets is required to provide scale to production in the Panamanian fishing industry. In addition, international trade has the potential to lower the costs of some inputs required by the sector, such as technology for industrial fishing. In this regard, trade negotiations should aim to expand the number of preferential tariff lines in new or already existing trade agreements. The effectiveness of these trade policy initiatives is subject to prior consultation between national authorities responsible for negotiating and administering international trade agreements, and stakeholders from Panama's export-oriented fishing sector. Rules of origin that recognise Panamanian origin in what is fished in international waters by vessels with flag from Panama are beneficial for the country and should be sought in upcoming trade negotiations.

Market intelligence and trade promotion initiatives are also necessary, including on generating information for all subsectors on what are the most profitable and most demanded product categories. This could include awareness-building initiatives in the country, regarding the importance of consuming national products and the nutritional and human health benefits related to the consumption of fish and other marine species. This needs to be supported by effective commercialisation processes, as detailed in the analysis of logistics services. Most notably, fisheries and logistics activities must be integrated, contemplating in their action plans the construction of the infrastructure deemed necessary by producers, such as docks and storage facilities with cold chain management. More competition in logistics and intermediary services would contribute to more options with reduced costs for producers and to more efficient value chains. Moreover, the single window for exporters should attend to the specific needs of the sector by including ARAP and the Ministry of Environment, and the possibility to efficiently obtain the health certificates that are required by some export markets.

As in the agricultural sector, it is important to pursue structural transformation that facilitates the desired diversification and upgrading strategies for fisheries. This needs to be backed up by a policy mix that includes trade and industrial policies that build supply capacity oriented to meet the envisaged diversification and upgrading. In this context, it is important to pursue a continuous and consistent supply in accordance with international standards. With regards to artisanal fisheries, the particular needs of fishermen must be identified – according to the specificities of the geographical area in which they operate – and the proposal to create special areas for artisanal fisheries must be evaluated.

Research and best practices should be promoted in the sector, for example to foster the diversification and upgrading of fishery products, considering the

Figure 31. Mapping of initiatives for strengthening the agricultural sector in Panama



Source: UNCTAD.
Note: 1 - research, development and technology; 2 - education; 3 - transport infrastructure; 4 - networks; 5 - access to credit; 6 - logistics services; 7 - trade negotiations and promotion; 8 - land and resource planning; 9 - business facilitation; 10 - institutional strengthening and coordination. The determination of the relative impacts, costs and implementation times requires specific analyses. This figure is presented as an illustration of a possible outcome and does not replace the need to conduct such analyses.

potential of aquaculture and mariculture options. The open blue cobia could be an example of an innovative and sustainable mariculture product with export potential. This requires a feasibility evaluation of laboratories that can support the development of fisheries through research and the testing needed for certification in line with international standards. The training of fishermen is also an important feature. This training should focus not only on technical skills but also on raising awareness of the importance of foreign markets and their requirements.

These strategies are greatly favoured by the existence of networks of producers and by the coordination of public and private sector and the academia. It is thus essential to promote partnerships, which requires well-designed technical assistance programmes that take into account successful regional experiences and encourage actors to work as a conglomerate in order to obtain greater economic benefit. Clusters should be based in each region and should include academia and possible research centres and fishery development laboratories. The contribution of regional cooperation and private entities operating at the regional level is also important.

