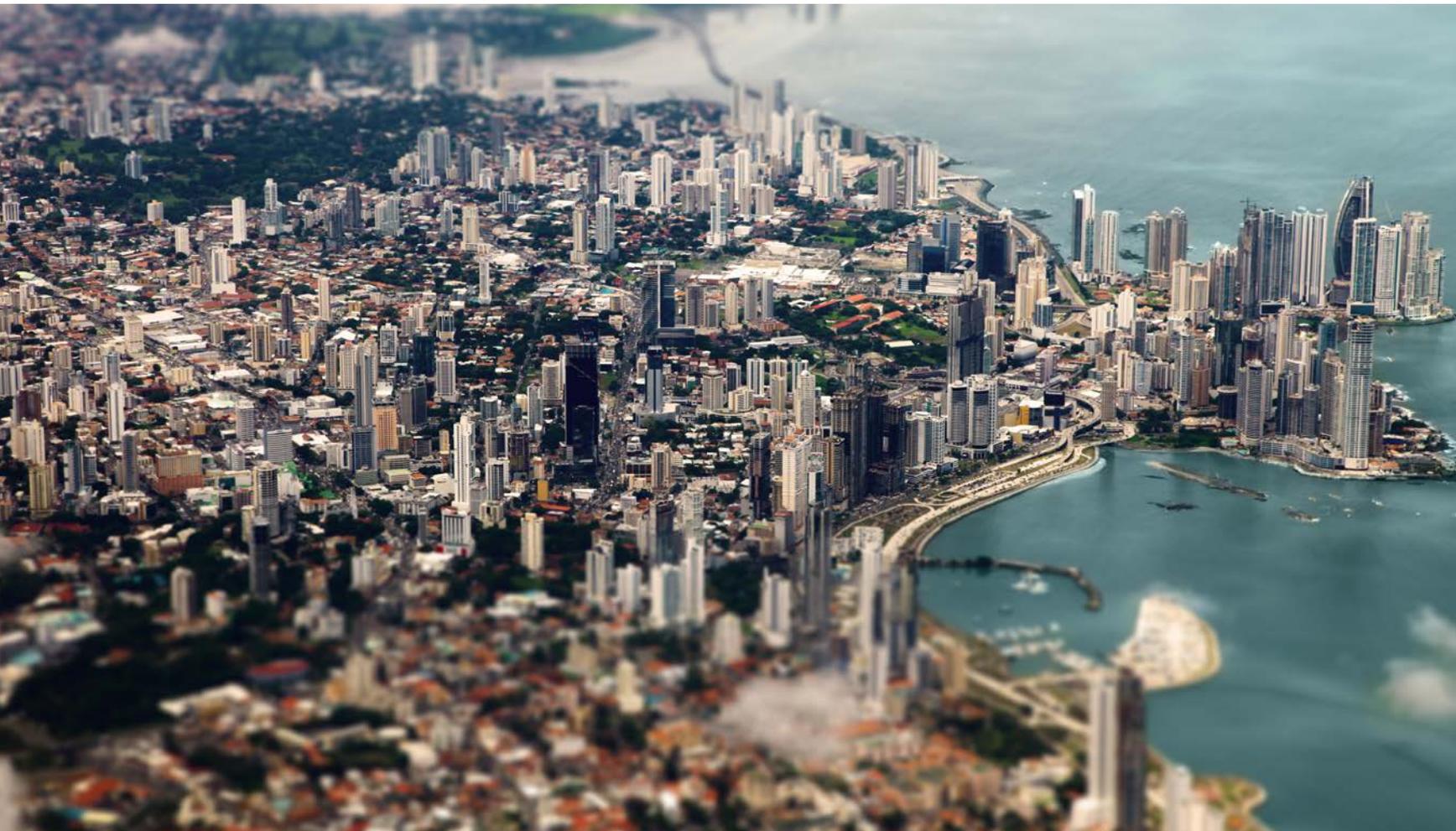




# Competitiveness: Catching the next wave

## Panama



April 2014



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## EXECUTIVE SUMMARY

# A new player in Central America

Panama has quietly emerged as the fastest growing economy in Latin America, with a compound annual growth rate of 9% since 2006.

When the United States relinquished its military presence in the Panama Canal Zone on 31 December 1999, few predicted the Central American nation of 3.7 million people would embark upon a period of sustained economic growth. In fact, some wondered how tiny Panama could survive without the United States' long-standing presence. But 14 years later, a new and revitalized nation has come into sharper focus, quietly emerging as the fastest-growing economy in Latin America. Since 2006, the country has achieved a compound annual growth rate of 9 percent, a rate that far exceeds not only that of its regional neighbors across Latin America but also the growth of the global economy—and by a significant margin.

What's the formula? Of course, the Panama Canal matters. By first modernizing and then launching an ambitious expansion of this vital waterway, Panama has linked its economy to the benefits of globalization. It has passed a series of free trade agreements to open its domestic economy more fully to the outside world. After 21 years of military dictatorship, it has achieved a broad national consensus and political stability. Now it is investing in a series of infrastructure projects designed to boost tourism, logistics, and other trade-related services.

