

Why Panama?

Summary

Area: 75,517 km²

Population: 4.16 million

Urban population: 67.7%

Population density: 56.186 people per km²

Population growth rate: 1.443% change

Capital city: Panama City

Official language: Spanish

Currency: United States Dollar, Panamanian Balboa

Nominal GDP: US \$65.1 billion

Real annual GDP growth: 3.7%

GDP per capita: US \$15,642.8

Annual inflation rate: 0.8%

Unemployment rate: 6%

General government gross debt: 39.5% of GDP

Fiscal balance: -2% of GDP

Current account balance: US \$-5.1 billion/-7.8 of GDP

Exports of goods to UK: £27 million

Exports of services to UK: £47 million

Imports of goods from UK: £173 million

Imports of services from UK: £98 million

[Source – FCO Economics Unit (March 2020), FCO: Overseas Business Risk]

Panama lies on the narrow land bridge which divides North America and South America. Panama borders the Caribbean Sea to the north and the Pacific Ocean to the south. The Republic of Columbia lies to the east of the country, with the Republic of Costa Rica to the west.

The area of Panama is 75,517 km² and the population is estimated to be around 4.2 million. Panama City is the largest city in Panama, with a population of around 1 million, and is situated at the Pacific end of the Panama Canal. At the Caribbean end of the Panama Canal lies Colon, the site of the world's second-largest free zone, as well as the city of David, the capital city in the province of Chiriquí, known for its farming.

Contact a DIT Export Adviser at: <https://www.great.gov.uk/contact/triage/location/> for a free consultation if you are interested in exporting to Panama.

Contact UK Export Finance (UKEF) about trade finance and insurance cover for UK companies. You can also check the current UKEF cover position for Panama. See: <https://www.gov.uk/guidance/country-cover-policy-and-indicators#panama>.

[Source – Overseas Business Risk: Panama, DIT Trade and Export guide: Panama, UKEF, gov.uk]

Geography

Panama, also known as the Republic of Panama, is a country in Central America that lies on the Isthmus of Panama. The Isthmus of Panama is the land between Columbia and Costa Rica, stretching for roughly 400 miles east to west.

The country is an elongated s-shape, with coastline to the north and south. The Caribbean coastline stretches roughly 800 miles, whilst the Pacific coastline stretches 1,060 miles.

The climate in Panama differs; rain can fall up to twice as much on the Caribbean Tabasará Mountains than on the Pacific Slopes. Areas closer to the Caribbean Sea see rainfall throughout the year, whereas areas closer to the Pacific Ocean will see a seasonal variation in rainfall. Areas closer to the Columbian border will also experience rainfall throughout the year.

Due to the tropical location of Panama, the temperature rarely drops below 26°C, and, due to the Panamanian Slopes, the country is divided into three climate zones. These zones are the low, hot zone; the temperate zone and the small, cold zone, each containing plants, crops and animals adapted to the differing environments.

Panama, although small in regards to area, has a number of differing landscapes. These include: tropical rainforests, savannahs, montane forests, tidal lands, coral reefs, and beaches.



Government

Panama has a presidential democracy, which has both a National Assembly and an independent judiciary. The country returned to democracy in 1989, and since then, the Electoral Tribunal has delivered five consecutive general elections successfully.

The previous president was Juan Carlos Varela, who was elected in 2014. He was elected in a coalition between his own party — the centre-right Partido Panamenista (Panameñista Party) — and the centre-left Partido Popular (People's Party).

Working alongside the centre-left Partido Revolucionario Democrático (Democratic Revolutionary Party), Varela's Government managed to work successfully within the National Assembly, although their party alone lacked a majority.

Varela's presidency came to an end in July 2019 and he was succeeded by Laurentino Cortizo from the Democratic Revolutionary Party.

The constitution in Panama can be dated back to 1972. There have been a number of concerns regarding the amount of power the president holds. This excessive power has weakened other areas of the state, therefore institutions have become fragile. Evidence for this weakening is mainly shown in the judiciary, as it has been reported that the judiciary has been inefficient when dealing with scandals such as those to do with high-profile corruption.

