

Center for International Development at Harvard University

Shifting gears in Panama: Policy recommendations for sustainable and inclusive growth

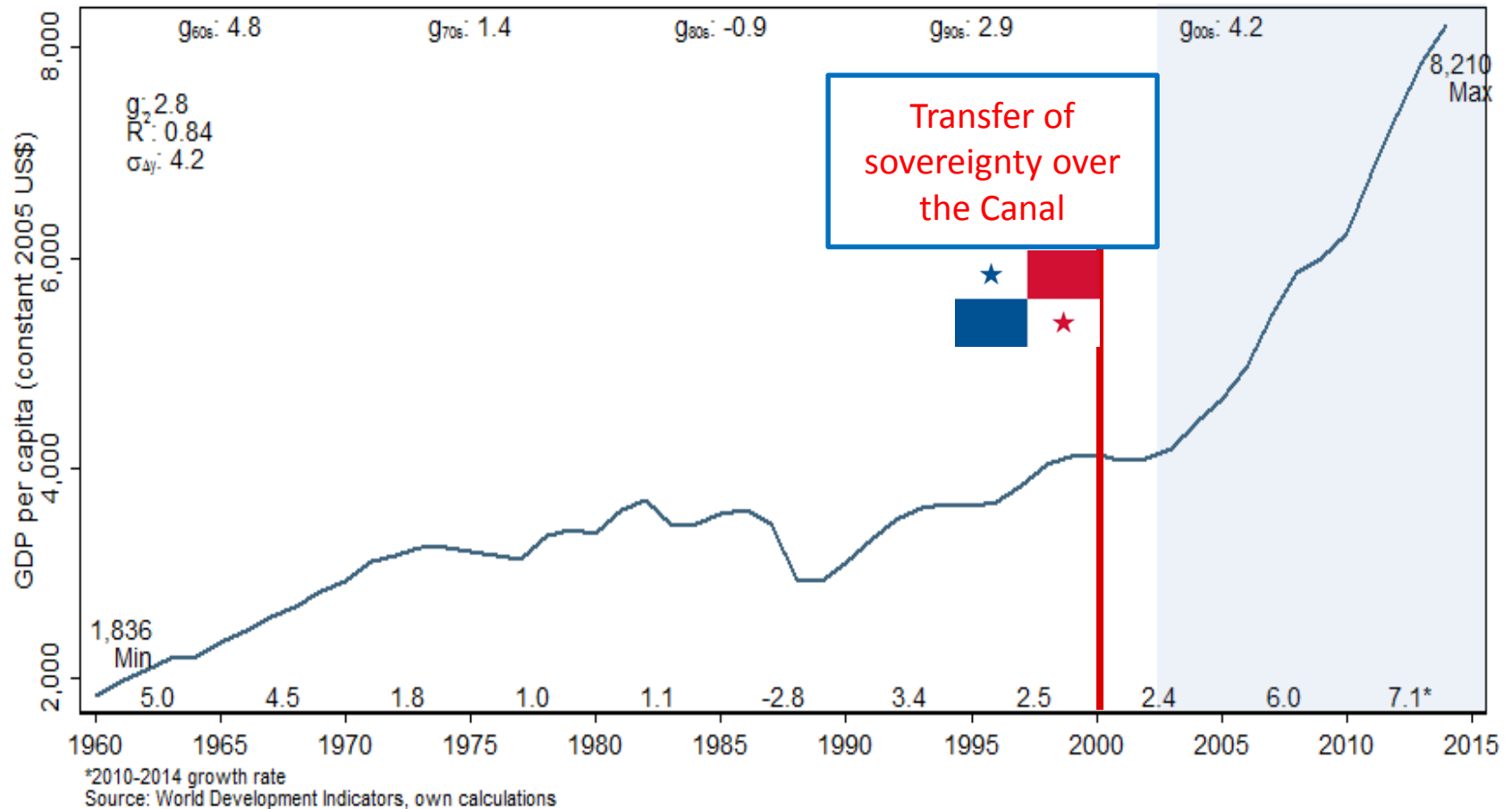
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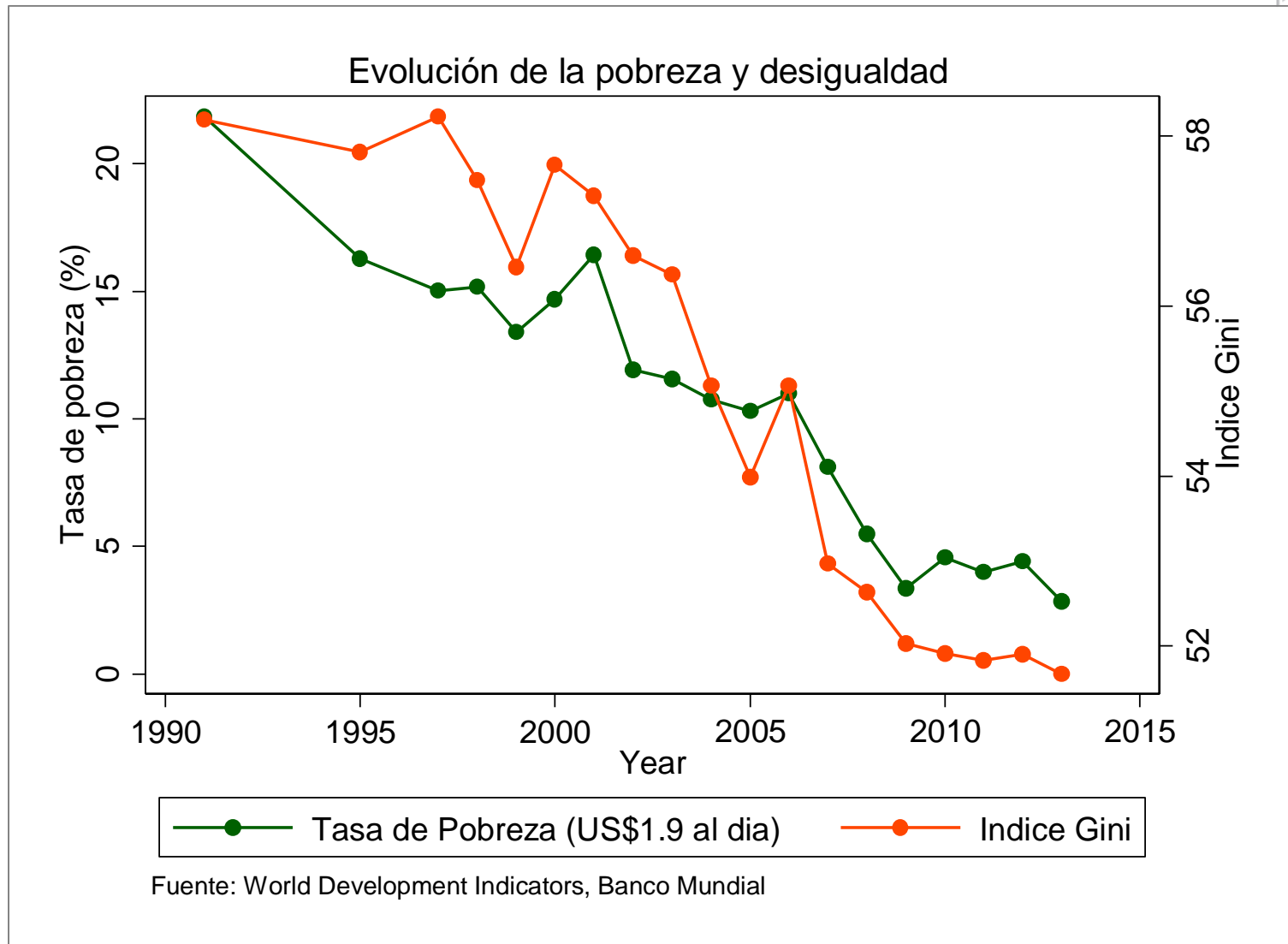