Having shed its former image as an insulated backwater, Panama is now seeing members of the jet-set, as well as affluent retirees from North America, take notice. The presence of shiny new hotels and restaurants are a testament to this, but so are the sophisticated logistic centers and domestic ports being expanded or refurbished. They serve notice that Panama is positioning itself for robust and sustainable growth and is ready to become an economic leader within Central America, even as some formerly high-flying markets such as Brazil appear to be faltering. Panama is actually projected to achieve an impressive compound annual growth rate

(CAGR) of 4.7 percent between now and 2032, compared with 3.2% for Latin America, 3.1% for Brazil, and 3% for the world economy as a whole.

Panama is in a highly enviable position. With the massive expansion of the Panama Canal scheduled for completion by December 2015, Panama will be a major beneficiary from the large projected increase in container traffic. But even before the canal's new set of locks begin operations, the government is moving to attract foreign investment in transportation, information technology, and logistics centers to make the country's trade sector even more competitive.

The canal's economic impact on the nation is evident in many ways. Transit fees for use of the 50-mile link between the Atlantic and Pacific Oceans contributes substantially to national GDP. Ship registration also represents an important source of revenue, as it is linked to the large flow of maritime traffic through the canal and, more significantly, the nation's comparatively light regulation and taxation. Because of ship registrations and insurance, Panama also boasts a significant banking and financial services sector. Greater transparency in the sector will go a long way toward easing lingering anxieties of foreign investors, as the International Monetary Fund has noted<sup>1</sup>.

With the benefit of hindsight, it is clear that the U.S. departure allowed Panama to launch its own initiatives and make the canal a catalyst to generate greater economic growth for the nation as a whole. Long before the expansion of the waterway was fully planned, Panama took important steps to boost efficiency and improve management of its most important strategic asset. As part of its modernization plan, officials installed lighting to improve capacity for night operations, improved navigation aids to increase safety, and upgraded equipment so that ships could transit more

<sup>1</sup> IMF Panama: Report on Observance of Standards and Codes—FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism. <https://www.imf.org/external/pubs/cat/longres.aspx?sk=41349.0>

cargo through the canal. The professionally managed Autoridad del Canal de Panamá (ACP) also introduced a reservation system to determine when ships could transit the canal, rather than the “first-come first-served” system the United States had employed. As a result, the volume of goods shipped through the canal has increased by one-third since 2001.

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Panama is moving aggressively to expand its economic base into new and less-developed industries, such as tourism and mining.

But Panama’s shipping industry isn’t its only engine of growth. It is moving aggressively to expand its economic base into new and less-developed industries. A growing tourism sector, bolstered by infrastructure investments in airports and hotels, and the potential take-off of capital investments now being deployed in the mining sector, suggest Panama will continue to develop a diverse and sustainable economic foundation on which to base strong future growth. And because Panama uses the U.S. dollar, investors face few currency risks relative to other Latin American nations—although a sudden loss of confidence could lead to rapid capital flight.

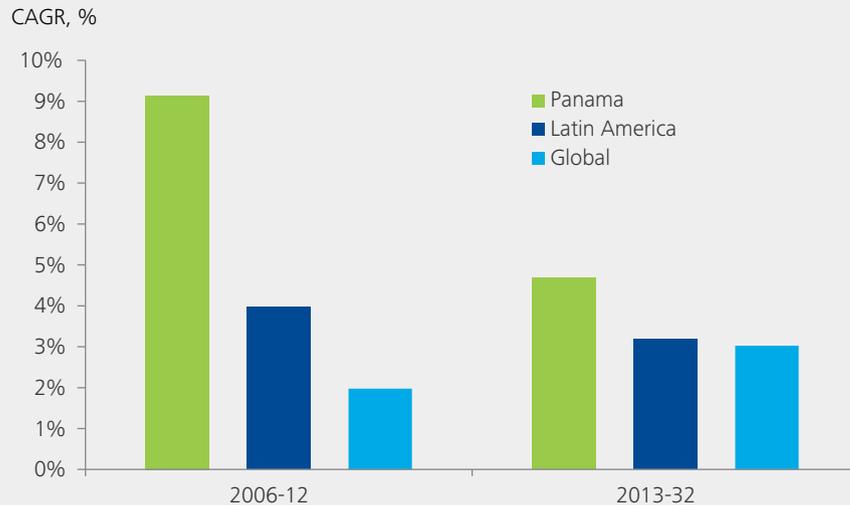
An equally critical component of Panama’s favorable growth potential is its political stability. Despite volatility in other parts of Central America, Panama remains a bastion of democratic consent. Since the end of the 21-year military dictatorship in 1989, Panama has completed four peaceful transfers of power to opposing political parties and a sweeping de-militarization. A broad political consensus within the country supports both canal expansion and market-friendly economic policies. Presidential elections scheduled for May 2014 are unlikely to alter this positive economic and political outlook.