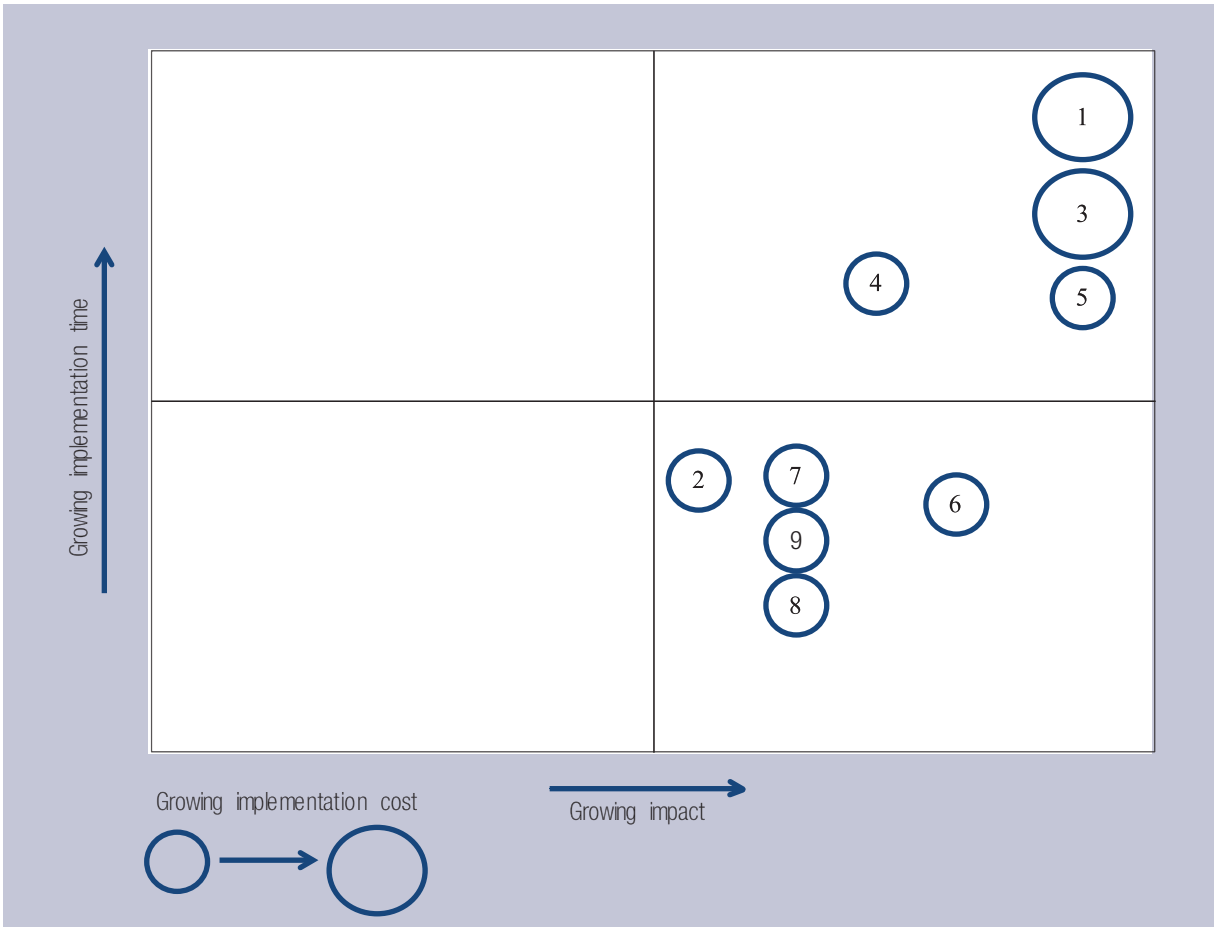
Panama's fisheries sector needs to be restructured and requires a master plan to guide the actions of different entities to achieve the full development of its potential while recognising the specificities of different fisheries activities. The development of a modern and coherent regulatory framework for the fisheries sector is a necessary condition. A participatory process is needed to ensure that the private sector supports

fishing activities that are sustainable – responsible fishing – and with higher value added. This regulatory framework should include a National Aquaculture Plan, possibly with options for genetic improvement in several of its items. Rules to ensure sustainable fishing are required not only to promote the marine environment but also for economic reasons.

The institutional framework of the sector should be strengthened so that public services can be provided more efficiently with a view to developing fishing production and export capacity, while fighting illegal fishing at the same time. Reports of fishing activities need to be improved and SIERAC's implementation and performance need to be monitored and evaluated. Export subsidies are prohibited by Panama's at the WTO and former tax incentive programmes have been therefore eliminated. It is still possible, however, to support the sector through programmes and projects that are not limited to domestic producers, through training and capacity-building in fishing and aquaculture.

As mentioned in regard to the agricultural sector, the definition and implementation of action plans for the development of the fisheries sector should take into account several criteria such as costs, time for implementation and the potential impact in strengthening the sector. For instance, transport infrastructure for the distribution of fish products may have a very important impact in the sector and require significant investment and time to implement. Education initiatives have a lower potential direct impact and may require less investment and time to implement (see figure 32). This implementation assessment requires specific analyses.

Figure 32. Mapping of initiatives for strengthening the fisheries sector in Panama



Source: UNCTAD.
Note: 1 - research, development and technology; 2 - education; 3 - transport infrastructure; 4 - networks; 5 - logistics services; 6 - trade negotiations and promotion; 7 - sustainable fishing; 8 - legal and regulatory framework; 9 - institutional strengthening and coordination. The determination of the relative impacts, costs and implementation times requires specific analyses.