Panama: One of the top-ten fastest growing economies 2005-2015

Income per capita

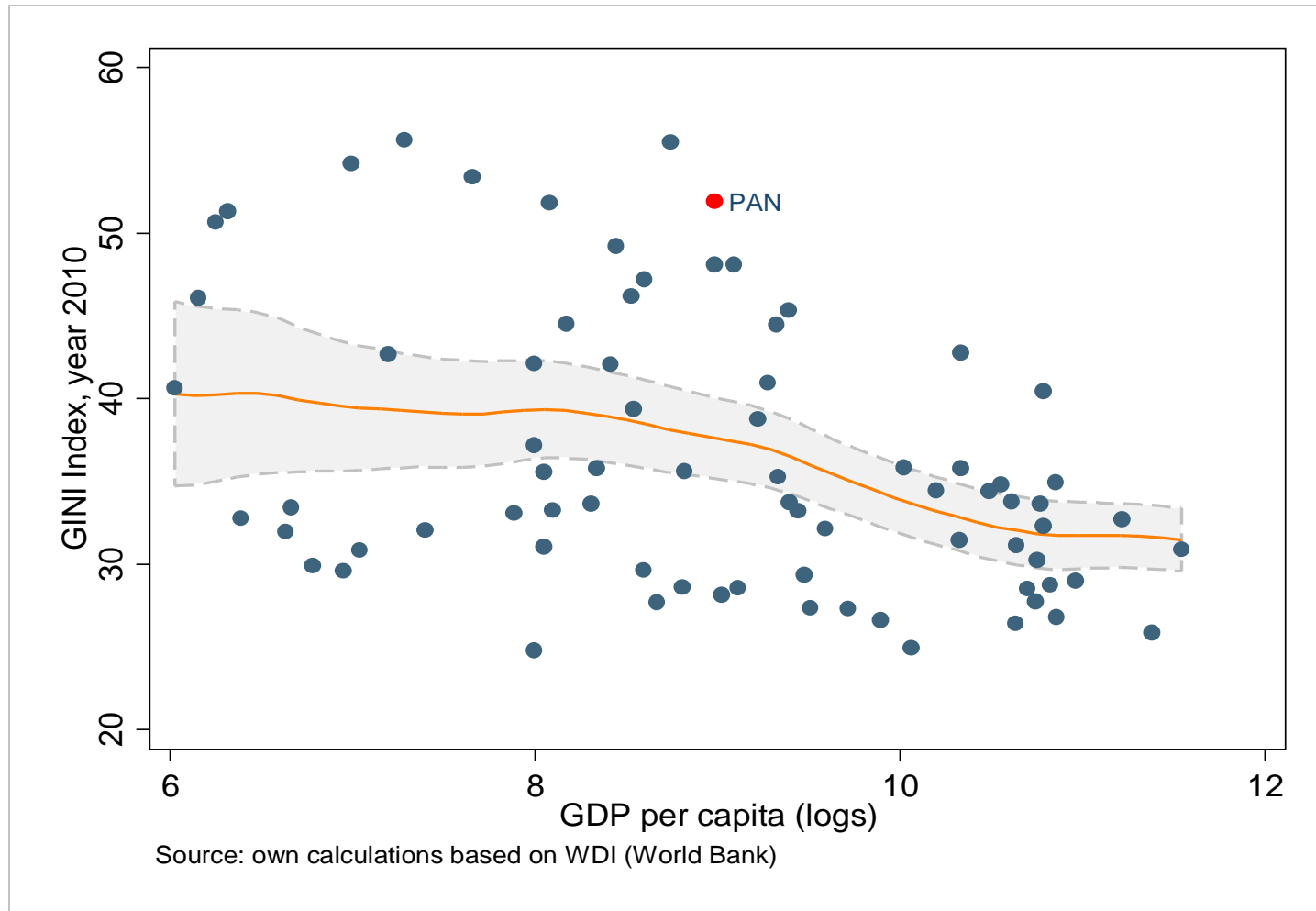


Growth has been accompanied by a significant reduction in poverty and inequality



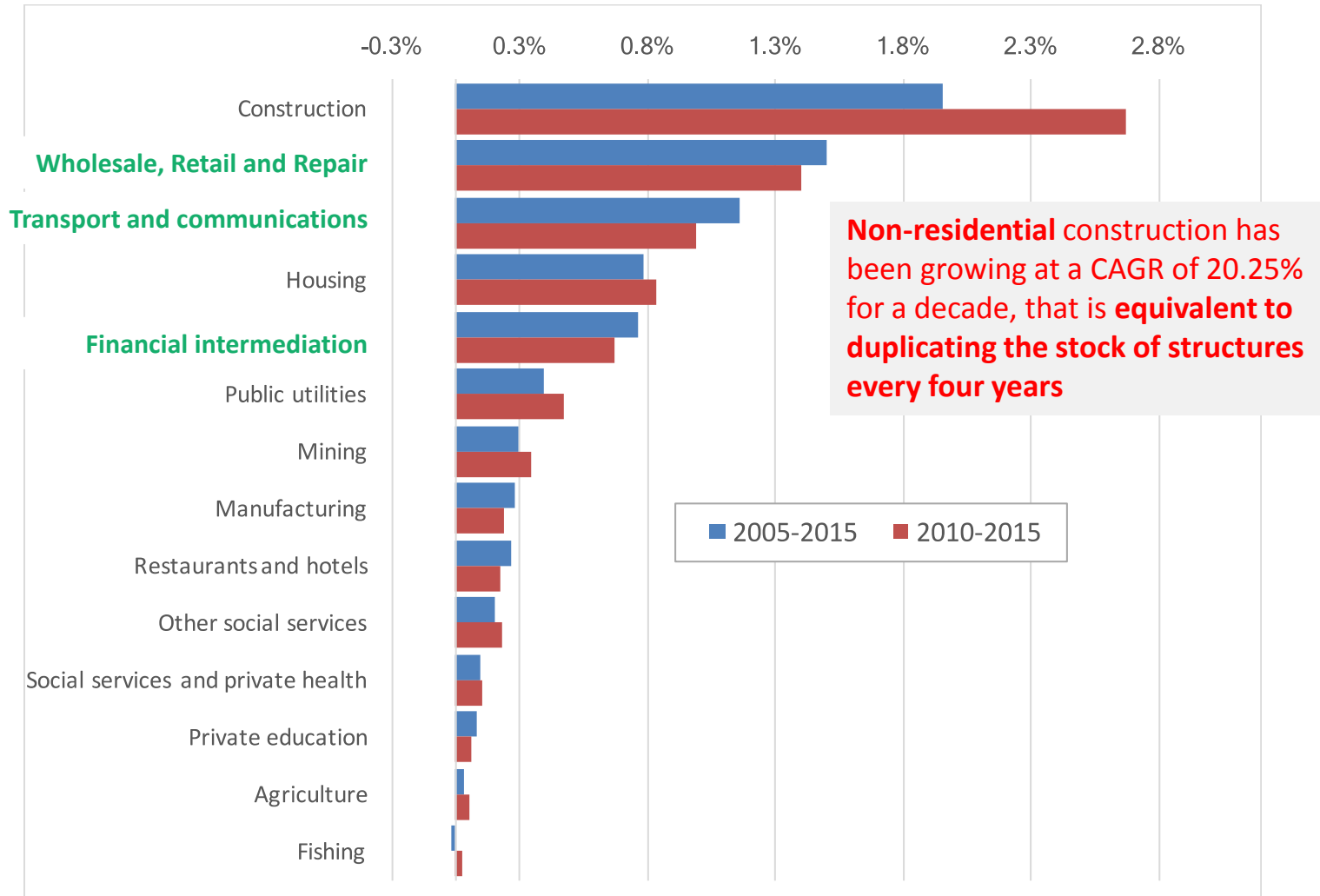
In spite of that, Panama remains among the most unequal countries in the world

Gini coefficient (2013)



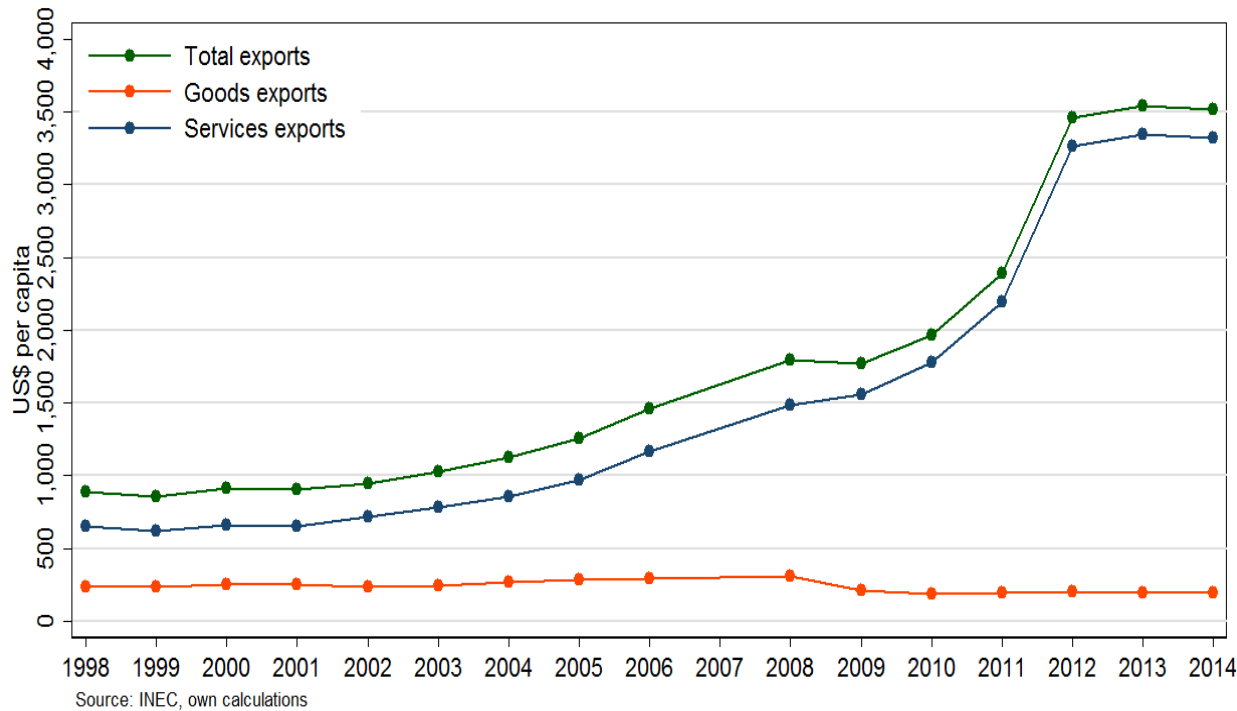
Growth has been spurred by the development of a service sector that demanded non-residential construction

Weighted Contribution to Growth (CAGR * Ave Weight in GDP)

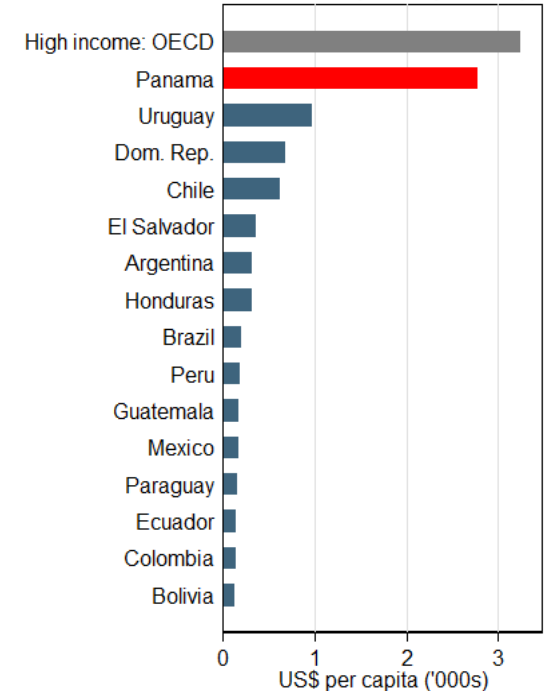


In terms of exports, the real driver behind Panama's astonishing success is the development of an exportable service sector

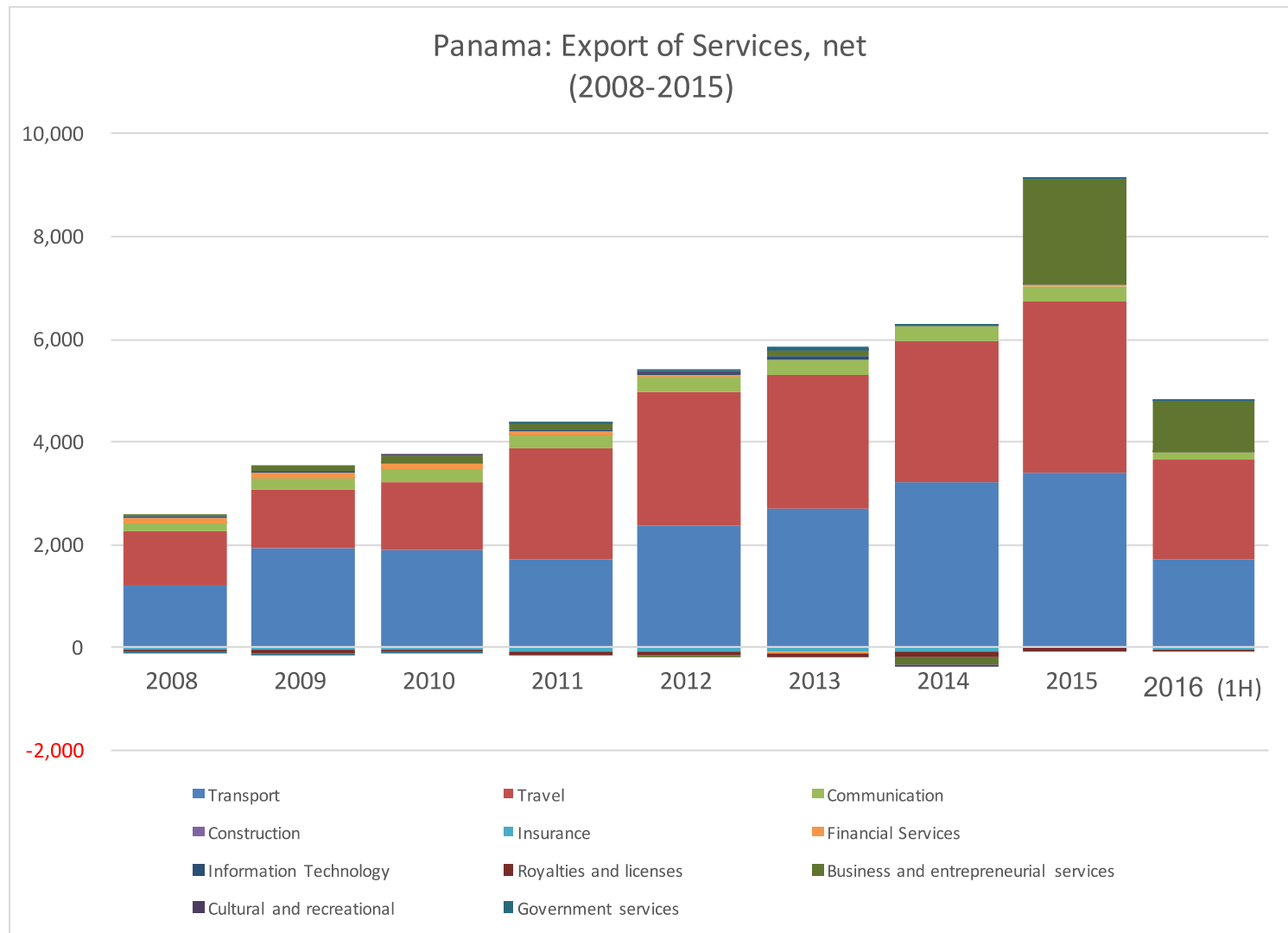
Export of services per capita (US\$ million)