## PART 1

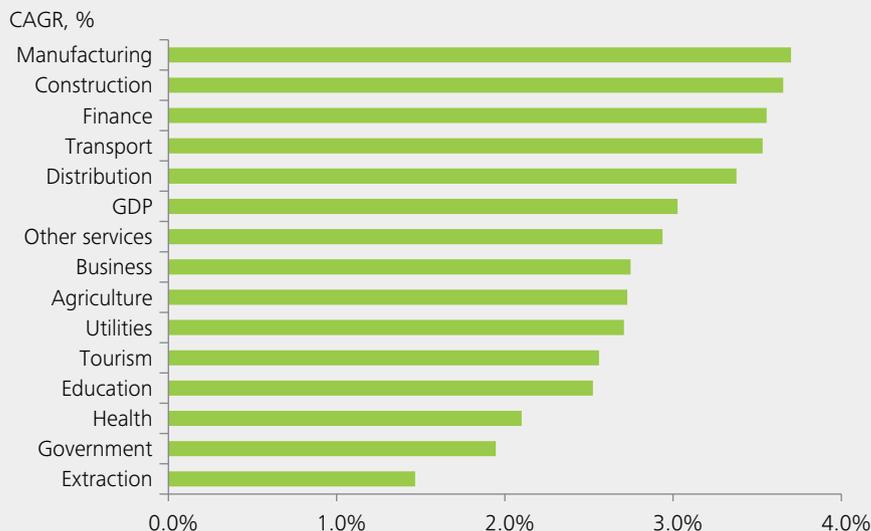
# Punching above its weight class

Figure 1: GDP growth



Source: Oxford Economics / IMF

Figure 2: Global sector growth



Source: Oxford Economics

Despite the global downturn that rocked many small economies, Panama's economic performance has been strong when compared with both Latin American and global growth as a whole. Since 2006, its GDP growth has been the highest in Latin America, outstripping even the performance of Brazil, which has garnered far more global attention.

Panama's forecasted growth is equally rosy. While the pace of Panama's GDP growth is expected to slow over the next 20 years, as the lowest-hanging fruit of economic development is captured and the nation moves up the value chain, its projected annual growth will average 4.7 percent over the next two decades, compared with 3.2 percent for Latin America and 3 percent for the world economy.<sup>2</sup>

From a global perspective, the fastest-growing sectors over the next two decades are expected to include manufacturing, construction, and related allied activities in the services sector such as transportation and retail/wholesale distribution. While these will provide momentum for Panama's future growth, the country's strategic location and unexploited reserves of natural resources like copper will drive significantly faster growth in Panama's mining and transportation sectors over the next two decades.

Given the vital importance of the canal, expanding global trade flows should significantly bolster Panama's overall growth. While trade as a percentage of GDP fell dramatically in Panama following the global recession, it has rebounded sharply since 2010. As a result, Panama's growth will continue to outpace global figures: while global trade is projected to grow at a rate of 3.5 percent to 3.7 percent over the next two decades, Panama's

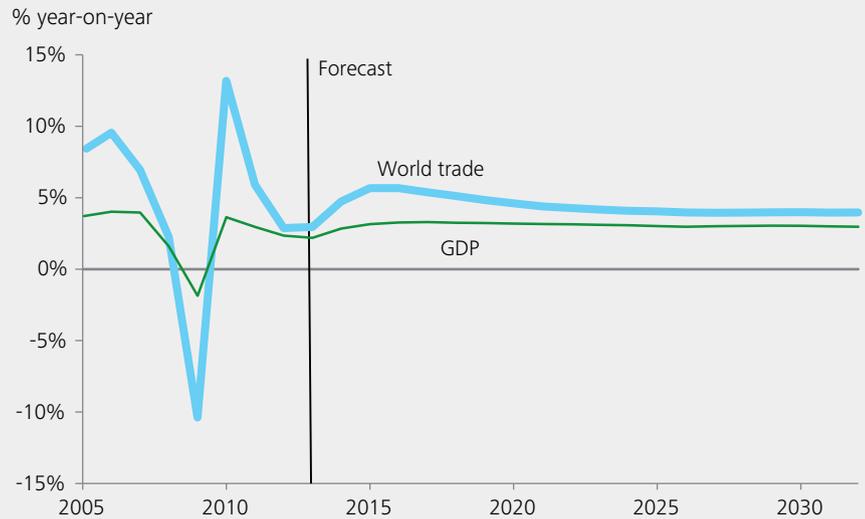
<sup>2</sup> Oxford Economics

annual growth rate in the global trade sector should exceed, at minimum, 5 percent for the next decade. Naturally, this impressive growth is largely attributable to the canal expansion, which will pump additional significant resources into the government's coffers.

Moreover, Panama's government clearly understands the vital role free trade plays in its continued prosperity. The country has signed a number of free trade agreements (FTAs) with important partners—including the United States, which remains Panama's most important trading partner (representing more than 23 percent of Panama's total merchandise trade in 2012). In 2013, the government also signed FTAs with the European Union and Canada. These agreements eliminate tariffs on key agricultural and manufactured products; most remaining tariffs are to be phased out over the course of the next decade.