C. INDUSTRY AND AGRIBUSINESS

International trade can play a key role in allowing industrial and agribusiness producers to access cheaper and better inputs. Trade policy once allowed imported raw materials at 3 per cent tariff. Trade policy design needs to have a sound regulatory framework established as a precondition to ensure a competitive environment and fulfilment of public policy objectives. In this regard, efforts to build industrial competitiveness should build on the network of FTAs to gain market access and to fully use export promotion and market intelligence to gain penetration. The latter is particularly relevant when it comes to identifying trade opportunities and understanding transport and financing conditions. Trade policy should also facilitate integration into regional value chains, an important goal because it facilitates diversification of export destinations and provides more opportunities for upgrading.

Ensuring industrial competitiveness also requires the adoption of a strategy for the structural transformation of the sector through diversifying productive activities. Taking advantage of business opportunities from a subnational perspective should be a component of this strategy, requiring inter-institutional cooperation in close coordination with the private sector. The promotion of public conglomerates that integrate public activities with the private sector and academia are factors that play an important role in this strategy. The government should consider supporting the establishment and operation of competitiveness centres that, from a territorial perspective, promote the integrated efforts of different actors. This can be especially relevant in agribusiness as the subsector's performance relies on the strengthening of backward and forward linkages with providers and consumers.

In fact, both in the industrial sector and in the agribusiness subsector, the promotion of networks and associativity – perhaps building on the existing geographic distribution – is critical for producers to gain scale, optimise distribution and access to technology and be able to attract more investment. The associativity of producers and public-private partnerships are particularly needed to improve the education and training of human resources. There is an identified need to improve management and production skills, including in inventory management and administrative and financial organisation.

The improvement of transport infrastructure and services is essential for the effective distribution of products. This requires urgent action as there currently is a high degree of inefficiency in internal transport systems and infrastructure, affecting the connections between producers and consumers. An action plan should be developed that integrates several required infrastructure services, such as transport and communications, energy supply, environmental services and logistics. In the particular case of agribusiness, the improvement of irrigation systems and cold chains is needed to allow a stronger linking of the productive activities to markets, processing zones, special areas and others. This is also very relevant to helping reduce the equality gap in the territory.

A legal and regulatory framework – consistent with policies for the sector and for other sectors – should be adopted in the industrial sector and in the agribusiness subsector. It should provide stability and predictability for investors, producers and consumers, and it should be defined through a participatory process involving the private sector and society as a whole. Policies and regulations should promote business facilitation and the reduction of bureaucracy. The objective of achieving a single window for industrial processes should remain a priority.

Institutional reforms must aim to attain greater efficiency in the public services necessary for the development of the sector's capacities. This includes the strengthening of public sector institutions that promote commercialisation, export promotion and investment attraction. It also requires coordination between institutions, including at national and subnational level, to address issues that go beyond the sphere of a single institution.

Incentives and support programmes – not limited to domestic producers – are highly important to promote competitiveness and exports and attract investment. This sort of assistance is also relevant for the establishment of industries outside of the interoceanic area. This should be encouraged to strengthen local industrial areas and to economically revitalise the west and east of the country. This will generate a demand for locally produced supplies with quality specifications and may promote technology transfer.

These policy proposals can be categorised into several policy areas so they can be mapped in accordance with several implementation criteria, including costs, time and potential impact. Such a visualisation could be helpful when moving from policy recommendations to the implementation of policy actions. For example, investments in infrastructure such as irrigation systems or roads have a very high impact but also require