[Source – FCO Overseas Business Risk: Panama, gov.uk]

Economic overview

Panama has been the fastest-growing economy within Latin America for the past ten years. Between 2001 and 2013, the average annual growth for Panama was more than double the regional average, at 7.2%. This lowered to 5.8% in 2015 and 5.4% in 2016, and over the last five years, the annual growth rate has averaged at 5.6% according to the World Bank.

[Source – World Bank: The World Bank in Panama]

Panama's nominal GDP is US \$65.1 billion according to the Foreign & Commonwealth Office in 2019. The success of Panama's economy is due to the Panama Canal, as well as its well-developed sectors such as shipping, banking, special economic areas and free zones. The success of these sectors and the Panama Canal has led to them accounting for 80% of Panama's GDP.

Public investment and practical macroeconomic policies have driven the recent high growth in Panama. Ambitious infrastructure strategies, such as the expansion of the Panama Canal, as well as the metro system, transport and social infrastructure, has led to the Panamanian Government investing around US \$40 billion over the last seven years.

Panama has created the right business environment for multinational companies to set up their regional headquarters and distribution centres. There are currently over 100 companies already set up in Panama, such as Diageo, GSK, Aggreko and Unilever.

Panama's fiscal policies have been praised by the IMF and are seen as a key factor in the country's strong economic performance. In October 2019, the country's annual inflation rate remained low, at 0.8% according to the FCO.

Due to improvements in public finances, tax reforms and the economy's resilience to the global financial crisis, Panama has been granted investment grade status by all of the three rating agencies (Moody's, Fitch, and Standard & Poor's).

For the majority of the population, Panama's economic performance has not translated into an increase of purchasing power. Unemployment and extreme poverty have been reduced significantly, though inequality is still an issue for the country. In contrast to the rapid development of the capital, Panama City, and the Panama Canal, the countryside has not seen the same developmental growth as Panama has neglected its agricultural and industrial sector.

Panama's economy is based on its service sector, which is unlike that of any other country in Central America. The service sector is one of the largest sectors in Panama and accounts for 80% of its overall gross domestic product (GDP).

As the leading recipient of foreign direct investment (FDI) in terms of percentage of GDP in Latin America, Panama's FDI was US \$6.578 billion in 2018 and 10.112% of the GDP.

There are many UK companies already operating in Panama, such as Aggreko, Biwater, Cable and Wireless, Diageo, GlaxoSmithKline, SabMiller, Solar Century and Unilever.

[Source – FCO Overseas Business Risk: Panama, FCO Economics Unit, The World Bank]

Strengths of the market

Strengths of the Panamanian market include:

- there are no foreign exchange controls and the country uses the US Dollar
- there are no restrictions on the transfer and repatriation of capital and profits
- there is legislation that guarantees juridical security and there are fiscal and tax incentives for investors
- despite the global downturn, Panama has not experienced any major difficulties or bailouts in regards to its economy
- Panama has record low inflation and sustained economic growth, giving the country economic stability
- the Panama Canal gives the country a strategic location on its major world shipping route
- the country is an air travel hub
- Panama has some of the best telecommunication connectivity in the world
- unemployment is low, at 6%

Growth potential

Between 2004 and 2013, the Panamanian economy grew at an average of 8.3%. Despite the global downturn in 2009, the economy continued to grow at 3.9%.

Panama's growth has been predicted to remain strong by experts, with its Fitch Ratings status now BBB. The country's Moody's Investors Service rating also increased to a Baa3 investment grade status. From 2015 to 2019, the Ministry of Finance and Economics predicted a 6% annual economic growth for the country.

There are several tax incentive schemes that the government offers in Panama. These incentives depend on the sector and commercial activity your company is involved with. If you require more information regarding these incentives, contact the DIT team in Panama

at: <https://www.gov.uk/world/organisations/department-for-international-trade-panama#contact-us>.