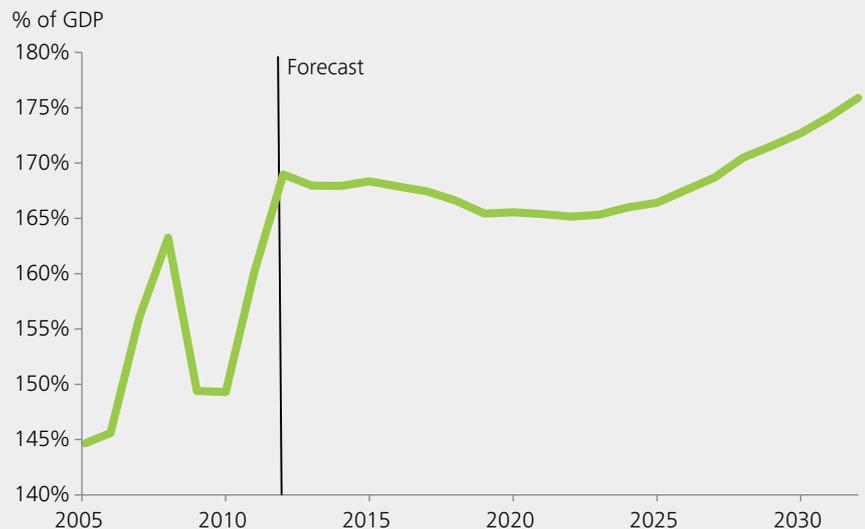
With strong sustainable growth, political stability, significant public and private infrastructure investments, and strong historical links to the U.S. dollar—not to mention beautiful, unspoiled beaches—it should be little surprise that Panama has grown into an attractive destination for foreign direct investment in the past decade. In sectors ranging from mineral exploration to hotel and resort development, this flow of foreign capital is not only creating new industries and job opportunities, it is also easily covering the country's current account deficit. Over time these deficits should begin to taper.

**Figure 3: World trade as percentage of GDP**



Source: Oxford Economics

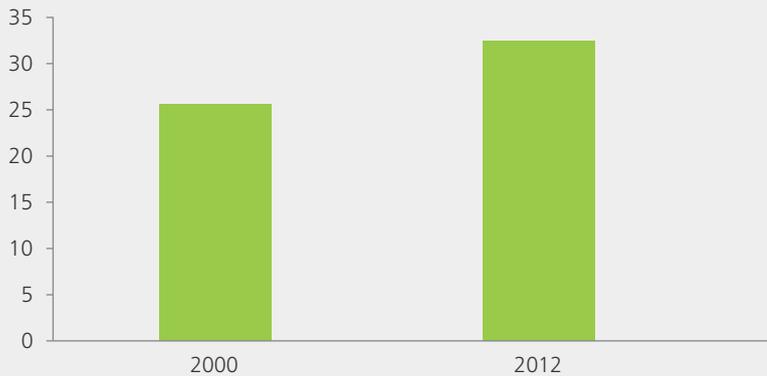
**Figure 4: Panama's trade as percentage of GDP**



Source: Oxford Economics

Figure 5: Foreign direct investment

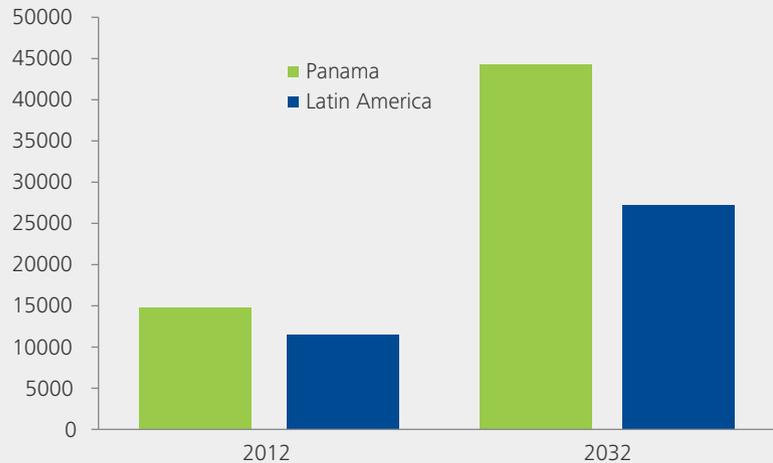
% of fixed investment



Source: Oxford Economics / IMF

Figure 6: GDP per capita

Current \$



Source: Oxford Economics / IMF

Another consequence of Panama's ties to the United States and the substantial revenues the country gains from canal tolls is that the Panamanian standard of living is relatively high compared with its neighbors. This is a service-based, not subsistence economy. In current purchasing price parity (PPP) terms, GDP per person in Panama exceeded \$15,400 in 2012, the highest per capita income in Central America. The comparable figures for neighboring Nicaragua is US\$4,400 and US\$10,400 for Colombia. Nonetheless, this is still a long way off the U.S., which generates \$51,700 in output per person. However, this high average income conceals substantial poverty and income inequality, linked to uneven distribution of land, an education system that does not fully equip its young people for future employment opportunities, and only a small measure of redistributive taxation.

Since Panama has already embarked on its transition to becoming a service-based economy, there is little reason to believe the nation's relative wealth can't be sustained over the longer term. By 2032, in fact, per capita income is projected to rise to almost US\$45,000 in PPP terms, more than 60 percent higher than the Latin American region as a whole.

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The Panamanian standard of living is relatively high compared with its neighbors—with GDP per person exceeding \$15,400.