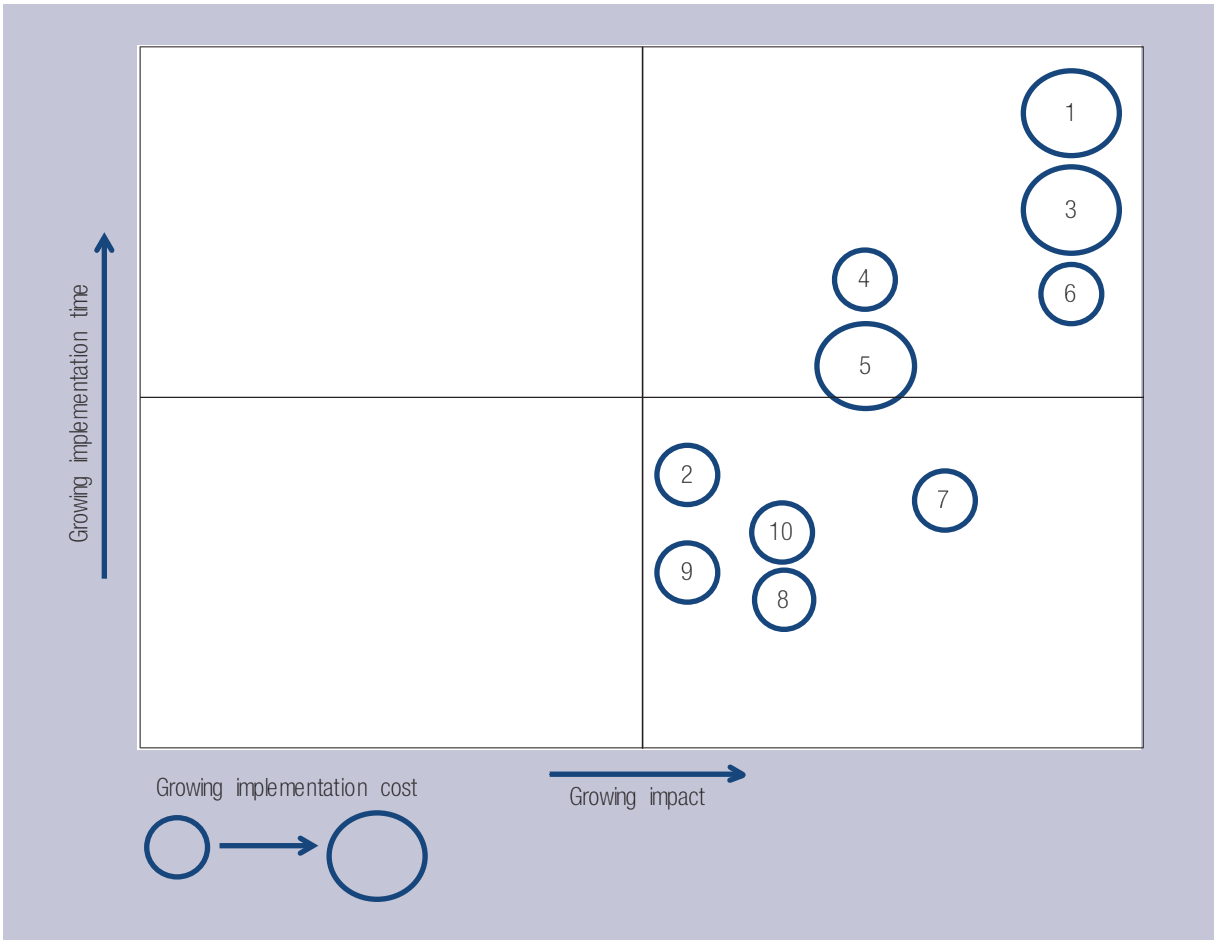
significant investment and time. Trade promotion and market intelligence efforts require lower investments and time and also reveal a meaningful potential impact (see figure 33).

D. LOGISTICS SERVICES

The network of trade agreements to which Panama is a party is important not only to gain market access but also to promote transparent and non-discriminatory procedures that promote investment, technology transfer and the provision of services that are necessary to improve supply capacity and the competitiveness of logistics services. This axis of trade policy should continue to be pursued, provided that coherence with national regulatory frameworks is ensured, in particular allowing for the policy space required by Panama to develop national policies in favour of the development of key economic sectors.

The priority road map for the logistics sector, recently agreed by the government in the Logistics Cabinet with the consultation of the private sector, can be important to provide a long-term perspective to further develop these services, including in the western region. It is therefore critical to advance with the implementation of the actions envisaged in the road map, in its regulatory, institutional and infrastructure components, with the support of international financial institutions whenever required.

Figure 33. Mapping of initiatives for strengthening the industrial sector, including the agribusiness subsector, in Panama



Source: UNCTAD.
Note: 1 - research, development and technology; 2 - education and training; 3 - transport infrastructure; 4 - networks; 5 - incentives and support programmes; 6 - logistics services; 7 - trade negotiations and promotion; 8 - legal and regulatory framework; 9 - business facilitation; 10 - institutional strengthening and coordination. The determination of the relative impacts, costs and implementation times requires specific analyses. This figure is presented as an illustration of a possible outcome and does not replace the need to conduct such analyses.This figure is presented as an illustration of a possible outcome and does not replace the need to conduct such analyses.