Services exports per capita

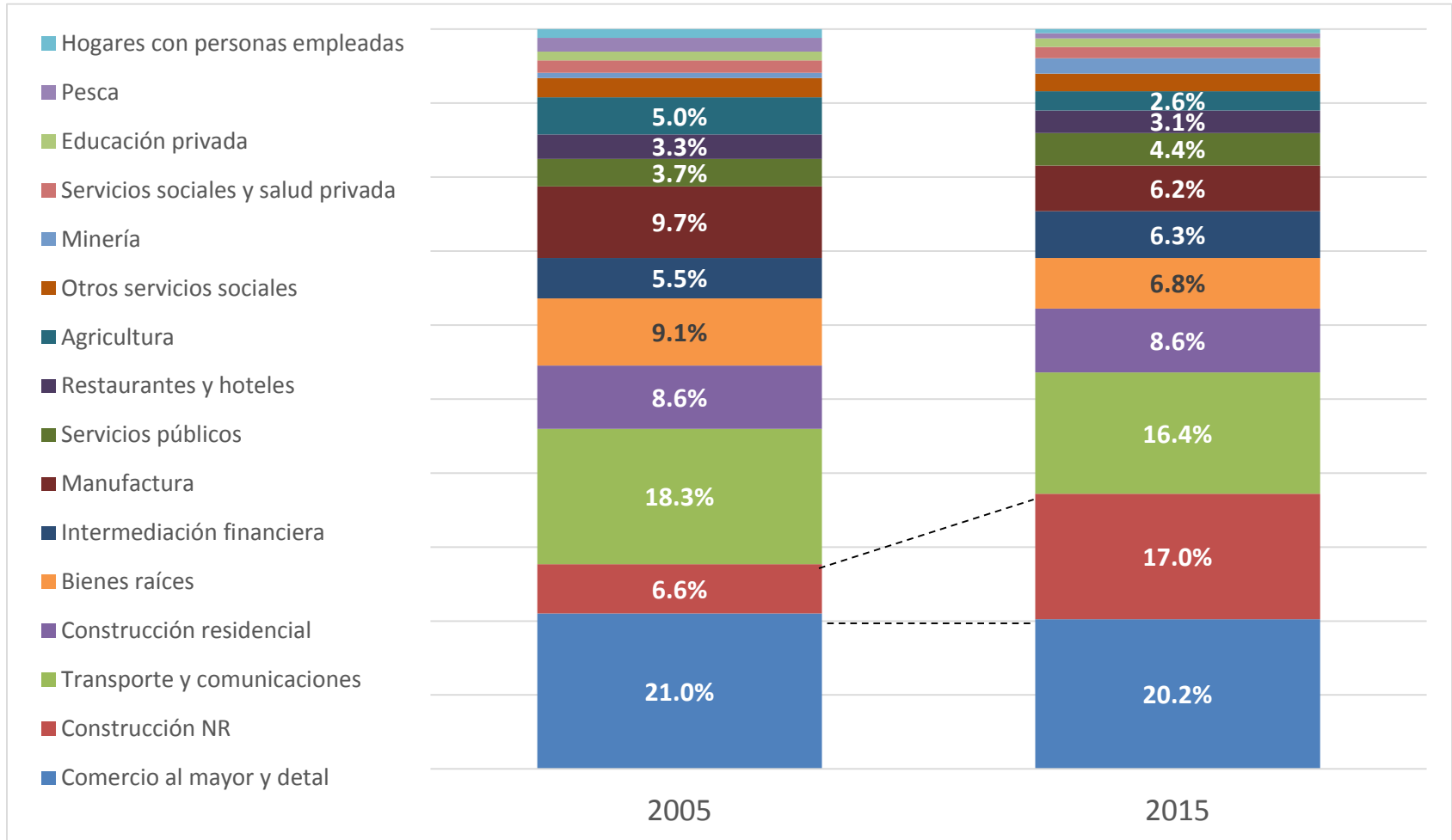


The bulk of the growth in services was registered by Transport-Logistics, Travel, and - more recently - business services



By 2015 construction accounted for 25.6% of GDP, although most of the 2005-2015 growth occurred in the non-residential sector

Composición del PIB

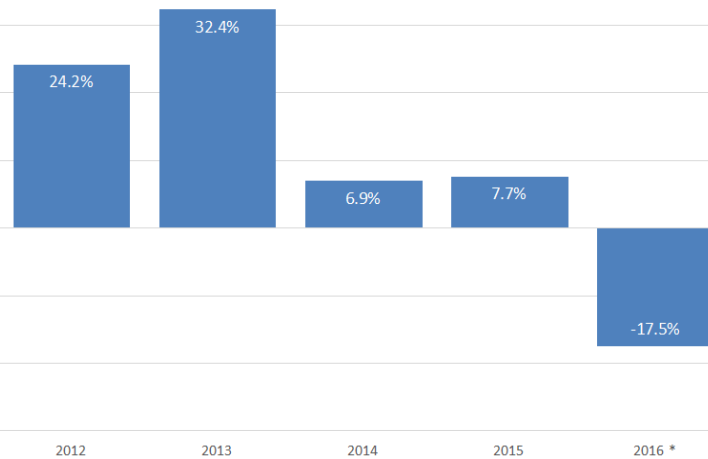


Source: INEC, IMF. Excludes “Other non-marketable production”.

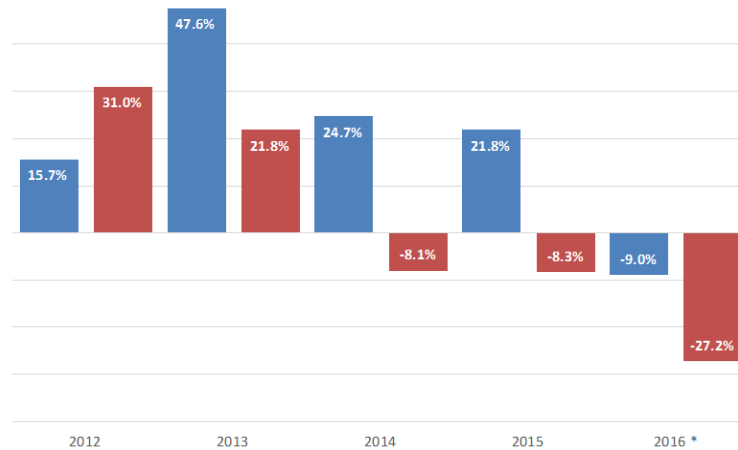
What are the most important
restrictions to sustainable and
inclusive growth?

1) Non-residential construction cannot grow indefinitely at a faster pace than the rest of economy and has started to decelerate

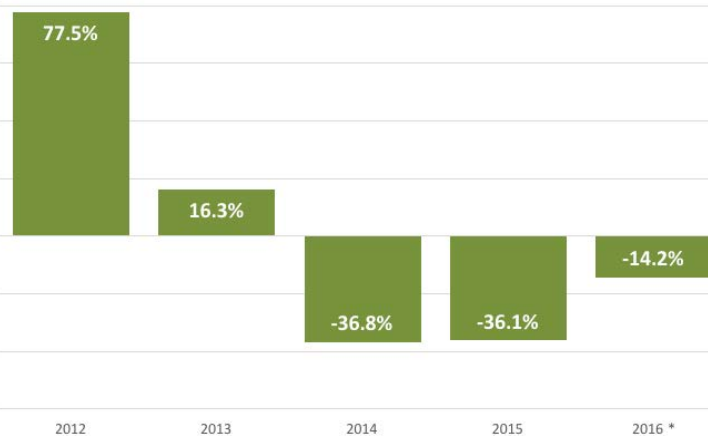
Change in total number of construction permits



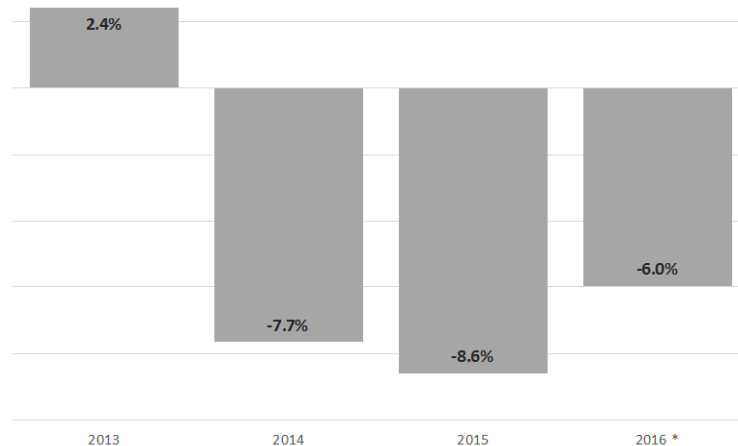
Variation of construction permits:
Residential vs. non-residential