## PART 2

# What will propel Panama's next wave of growth?

Unlike many of its less prosperous neighbors that depend on agriculture or manufacturing for growth, Panama has already developed a service-based economy. The service sector accounts for almost 80 percent of gross value added (GVA). Moreover, the service share of the economy has generally been growing since 2006, although there was a slight decline in 2012.

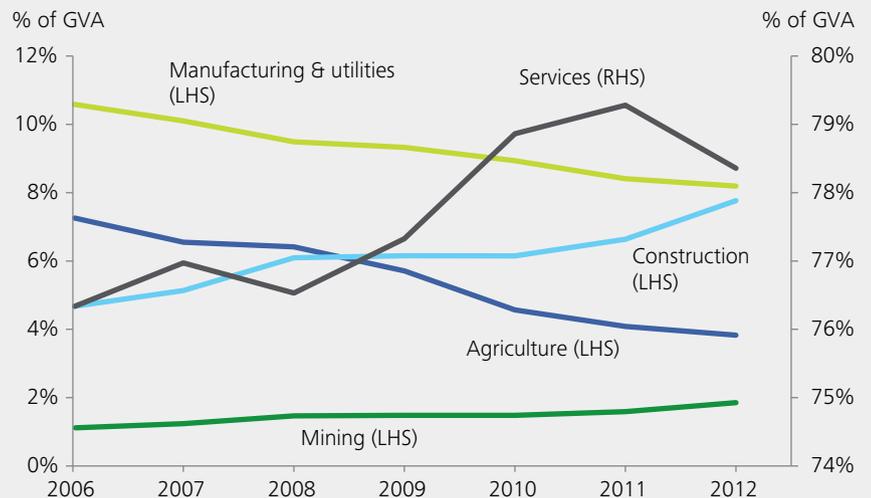
Today, transport, logistics, and communications services account for more than 35 percent of the total service sector and approximately 25 percent of GVA. In most Latin American countries, by contrast, services account for only about 10 percent of GVA. This large share reflects the importance of the Panama Canal to the national economy.

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Unlike many of its less prosperous neighbors, Panama has already developed a service-based economy.

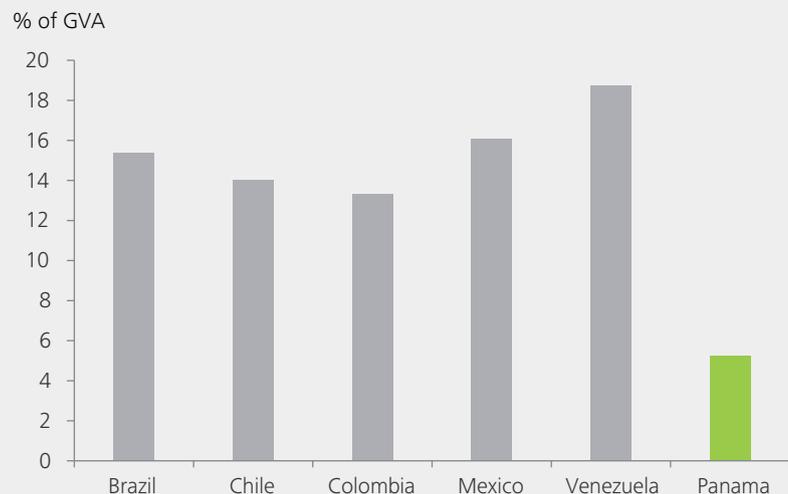
Since the Panama Canal offers easy access to imported goods from Asia and North America, there is scant incentive for local production. As such, the manufacturing sector is relatively small when compared with other Latin or Central American nations, with manufacturing output in Panama just above 5 percent of GVA in 2012, as compared with 12 percent to 20 percent in other large Latin American economies like Venezuela and Mexico.

Figure 7: Sectoral share of GVA



Source: Oxford Economics / Haver Analytics

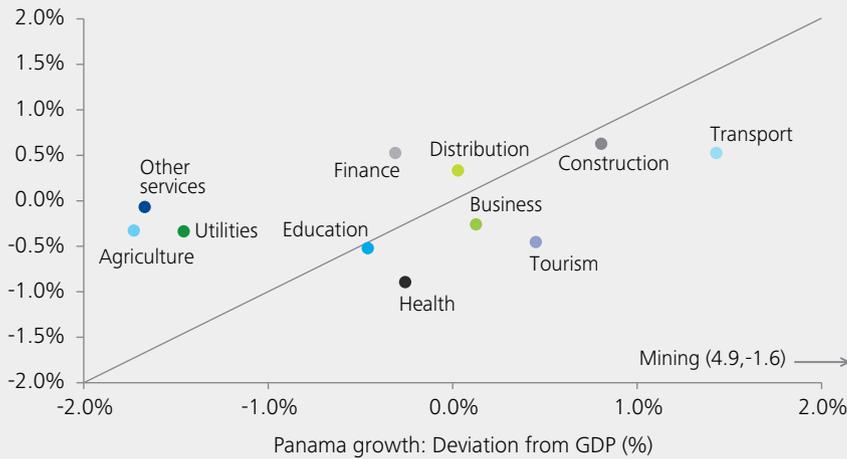
Figure 8: Panama's relative modest share of manufacturing