A clear and comprehensive national logistics legal framework is required to put an end to existing scattered rules and legal gaps. Laws ensuring legal certainty and competitive market structure will help to improve the business climate and to attract foreign investment to generate more domestic value added. It is also necessary to adopt and start implementing the national logistics strategy, framed within a strategy of national diversification and upgrading of logistics services that seeks the competitive development of the sector and its contribution to the development of other economic sectors. Many advances regarding the design of such a strategy and the changes required in the legal framework have been agreed with the private sector. In institutional matters, it is necessary to ensure effective coordination between state agencies and continued communication between public and private actors, including at the national and subnational level, for example, the coordination of national and local transport organisations. The level of service in the logistics sector would benefit from swifter migratory procedures and round-the-clock operations in ports and auxiliary services, provided it does not contribute to a decrease in labour standards.

The country needs to strengthen the logistics cluster with support services. On the one hand, this means it is important to keep improving existing services, for example, by promoting faster and more efficient transhipment operations to cope with larger ships. On the other hand, it is important not only to meet demand but also to seize the opportunity to increase the value added of logistics services. This requires a development plan to address capacity constraints – namely in local traffic, improving logistics infrastructure and providing more space for rent to specialised operators. Upgrading objectives are dependent not only on the capacity to attract foreign investment, but also on the recognition of the central role of innovation and technology for the development of higher value-added services.

In terms of infrastructure, interinstitutional coordination is essential for the management of investments, initiatives and projects, especially in the canal area. To this effect, it is expected that the Master Plan for the Interoceanic Zone carried out by ACP will proceed quickly. This will allow investors to have a clear framework for long-term investments and the government will be able to encourage the development of higher value-added logistics services in the country. Infrastructure development should address, *inter alia*, capacity constraints in rail services, accessibility and connectivity problems between different logistics assets in the interoceanic area derived from congestions in the road network, most notably between ZLC and its neighbouring ports and train station. Modernising port terminals and, in some cases, increasing the network of international ports could be evaluated, especially if additional capacity is required to follow the canal expansion.

Transport and logistics services need to fulfil their role in connecting products from Panama, including from small local producers, to regional and international markets. In this regard, it is critical to improve the effectiveness of transport and logistics infrastructure that links producers throughout the country to regional markets and to the already existent world class and export-oriented cluster of transport and logistics services. Specific analyses are required to ascertain where road infrastructure or short sea shipping are the preferable options. It could be productive, for example, to move cargo along the Atlantic Coast from Chiriqui to Colón and Manzanillo, and along the Pacific Coast from Puerto Armuelles to the port of Balboa. In any case, high performance transport and logistics services within the country are central to reducing trade costs and gaining supply and export capacity. Specific constraints on free zones and load areas also need to be identified and addressed.

Even if it is not feasible to have redundancy in the transport infrastructure, the use of such infrastructure should allow whenever possible for competitive provision of transport and logistics services. This is necessary to facilitate effectiveness and cost reduction in these services. Logistics services also need to be supported by other efficient and effective infrastructure services, beyond transport infrastructure. In this regard, although there is adequate availability of telecommunication and financial services, there is an insufficient level of ICT services which needs to be addressed.