Variation in production of ready-mixed concrete

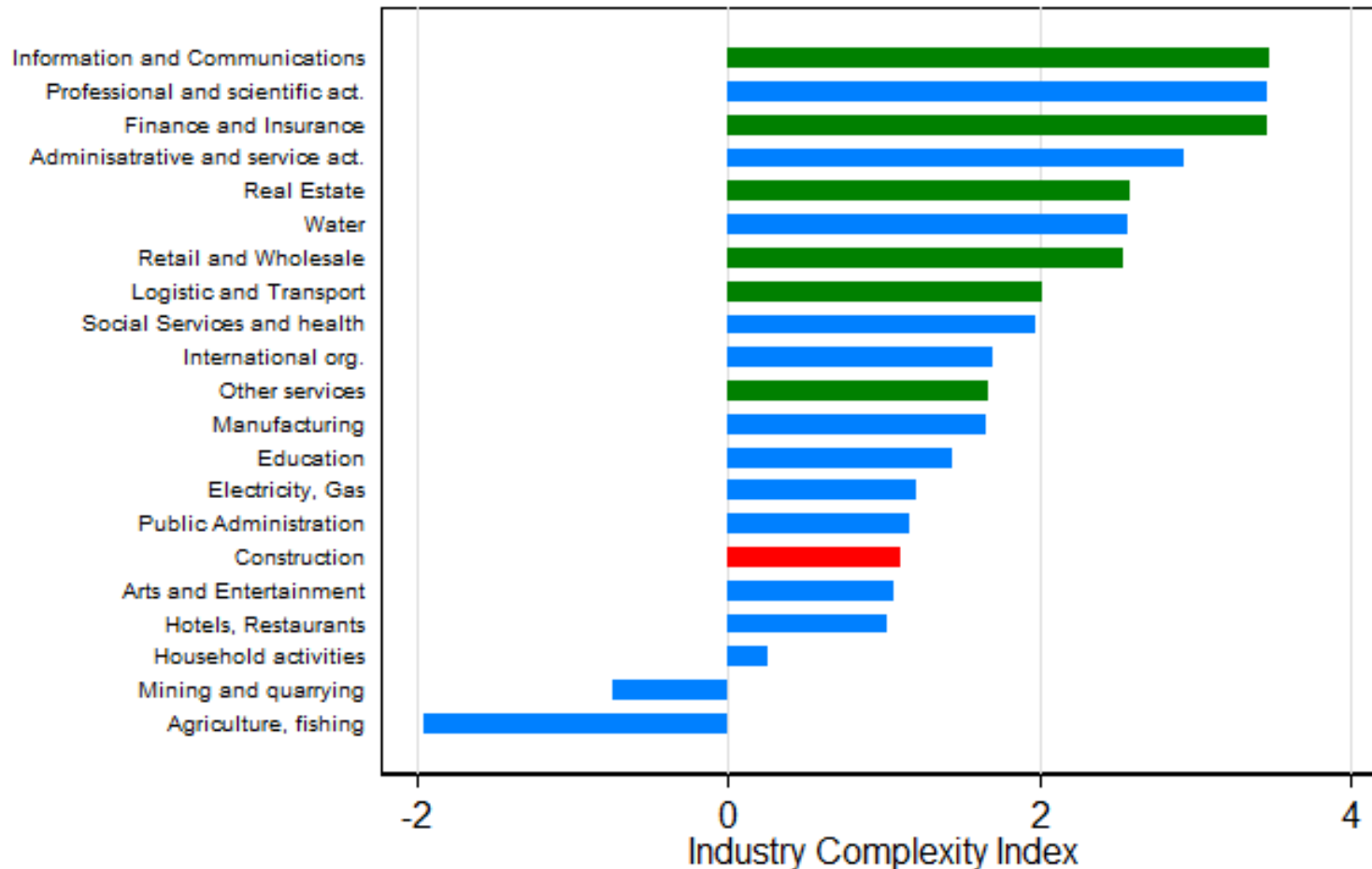


Variation in production of cement



2) Human capital: Panama embarked on a high-skill growth strategy, based on the competitiveness of its service tradable sector

Economic Complexity by Industry

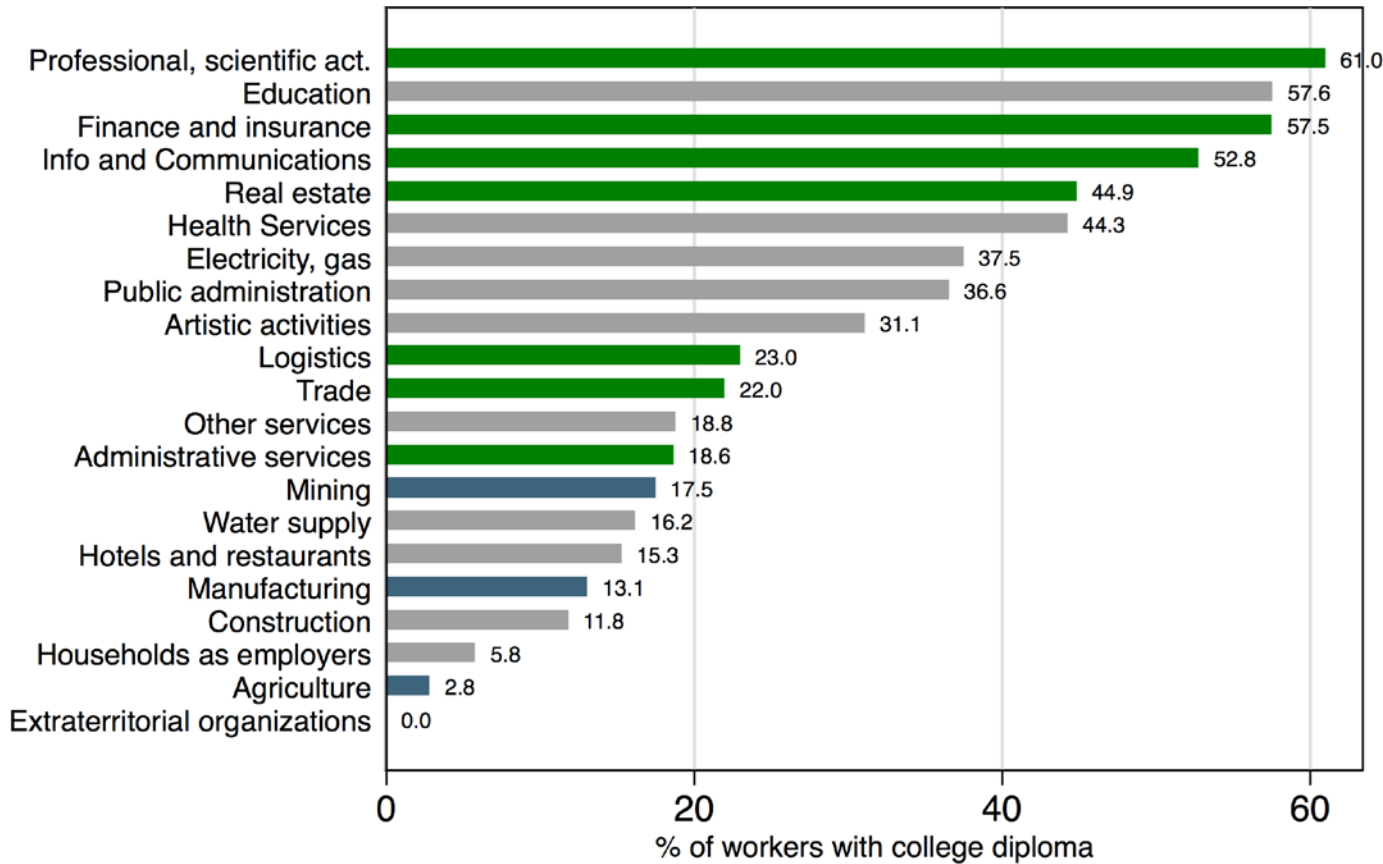


Source: Own calculations based on Population Census 2010, INEC

2) Human capital: Panama embarked on a high-skilled growth strategy, based on the competitiveness of its service tradable sector