Source: Oxford Economics

**Figure 9: Industry growth in Panama relative to GDP**

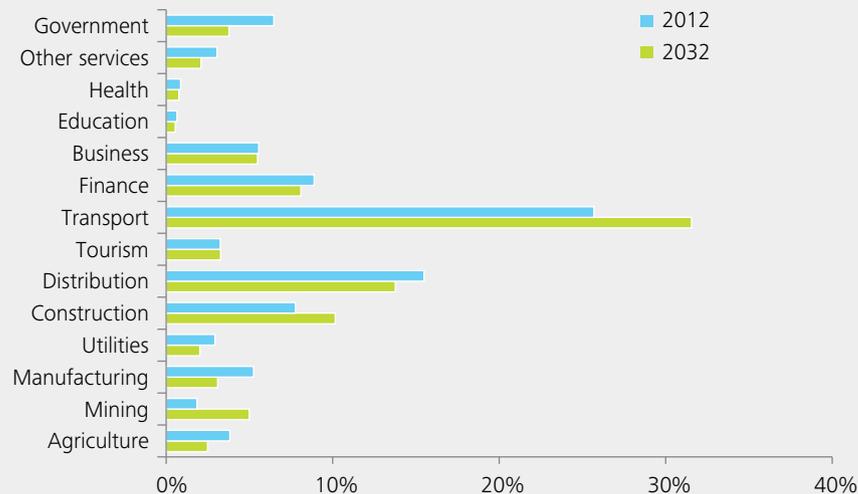
World growth: Deviation from GDP (%)



Source: Oxford Economics

Figure 9 shows industrial growth in Panama versus growth in the world as a whole, relative to overall estimated GDP growth from 2013 to 2032. Sectors below the 45 degree line (extraction, logistics and communications, construction, business services, and healthcare) are expected to grow faster in Panama, relative to GDP in the world as a whole. Sectors that are above the 45 degree line (agriculture, utilities, other services, finance, and distribution) are forecast to grow more slowly relative to overall GDP. Sectors that are on the line (education) will grow at the same rate relative to overall GDP. As the graph indicates, transportation and logistics, mining, construction, and tourism will continue to represent the keys to Panama's future growth.

**Figure 10: Projected industry share of Panama's GVA to 2032**



Source: Oxford Economics / Haver Analytics

Over the next two decades, manufacturing will continue to be less important as transportation and logistics lead the nation's expansion. Mining and construction will also become highly important drivers of national growth, while finance and hospitality sectors will mostly likely continue their current contribution to the national economy.

## Transportation and logistics

The soon-to-be completed expansion of the Panama Canal represents a heady but forward-looking bet that Panama can remain one of world's most vital shipping channels. It is expected to compete effectively against the Suez Canal.

The third set of locks of the Panama Canal will allow it to accommodate a new generation of colossal ships, so-called neo-Panamax ships. These vessels are as long as four football fields and more than 160 feet high. Just as important, the new dimensions will allow the ACP to charge nearly US\$1 million in tolls for the largest ships, compared with the highest tolls now of approximately US\$480,000 per vessel. An estimate from the U.S. Department of Transportation indicates that the Panama Canal expansion will double capacity through the waterway in terms of total cargo volume and reduce energy consumption for shippers.<sup>3</sup>

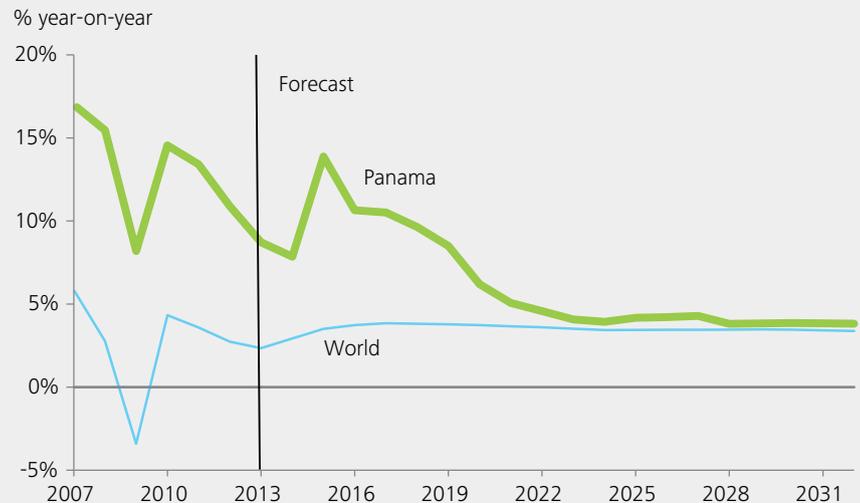
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An estimate from the U.S. Department of Transportation indicates that the Canal expansion will double capacity through the waterway in terms of total cargo volume.

Naturally, higher volumes should drive growth in the transportation and logistics sector in Panama. To that end, the government is now investing in additional capabilities in everything from information technology to cold chain infrastructure (which allows agricultural goods to be refrigerated moments after they are harvested until they arrive at the retailer), in order to make the country a competitive center for global logistics. The sector's share of GVA should exceed 30 percent in 20 years, up from about 25 percent today.