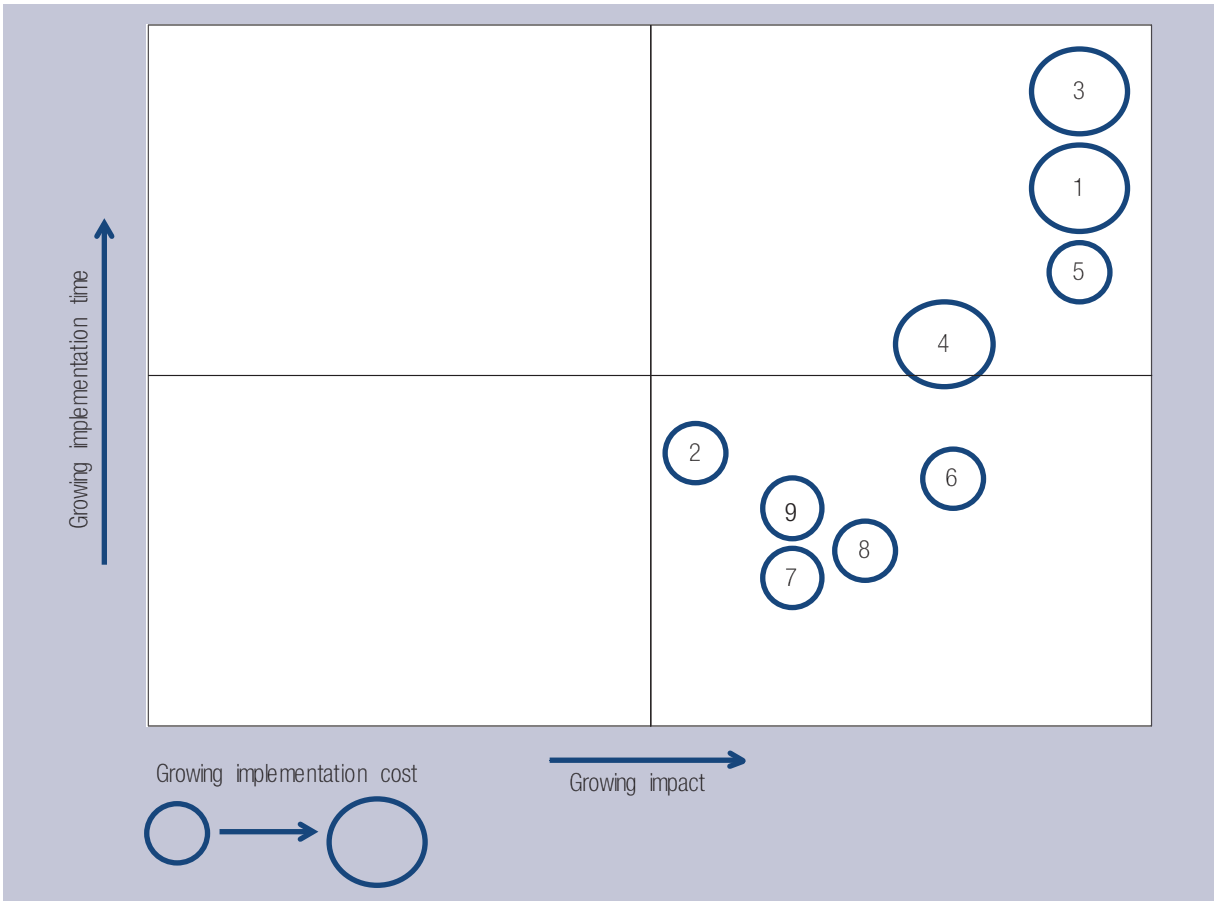
Greater administrative efficiency in custom processes is needed. The integration and automation of customs systems, information and documentation is necessary. This would benefit from the harmonisation of procedures and information systems-related operations. Similarly, it is important to expeditiously align the national regulatory framework with regional regulatory frameworks, CAUCA and RECAUCA, preferably in a single and clear legal text. This may allow repetition of processes at both sides of border crossings, as was identified in Paso Canoas, to be avoided. Inspections should also be improved, namely by improving facilities and investing in non-intrusive equipment. Initiatives such as AEO and due diligence are necessary in order for the country to continue to adopt international best practices in this field, favouring security and

trade facilitation. Similarly, the integration of customs processes with other government procedures, such as AMP, AUPSA and MIDA procedures, will contribute to trade facilitation. The implementation of a physical and electronic single window, incorporating different institutions, can play an important role in simplifying international trade procedures and in reducing time and costs for exporters.

The initiatives aimed at improving human resources through technical, professional and vocational training should be increased in order for the investments needed by the sector to materialise without obstacles. Companies in the logistics sector have indicated that they experience an acute shortage of skilled and technical labour and suggested a logistics school. A comprehensive work plan for developing a human resources training system for logistics activities at a national level should be formulated and implemented, ensuring that the training offered meets the needs of the private sector and contributes to the potential to upgrade towards higher productivity activities. The plan must also consider the integration of the private sector when developing the training package, especially the most important element which is work experience, or internships, so participants can gain real experience in companies where they will eventually work.

Strengthening logistics services is important for Panama, not only because of the intrinsic importance of the sector, but also because it provides crucial inputs for many economic activities, including agriculture, fisheries, agribusiness and industrial activities. Most notably, logistics services allow access to domestic, regional and international markets and will therefore enable export-oriented foreign investment. As for the previous sectors, a possible mapping of initiatives for strengthening transport and logistics services is presented in figure 34.