Workers with college diploma

Year 2015

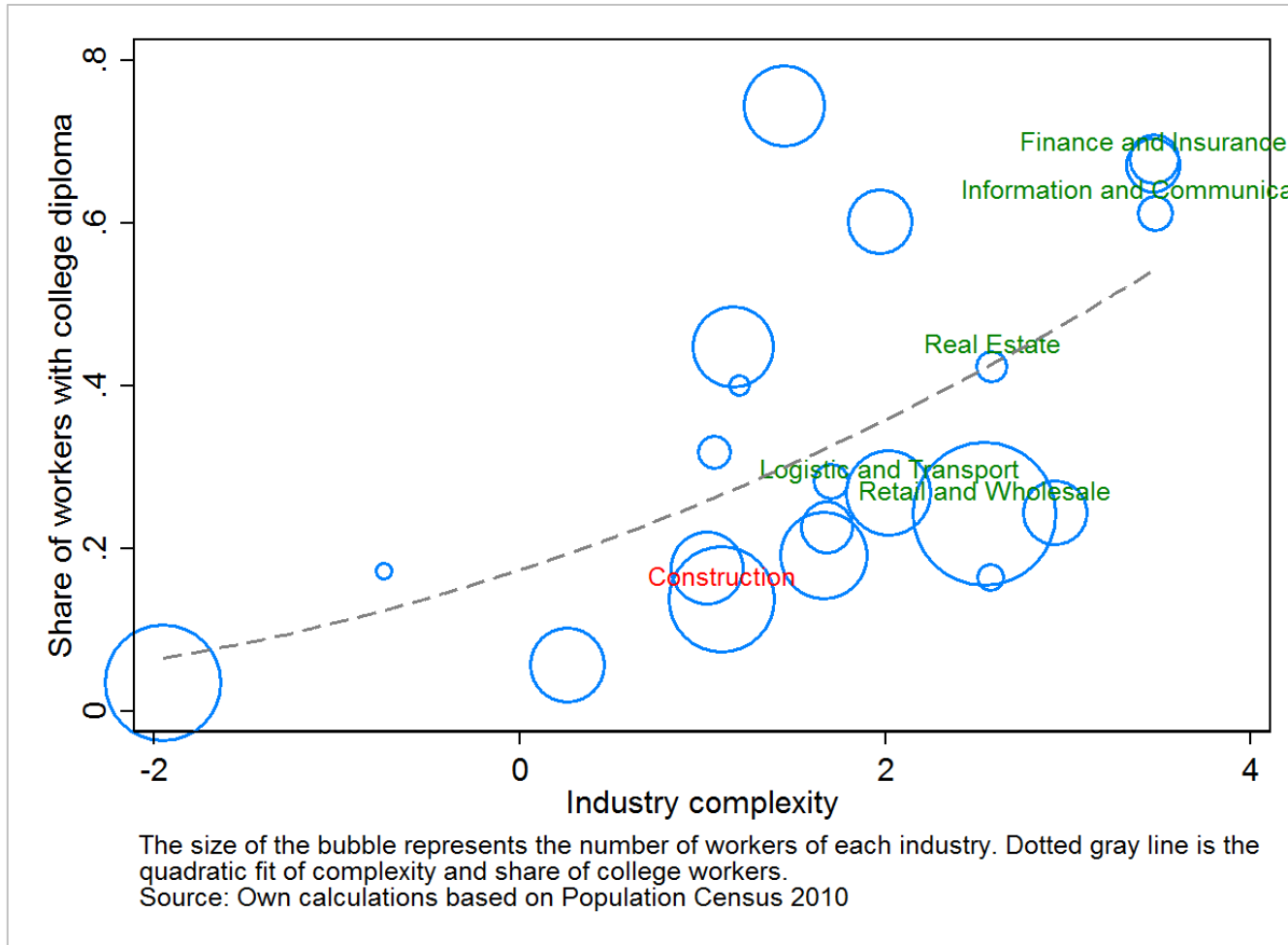


Source: Labor Force Survey, 2015



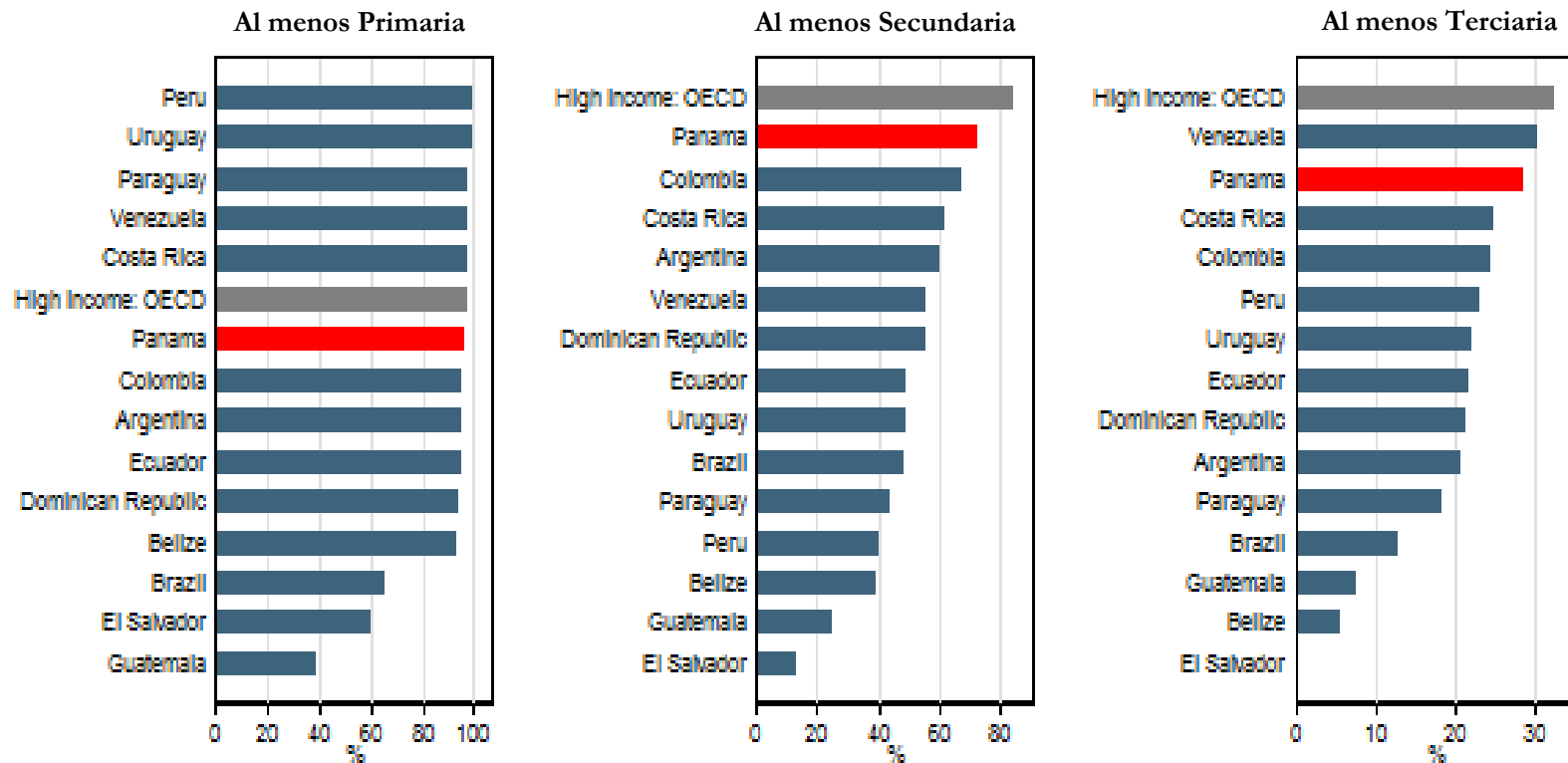
2) Human capital: Panama embarked on a high-skilled growth strategy, based on the competitiveness of its service tradable sector

Economic Complexity, qualified labor and share of employment (2010)



The Panamanian governments has made significant efforts to improve the coverage of education ...

Distribución de trabajadores por nivel de escolaridad (% de la fuerza de trabajo, año 2012)



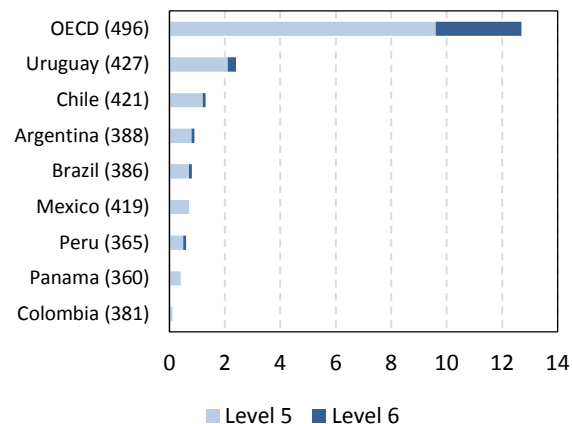
*Fuerza de trabajo incluye a empleados y desempleados

Fuente: Cálculos propios basados en World Development Indicators, Banco Mundial

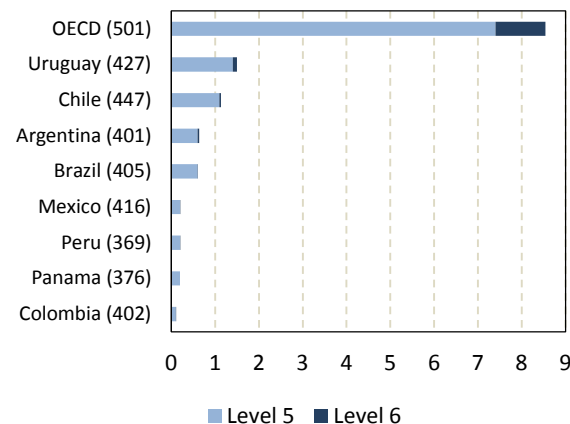
... but in terms of quality there is still a significant gap

country/economy	reading		country/economy	mathematics		country/economy	science	
	#	rank		#	rank		#	rank
Shanghai-China	556	1	Shanghai-China	600	1	Shanghai-China	575	1
OECD average	493	27	OECD average	496	24	OECD average	501	24
Chile	449	45	Uruguay	427	48	Chile	447	45
Uruguay	426	48	Chile	421	50	Uruguay	427	49
Mexico	425	49	Mexico	419	51	Mexico	416	51
Colombia	413	53	Argentina	388	56	Brazil	405	54
Brazil	412	54	Brazil	386	58	Colombia	402	55
Argentina	398	59	Colombia	381	59	Argentina	401	58
Panama	371	63	Peru	365	64	Panama	376	63
Peru	370	64	Panama	360	65	Peru	369	65

Top performers in mathematics, PISA 2009
Percentage of students reaching the two highest levels of proficiency



Top performers in science, PISA 2009
Percentage of students reaching the two highest levels of proficiency






Panama: Headquarters Law (Law 44) Has attracted 117 multinational regional headquarters



Special Economic Zones: Import-Export, Industrial Park, Technology Park

Special Economic Zones

	Characteristics	Tax exemptions	Immigration incentives	Other
<p>Panama-Pacífico Industrial Park (2007)</p> 	<ul style="list-style-type: none"> • 251 companies (41% multinational) • 2,305 jobs • Master plan: <ul style="list-style-type: none"> • 1,000,000 sq.mts • 40,000 jobs 	<ul style="list-style-type: none"> • Income tax • Dividend tax • Import-Export tax • Sales tax • Remittances tax • Commercial license • Patent & ITBMX tax 	<ul style="list-style-type: none"> • Special Visa for: <ul style="list-style-type: none"> • Investors • Workers • Dependents • Allowed to hire >10% immigrants 	<ul style="list-style-type: none"> • Labor regime: <ul style="list-style-type: none"> • Overtime rate (25%) • Days-off rate (50%) • Flexibility to operate Sundays & holidays • Special Custom Reg. • One-stop shop
<p>Ciudad del Saber Technology Park (2000)</p> 	<ul style="list-style-type: none"> • 75 SMEs • 1,290 direct jobs • Focus: innovation and technology 	<ul style="list-style-type: none"> • Import tax • Remittances tax • ITBMS tax 	<ul style="list-style-type: none"> • Special Visa for: <ul style="list-style-type: none"> • Workers • Allowed to hire >10% immigrants 	
<p>Import-Export Colon Free Zone (1948)</p> 	<ul style="list-style-type: none"> • Oldest in the world • Largest in LATAM • 2nd worldwide • 2,527 companies • 29,786 jobs 	<ul style="list-style-type: none"> • Income tax • Import-Export tax • Sales tax 	<ul style="list-style-type: none"> • Allowed to hire >10% immigrants 	