This forecast is based on the assumption that there are no further delays to the Panama Canal expansion project and that it is completed on schedule in late 2015. The doubling of capacity leads to a rapid increase in shipping traffic in 2016-19, just as the recovery in world trade is taking firmer hold. From 2013-17, output is expected to rise by 10.7 percent CAGR. This assumes that a rival canal project slated for Nicaragua, for which vast concessions were recently awarded to a Chinese businessman, ultimately fails to be completed. Even if such a project were to begin, Panama would have the opportunity to take measures to make construction of a rival project less attractive.

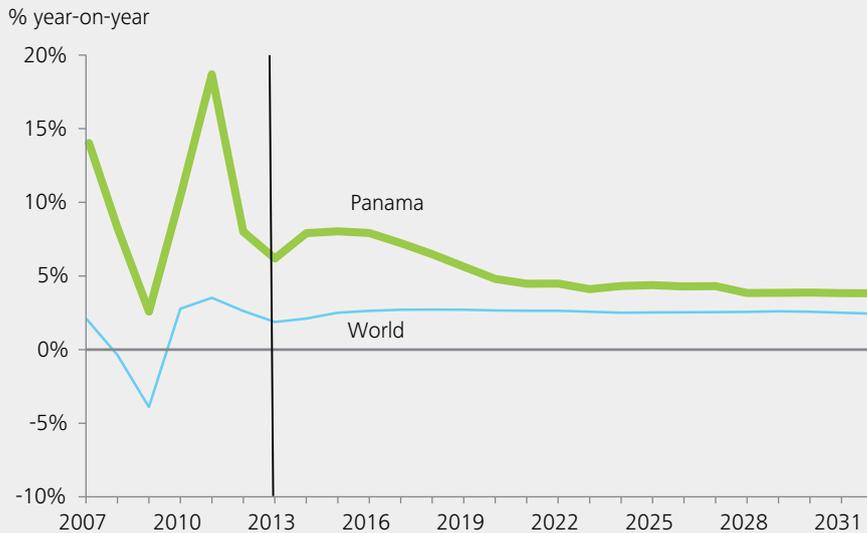
Figure 11: Panama's expected growth in transport and logistics



Source: Oxford Economics

<sup>3</sup> US Department of Transportation, *Panama Canal Expansion Study*  
[http://www.marad.dot.gov/documents/Panama\\_Canal\\_Phase\\_I\\_Report\\_-\\_20Nov2013.pdf](http://www.marad.dot.gov/documents/Panama_Canal_Phase_I_Report_-_20Nov2013.pdf)

Figure 12: Growth of tourism sector



Source: Oxford Economics



The country has also become more popular as a vacation destination as well. Although still a small share of the global total, tourism to Central America has increased considerably over the past decade. Panama's share of the region's overnight visitors has rose from 11 percent in 2000 to 17 percent in 2012. As word of Panama's attractiveness and stability spread, Panama may take tourism market share from its Central American neighbors.



Medical tourism represents another small but growing area. Panama has four modern, privately run hospitals that have upgraded their facilities recently. The government has promoted a "medical-free trade zone" that includes tax breaks for visitors and a certification process for those who would like to treat foreign tourists. By expanding and modernizing its medical facilities, the country hopes to attract Western tourists looking to undergo treatment at a lower cost.

## Tourism

The political stability and economic growth within Panama has also created a new wave of investment interest in the tourism sector, as real estate and hotel projects—many of them targeted to retiring U.S. baby boomers—are gaining momentum. Today there are more than 15,000 hotels rooms in Panama City, compared with perhaps 1,400 rooms in the late 1990s. In the past two years alone, a number of high-end hotel and resort companies have opened hotels in Panama.

In the past two years alone, Trump, Starwood, Waldorf-Astoria, Westin and Hard Rock have opened hotels in Panama.

In a further boost to the tourism industry, a former U.S. air base in Río Hato officially reopened as an international airport in late 2013, capable of handling direct flights from Canada and the United States. The airport is expected to accelerate development of vacation homes in Farallón, best known for its white sandy beaches. Retirees can easily buy second properties in the country as the economy is built on the U.S. dollar, easing concerns about currency fluctuations or cost-of-living adjustments. The hospitality industry also represents a significant portion of the country's FDI. As a result, growth in the industry is likely to exceed the global average throughout the next two decades.