Figure 34. Mapping of initiatives for strengthening the transport and logistics subsector, in Panama



Source: UNCTAD.
Note: 1 - technology for value-added transport and logistics; 2 - education and training; 3 - internal and export-oriented transport infrastructure; 4 - investment financing frameworks; 5 - value-added logistics services; 6 - trade negotiations and promotion; 7 - legal and regulatory framework; 8 - business facilitation, including customs procedures; 9 - institutional strengthening and coordination. The determination of the relative impacts, costs and implementation times requires specific analyses. This figure is presented as an illustration of a possible outcome and does not replace the need to conduct such analyses.

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17 Dinero.com exclusive interview with the engineer Jorge Quijano, ACP Administrator: "By 2025 we expect to be close to US$4,000 million in revenues compared to the US$2,400 million we have right now". Also according to the ACP Administrator, this is a historic opportunity to reduce poverty and inequality. This view is also shared by the World Bank. See: http://www.bancomundial.org/es/country/panama/overview

18 2015-2019 Government Strategic Plan.

19 See: http://www.cepal.org/sites/default/files/pr/files/tabla-pib-actualizacion_proyecciones_oct2015.pdf

20 According to VICOMEX: "Another sector that offers great alternatives to foreign investment is the mining sector. Panama has a strong potential for the development of this sector, which is demonstrated by its historical gold production, world-class mineral deposits, a very favourable geological environment for new gold, copper and manganese deposits; all of which has aroused the interest of the international mining community in investing in Panama. World-class copper porphyry deposits have been found in Cerro Colorado and Petaquilla, which puts us on the threshold of being a producer with some importance."

21 In 1904, the dollar was declared the legal currency in Panama.

22 Superintendency of Banks, October 2015.

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[44] Panama filed this measure under the WTO Dispute Solution Panel, which considered the measure not consistent with global trade rules in November 2015; Colombia intends to appeal.

[45] Panama Logistics Business Council (COEL).

[46] The analysis in the Exports section does not include trade from the ZLC to the rest of the world. Nonetheless, sales (exports) from Panamanian customs territory to the ZLC and other Panamanian free zones and purchases (imports) from the ZLC and other Panamanian free zones entering Panamanian customs territory, are included.

[47] This indicator shows how many products represent five different shares of the trade flows for the country. This is calculated based on exports at the subheading level of the Harmonised System.

[48] The HHI is computed as the sum of squared shares of each product (market) in total export. A country with a perfectly diversified export portfolio in terms of products will have an index close to zero, whereas a country with only one export product will have a value of 1.

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ANNEX: Participants in the workshops organised in Panama in the context of UNCTAD's Panama Trade Policy Framework

A. NATIONAL WORKSHOP, 27–28 OCTOBER 2015

Asociación de Productores, Procesadores y Exportadores de Productos del Mar (APPEXMAR)
– Valerio D'Sanctis, President

Asociación Panameña de Exportadores (APEX)
– Victor Cruz, Adviser

Autoridad de los Recursos Acuáticos de Panamá (ARAP)
– Carlos La Casa, Departamento Vigilancia y Control, Dirección General de Inspección, Vigilancia y Control
– Yazmín Modestín
– Saríbel Guevara, Sociologist, Oficina de Relaciones Públicas

Autoridad del Canal de Panamá (ACP)
– Onésimo V. Sánchez, Senior Analyst and Unit Leader, Vicepresidencia Ejecutiva de Planificación y Desarrollo Comercial
– Eddie Tapiero, Competitive Intelligence Specialist

Autoridad Nacional de Aduanas (ANA)
– Francisco Cebamanos, Oficina Negociadora

Autoridad Panameña de Seguridad de Alimentos (AUPSA)
– Yuri Huerta Vásquez, General Administrator
– Daris Díaz, Chief, Oficina Institucional de Recursos Humanos

Cámara de Comercio, Industrias y Agricultura de Panamá (CCIAP)
– Manuel Ferreira, Economic Director, Centro de Estudios Económicos