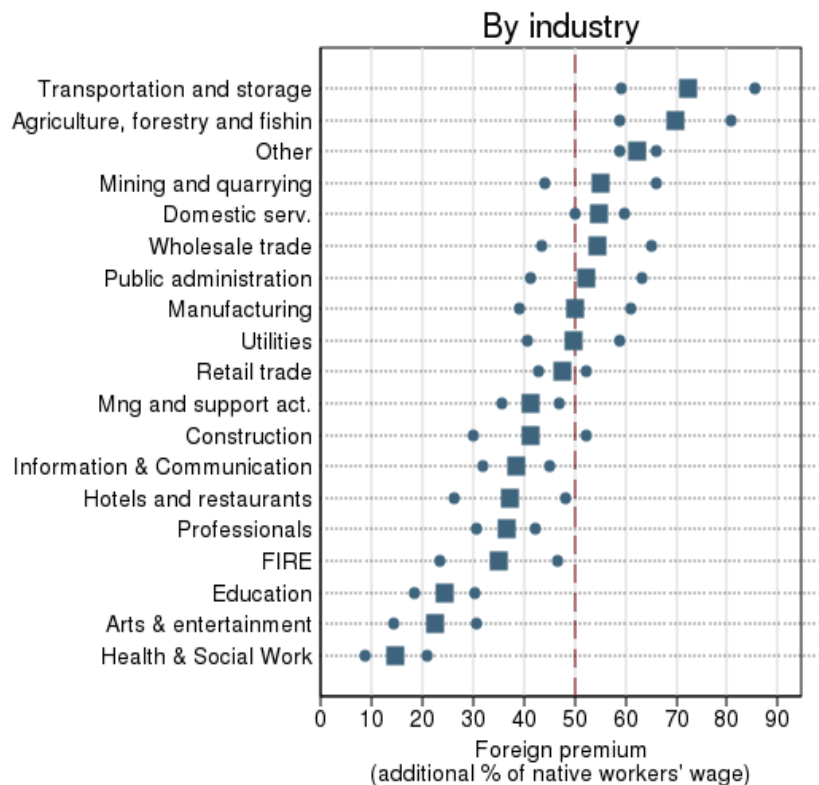


Four facts about immigrants in Panama

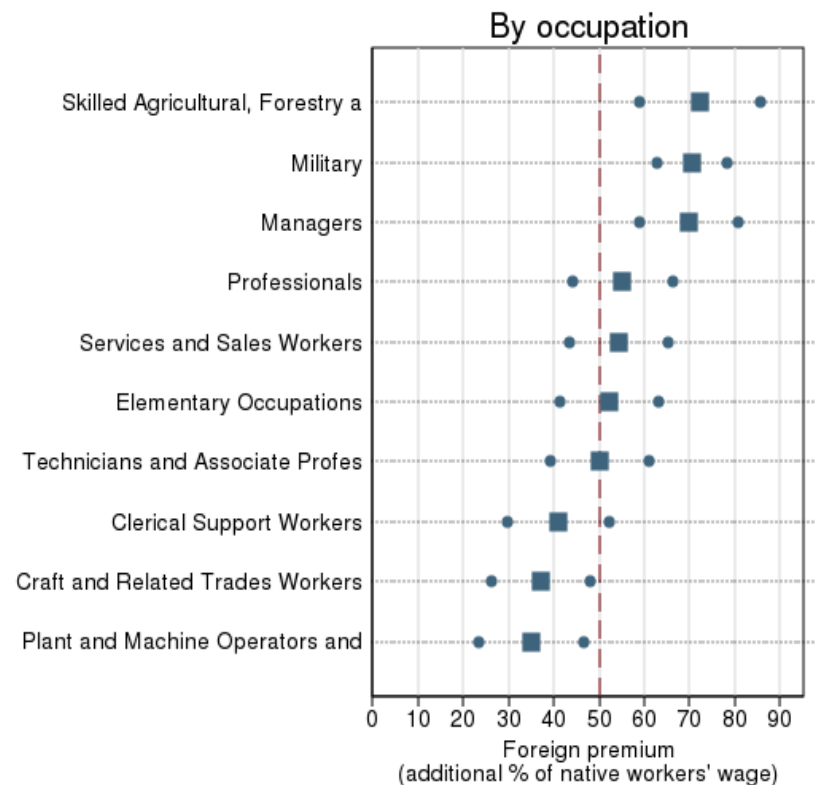
1. There are scarce (they are expensive)
2. Immigrants are over-represented in high-skill occupations
3. Immigrants tend to work in the more complex industries
4. Immigrants tend to raise the salaries of Panamanian workers within their industry-district

1) A sign of skill scarcity: Wage premiums to foreign workers are very high on average(50%), and positive for all industries and occupations

Wage premiums to foreigners (2010)



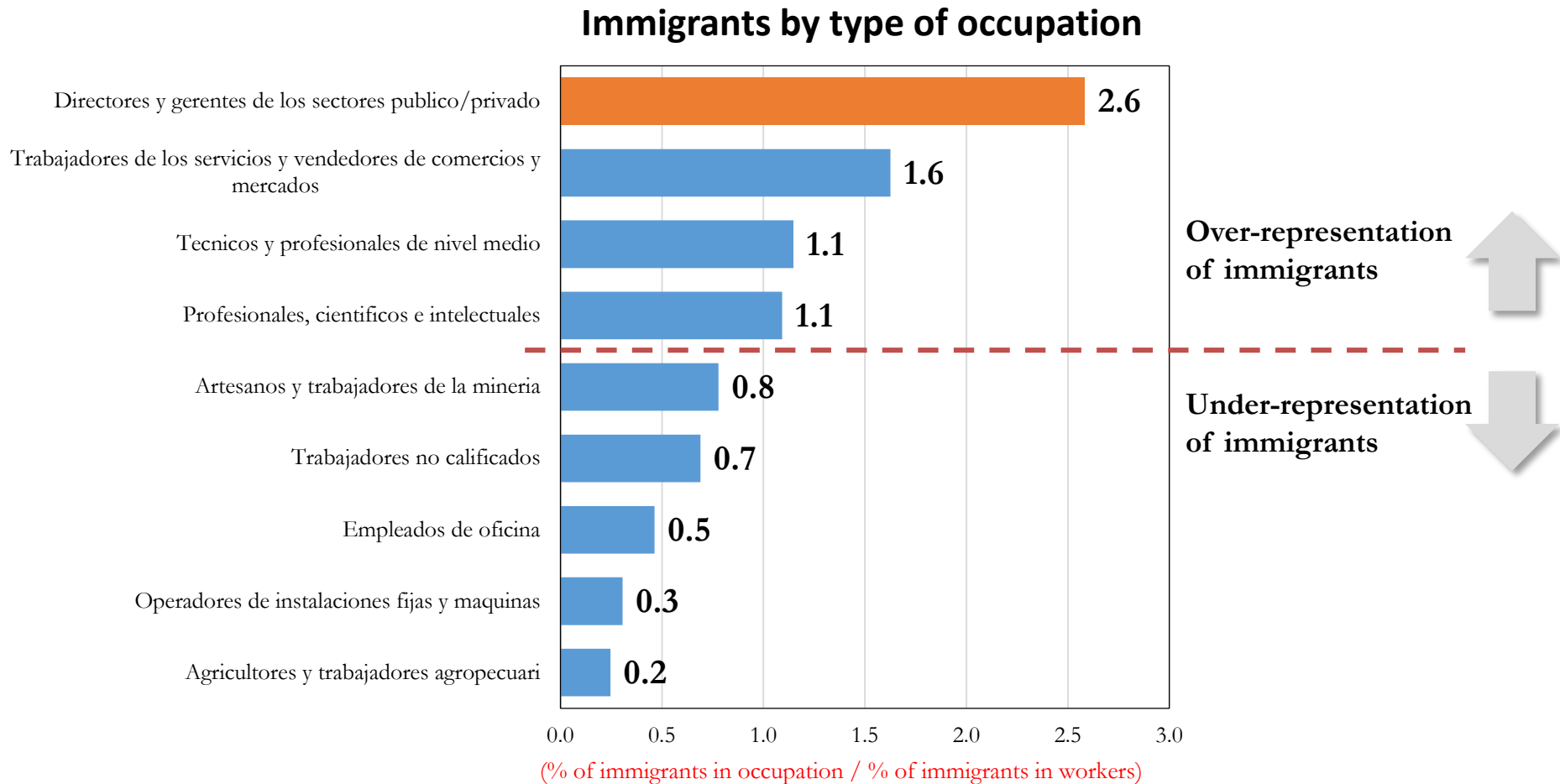
Note: controlling by years of schooling, years of experience, gender, ethnicity and occupation



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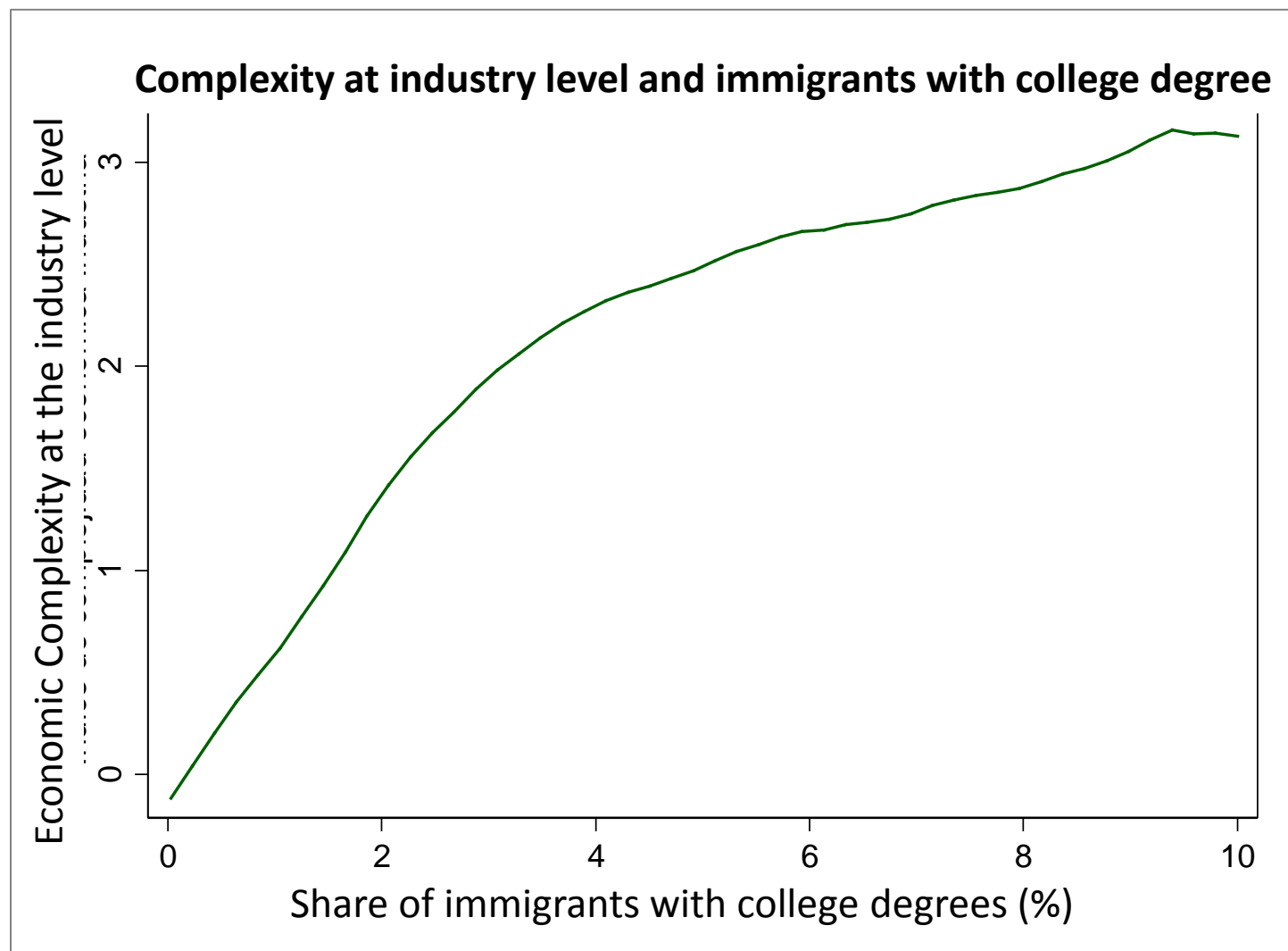
Source: Population Census 2010 (INEC), own calculations