Trade agreement

In 1997, Panama became a member of the World Trade Organization (WTO). Panama is also a beneficiary to the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI), and is part of the European Union - Central America Association Agreement.

[Source – DIT Trade and Export guide: Panama, FCO Overseas Business Risk: Panama, gov.uk]

World rankings

In addition:

- In Transparency International's latest 2019 Corruption Perceptions Index (announced January 2020) Panama is ranked 101st out 180 countries (the UK ranks 12th): <https://www.transparency.org/country/PAN>
- Panama ranked 86th out of 190 countries in the World Bank's 2020 Ease of Doing Business Index (the UK ranks 8th): <https://www.doingbusiness.org/en/data/exploreeconomies/panama>
- The World Economic Forum's Global Competitiveness Report 2018-19 ranks Panama 64th out of 140 (the UK ranks 8th): <http://reports.weforum.org/global-competitiveness-report-2018/country-economy-profiles/#economy=PAN>
- Panama ranks 50th out of 180 countries in the Heritage Foundation's 2019 Index of Economic Freedom (the UK ranks 7th): <https://www.heritage.org/index/country/panama>

Business and human rights

Freedom of speech and press

In Panama, the constitution provides for the freedom of speech and press. There have been cases where journalists have complained about threats and harassment when covering stories revolving around or involving government officials.

Indigenous people

Panama's constitution has undertaken the responsibility of giving 'special attention' to indigenous people and guarantees that different ethnic identities get the respect they deserve. The constitution aims to help indigenous peoples participate in the economic, social and political areas of national life. In the 1990s, nine new indigenous comarcas were established to provide land necessary for indigenous people to achieve economic and social well-being.

Beyond primary school, the standards of education in the comarcas have been low. Indigenous people are also often discriminated against by employers, and in agricultural plantations, indigenous people are not granted basic rights by those who employ them.

There have been several conflicts, in recent years, between indigenous groups and the Panamanian Government regarding decisions and laws that affect indigenous land and autonomy. In 2016, the Ngabe Bugle and the Naso confronted the Panamanian Government regarding the setting up of hydroelectric plants on their territorial lands, such as the Chan 2 thermoelectric projects. This conflict also included protests against the issuing of the Barro Blanco Dam Project, which will flood 14 acres of indigenous lands.

These conflicts have been handled peacefully through negotiation and dialogue and without any physical confrontation.

Worker rights

Private sector workers have the right to form and join unions that are recognised by law, although there are concerns surrounding the lack of rights for workers in other strategic sectors of the economy to form unions. Public servants are also prohibited from forming unions, although they may form associations that can collectively bargain on their members' behalf.

By law, private workers have the right to strike, whereas public sector workers have only a limited right. If a worker is deemed to be in a sector that is vital to the welfare and security of the public, they are not allowed to strike.

The Panamanian Labour Law has been deemed over-protective of its workers. There are demanding requirements when a labour relationship is to be terminated, and there are a number of substantial penalties that favour the worker.

[Source – FCO Overseas Business Risk: Panama]

UK and Panama trade

With more than US \$43.3 billion holdings, the UK is Panama's second-largest investor. In 2019, exports of UK goods into Panama reached £173 million according to the Foreign & Commonwealth Organisation.

Colon Free Zone (CFZ)

The success of importing and exporting goods between the UK and Panama is due to the benefits of the Colon Free Zone (CFZ), the second-largest special economic zone in the world.

These benefits include the reduction or exemption of taxes on certain goods and services, its privileged geographical position, and the authorisation to allow any type of company to carry out business through the free zone, as well as a number of other benefits.

See: http://www.zolicol.gob.pa/index.php/en/por_que_la_zona_libre for more information on the benefits of the Colon Free Zone for UK companies who wish to do business in Panama.

[Source – FCO Economics Unit, DIT Trade and Export guide: Panama, The British Chamber of Commerce Panama, Colon Free Zone]

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[Source – UKEF, gov.uk]

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