Consejo Empresarial Logístico (COEL)
– Daniel Isaza Valdés, President

International Trade Advisory Services (ITAS)
– Leroy Sheffer, Lawyer

Ministerio de Comercio e Industrias (MICI)
– Diana A. Salazar, Vice Minister of International Trade Negotiations
– Manuel Grimaldo, Vice Minister of Domestic Trade and Industry
– Leyda Aparicio, General Director of Export Promotion
– Ana Raquel Henríquez, Export Promoter
– Diana Toala, Adviser
– Diunayquis Lara, Export Promoter
– Lirieth Aguilar, Economist
– Sharizeyda Saavedra, Export Promoter
– Marisela González, Director, Agencia para la Atracción de las Inversiones y Promoción de las Exportaciones
– Enrique Ruíz, Investment Promoter
– Luis H. Garrido, National Director, International Trade Negotaitions
– Jaeljattin Jaén, Technical Adviser

Ministerio de Desarrollo Agropecuario (MIDA)
– Jorge Ulloa, Secretary-General
– Ubaldo Núñez, Trade Policy Technician
– Ivania López, Trade Policy Technician
– Daniel Delgado, Unidad de Programación, Dirección Nacional de Asistencia Pecuaria
– Angel De La Cruz, Agronomist Engineer
– Villar

Ministerio de la Presidencia
– Ana M. Reyes, Coordinator, Gabinete Logístico

Ministerio de Relaciones Exteriores (MIRE)
– Aquilino P. Villamonte Ramos, Ministro Consejero, Dirección General de Relaciones Económicas Internacionales

Proyectos Inteligentes
– Luisa Turolla, President

Secretaría Nacional de Ciencia, Tecnología e Innovación (SENACYT)
– Victor Sánchez Urrutia, Director de Innovación Empresarial,

J.F.K. Kennedy School of Government, Harvard University
– Craig VanGrasstek, Professor

Economic Commission for Latin America and the Caribbean (ECLAC)
– Rodolfo Minzer, Economic Affairs Officer, Economic Development Unit

Instituto Interamericano de Cooperación para la Agricultura (IICA)
– Juana Galván, Regional Expert in Trade Policy and Negotiations

Inter-American Development Bank
– Jennifer Linares

United Nations Conference on Trade and Development (UNCTAD)
– Taisuke Ito and Bruno Antunes, Economic Affairs Officers, Trade Negotiations and Commercial Diplomacy Branch, Divisional on International Trade in Goods and Services, and Commodities

B. NATIONAL WORKSHOP, 21–22 SEPTEMBER 2016

Agrotropical sostenible
- José Victor González, Empresario

Asociación Panameña de Exportadores (APEX)
- Zabrina Reyes

Autoridad de los Recursos Acuáticos de Panamá (ARAP)
- Karen García, Head of Auditing

International Trade Advisory Services (ITAS)
- Leroy Sheffer, Lawyer

Ministerio de Comercio e Industrias (MICI)
- Néstor González, Vice Minister of Foreign Trade
- Jorge Suarez, National Director of Export Promotion
- Leyda Aparicio, General Director of Export Promotion
- Diana Toala, Adviser
- Diunayquis Lara, Export Promoter
- Lirieth Aguilar, Economist
- Sharizeyda Saavedra, Export Promoter
- Adolfo, Single Window on Foreign Trade
- Keila Duguid, Foreign Trade Analyst
- Jesus Guevara, Head of the Industrial Development and Promotion Department
- Bruno de Gracia, Head of the Studies and Programmes Department
- Ana Gloria, Head of Training

Ministerio de Desarrollo Agropecuario (MIDA)
- Ubaldo Núñez, Trade Policy Technician
- Ivania López, Trade Policy Technician
- Daniel Delgado, Unidad de Programación, Dirección Nacional de Asistencia Pecuaria
- Angel De La Cruz, Agronomist Engineer

Ministerio de Salud (MINSA)
- Anarella Jaen, Director of Food Protection

Ministerio de Relaciones Exteriores (MIRE)
- Aquilino P. Villamonte Ramos, Ministro Consejero, Dirección General de Relaciones Económicas Internacionales

Proyectos Inteligentes
- Luisa Turolla, President

Sindicato de Industriales de Panamá (SIP)
- Zira Berumen, President
- Juan Visencini, Adviser in Charge

Instituto Interamericano de Cooperación para la Agricultura (IICA)
- Juana Galván, Regional Expert in Trade Policy and Negotiations

United Nations Conference on Trade and Development (UNCTAD)
- Taisuke Ito and Bruno Antunes, Economic Affairs Officers, Trade Negotiations and Commercial Diplomacy Branch, Divisional on International Trade in Goods and Services, and Commodities

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