2) Immigrants are over-represented in high-skill occupations



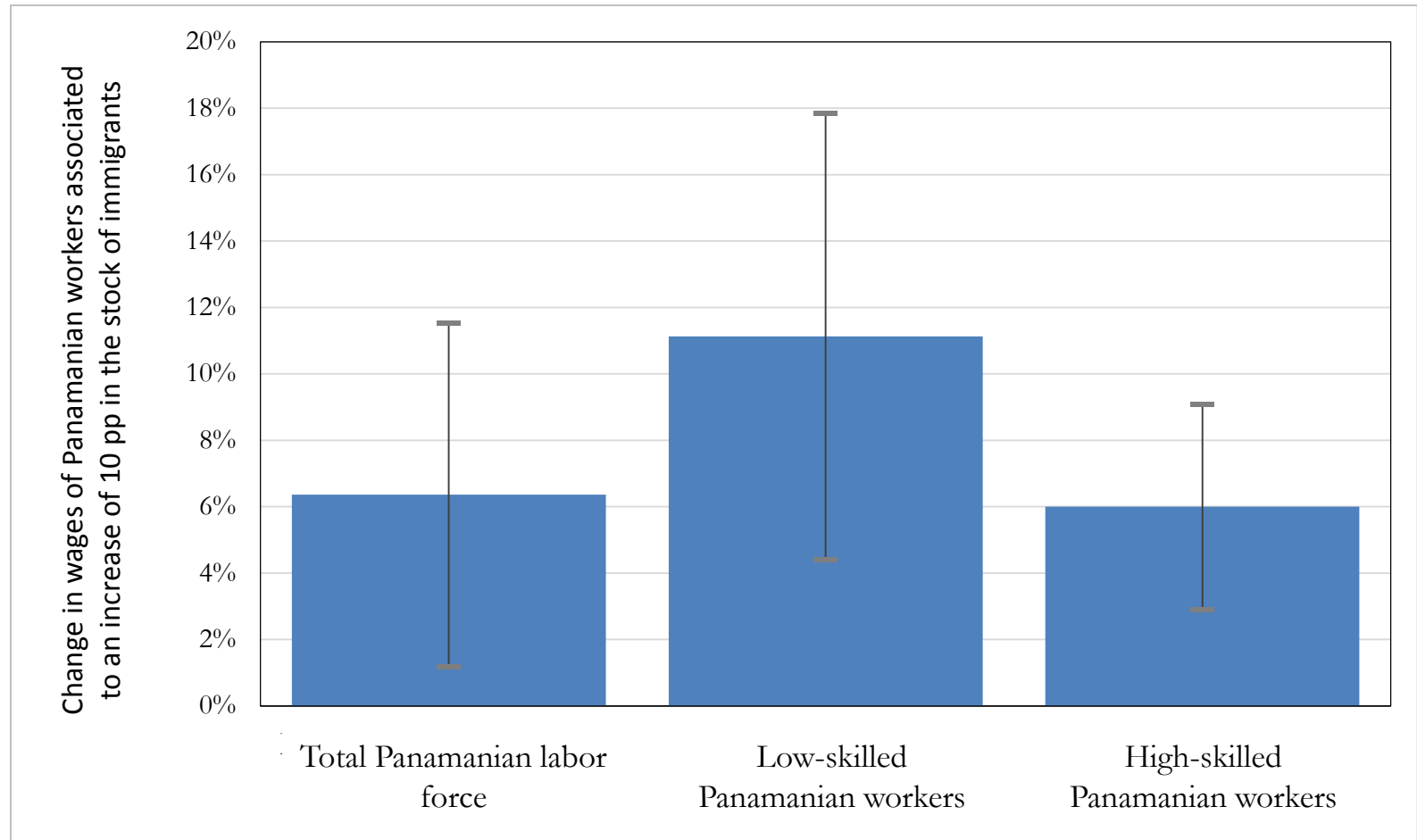
Fuente: Cálculos propios basados en Censo Poblacional, 2010

3) Immigrants tend to work in the more complex industries



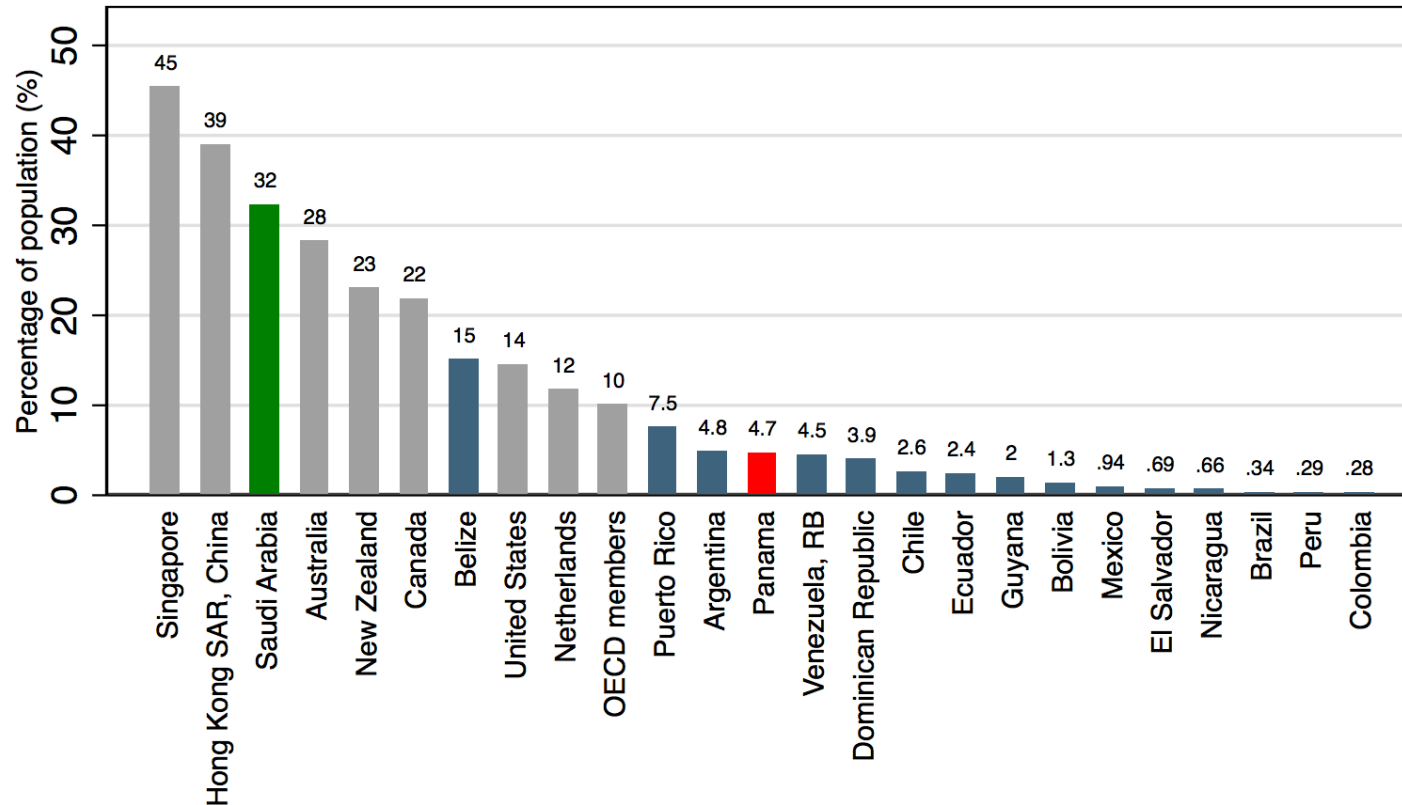
4) Immigrants tend to raise the salaries of Panamanian workers within their industry-district

Immigrants flows and Panamanian wages



Panama wants to be Singapore or Hong Kong: they need to attract and retain a large number of foreigners demanded by their high-skill specialization strategy

Stock of immigrants Year 2015



Fuente: World Development Indicators, World Bank

The strategy of attracting multinationals raised the skill bar and allowed Panama to develop a modern service sector, but **many restrictions prevent knowhow and productivity to spillover to the rest of the economy**

RESTRICTIONS TO FOREIGNERS ALREADY LIVING IN PANAMA

- Hefty fees for visa renewals (US\$2.000-3.000 per year)
- Years spent on SZEs do not count for residence purposes
- Special work visas granted to foreigners in MNCs and SEZ cease as they stop working in the company that sponsored them
- Dependents of expatriates and other foreigners (“friendly countries”) not allowed to work
- Firms threatened to be expelled from City of Knowledge and visas of their workers ceased if they stop innovating and move on to the commercial phase of the business

RESTRICTIONS TO POTENTIAL IMMIGRANTS

- There is a list of 27 occupations that are legally restricted to immigrants, including all type of engineers, dentists, agriculture scientists, architects, doctors, economists, lawyers, chemists, and educators in the areas of history and geography
- There is a list of restricted citizenships comprising 50 countries from Asia and Africa, that need a special bureaucratic process “authopriozed visa” to enter Panama
 - Albania, Bangladesh, China (exception made via SEM Law), India, Indonesia, Lebanon, Pakistan, Sri Lanka

National Development Plan Guidelines

Attract and retain high-skill human capital and know-how

Reduce transaction costs to qualified immigrants

- Revises and gradually phase out list of restricted professions
- Revise relevance of restricted citizenships subject to “authorized visas”
- Grant working visas to highly qualified dependents

Maximize *spillovers* and knowledge diffusion

Prevent knowledge from being locked into MNCs and SEZ

- Ease residence requirements for expatriates in MNCs and SEZs
- Create a minimum training requirements in MNCs receiving tax benefits
- Extend length of visas across the board

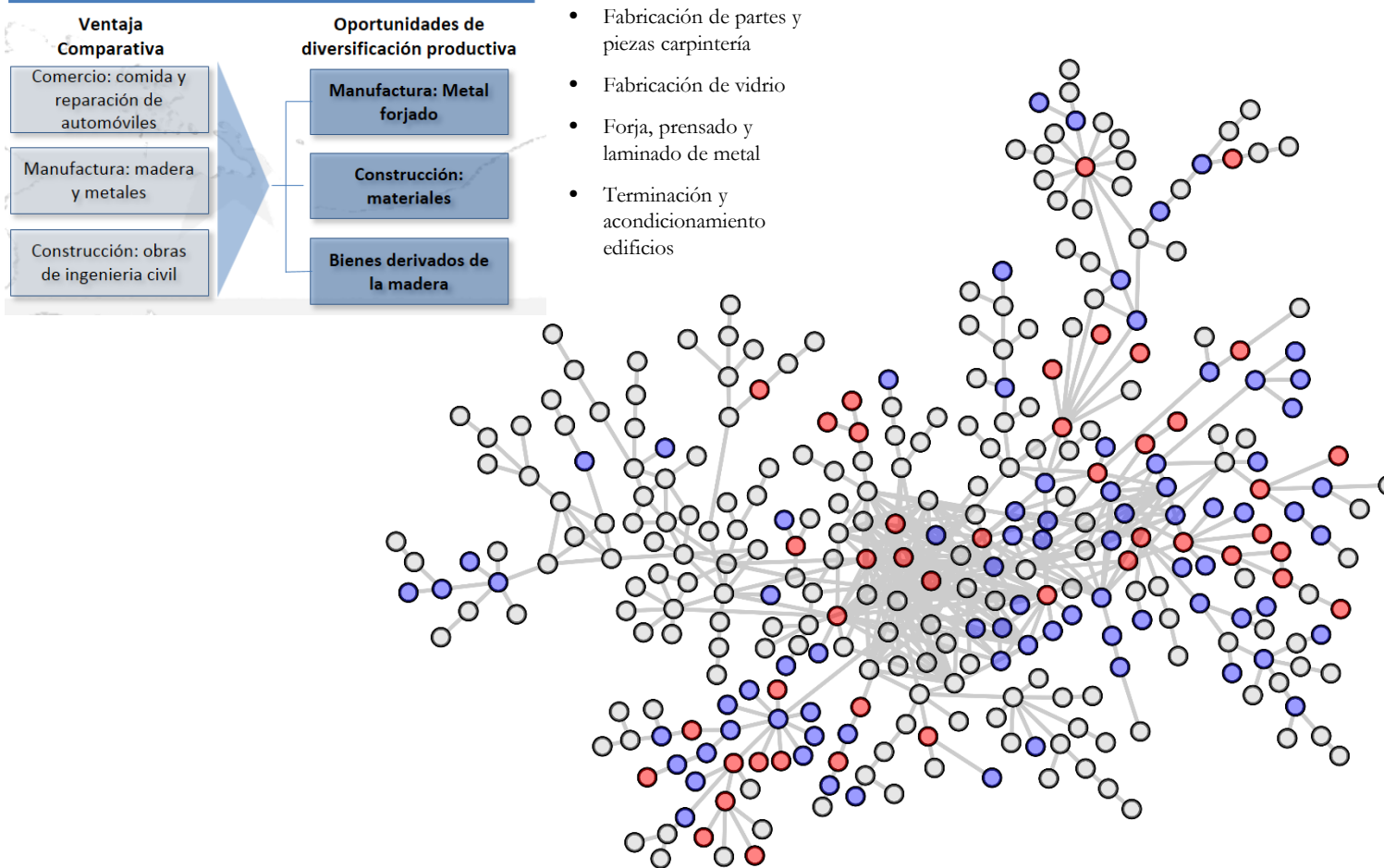
Promote growth diversification in the Panamanian province

Make growth inclusive

- Create a public-private investment agency responsible for evaluating industry potential in the provinces, contacting the right partners, solve the most binding constraints and monitor progress
- Leverage existing knowledge within Panamanian provinces and look at expanding to higher-value added industries that use similar knowledge

El espacio de industrias de Panamá: Una representación grafica de las oportunidades de diversificación a nivel provincial (Chiriquí)

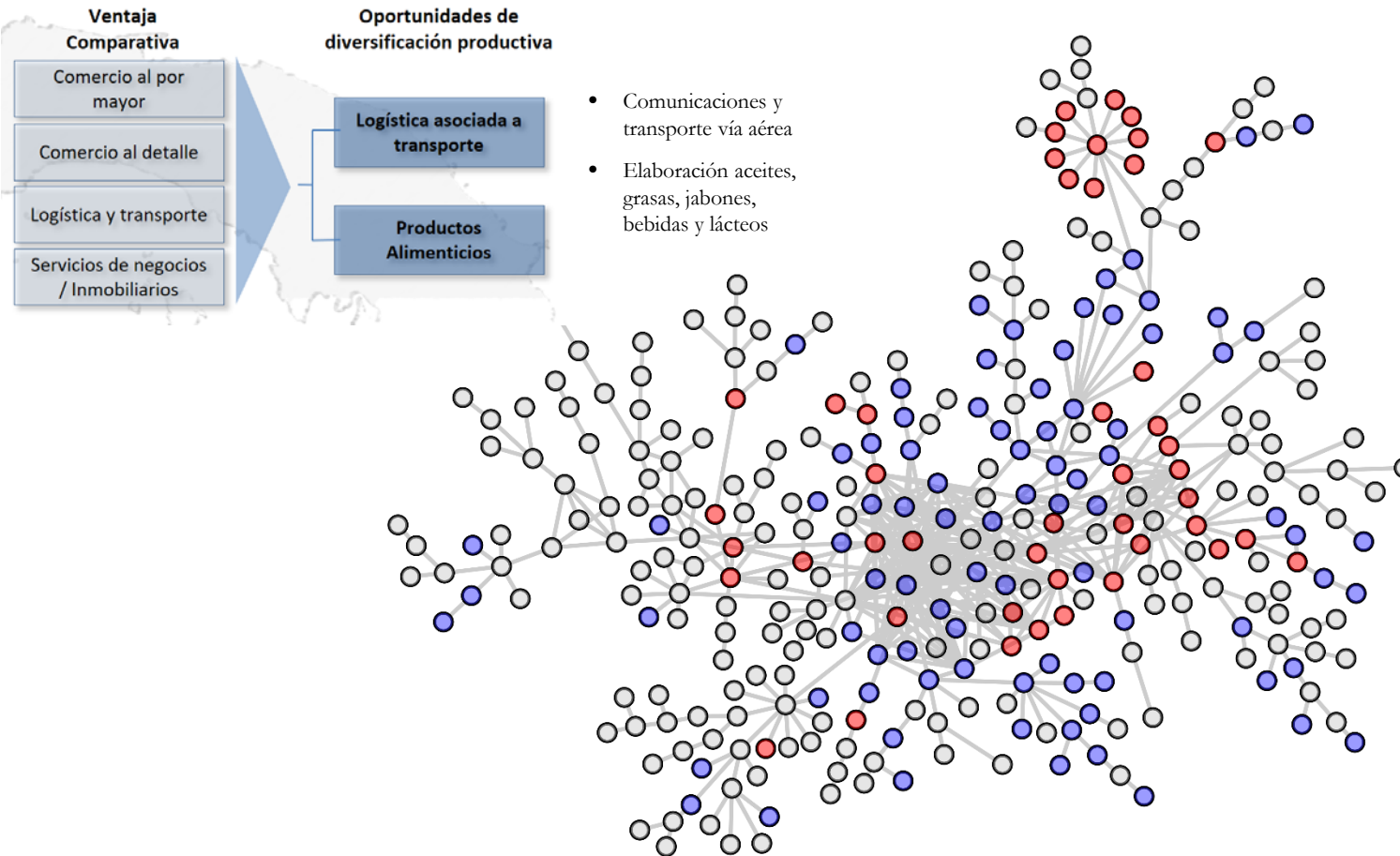
Chiriqui (Ripe fruit)



Blue nodes: Current comparative advantages | Red nodes: Opportunities for diversification

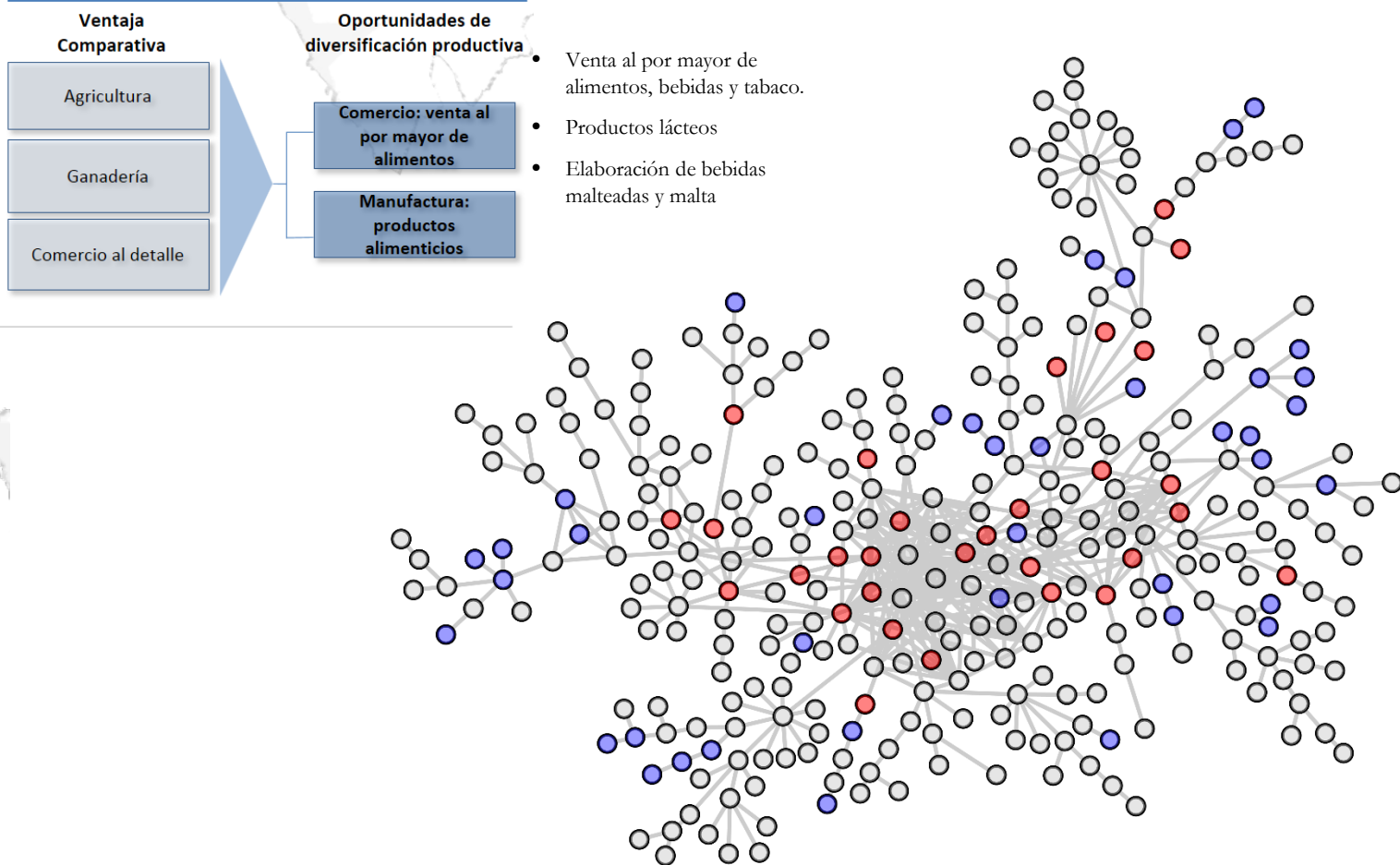
El espacio de industrias de Panamá: Una representación grafica de las oportunidades de diversificación a nivel provincial (Colón)

Colon (Balanced approach)



El espacio de industrias de Panamá: Una representación grafica de las oportunidades de diversificación a nivel provincial (**Darién**)

Darién (Strategic Bets)



Blue nodes: Current comparative advantages | Red nodes: Opportunities for diversification

THANKS!