## Mining

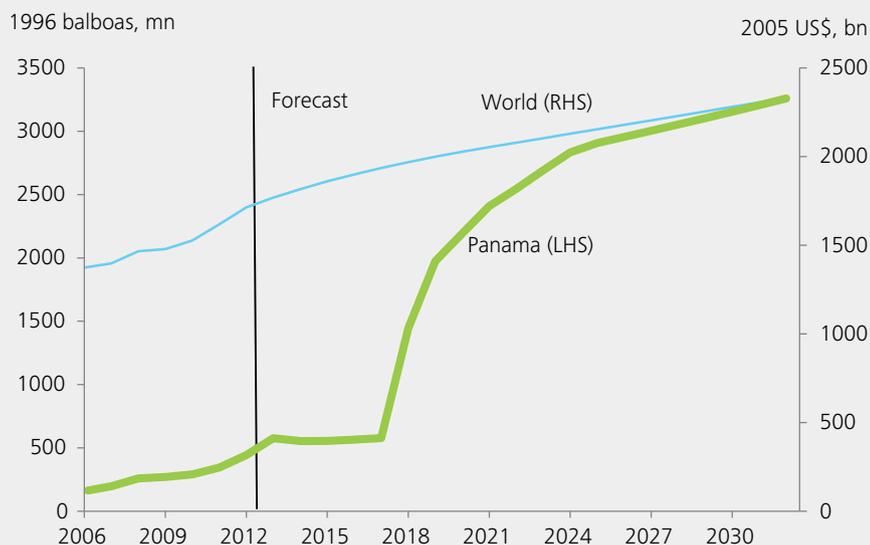
While growth in Panama's trade and tourism sectors might be readily anticipated, the discovery of significant mineral reserves offers enormous potential as well. The presence of copper and the investment of an estimated US\$6.4 billion in the Cobre Panama open-pit copper development project, located 75 miles west of Panama City and about 15 miles from the Caribbean Sea, is the most notable development. The project is owned by Canada's First Quantum Minerals and is expected to produce 266,000 metric tons of copper, 87,000 ounces of gold, and 1,545,000 ounces of silver per year. As a result, mining and extraction, which accounted for less than 2 percent of GVA in 2012, should grow to 5 percent by 2032. From 2018 to 2022, once the new mine's full capacity comes into play, mining production is estimated to rise at a 15 percent CAGR.

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Mining and extraction, which accounted for less than 2% of GVA in 2012, should grow to 5% of GVA by 2032.

This represents a significant boost to Panama's economic prospects. Until 2010, extraction industries in Panama were largely limited to small-scale minerals (until commercial production of gold began at the Molejón mine in January 2010). And there is further potential for Panama's mining sector to grow even larger. In 2011, for instance, the government backtracked on its plans to tender offers to develop the Cerro Colorado mine, due to opposition from indigenous groups. This land is thought to house one of the five largest copper reserves in the world. Should this, or any other new mine be developed, growth in the mining sector would be much larger.

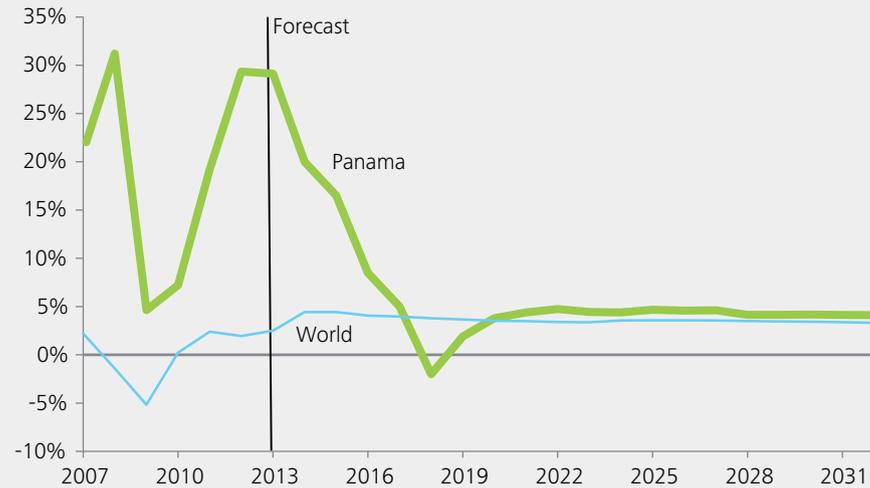
Figure 13: Projected mining growth in Panama



Source: Oxford Economics

Figure 14: Growth of construction sector

% year-on-year



Source: Oxford Economics

The government has earmarked US\$15bn—approximately 50% of GDP—for its Public Investment Program, which focuses on logistics, tourism, agriculture, and financial services.

## Construction

Whether part of the massive infrastructure projects now underway, or the result of investments in the real estate and hospitality sectors, construction will be a key driver of future development in Panama, with the canal expansion serving as a key catalyst.

In addition to the massive investment on the waterway, Panama City has finished construction of the first line to the region's only underground subway, a project that is costing approximately US\$2 billion. The government spent roughly US\$15 billion, or approximately 50 percent of GDP during the period 2009-2014 for its Public Investment Program (PIP). The PIP focuses on road construction to boost truck transportation and logistics, irrigation systems for agricultural development, airport expansion and construction to support tourism, and infrastructure investments to boost education—all sectors that have been identified as offering high potential returns in terms of growth and employment. Current estimates put the cumulative budget for infrastructure spending for the next administration (2014-19) at US\$19 billion, up from US\$14 billion during the current administration.

The extent of this public works spending is one of the highest in Latin America, with capital expenditures estimated at 9 percent of annual GDP, comparable to infrastructure spending in China. The U.S., by comparison, today spends about 2% of GDP on infrastructure. While this spending has driven up Panama's current account deficit, these shortfalls are easily covered by the sustained flows of FDI into Panama.

## PART 3

# Panama's future: Enabling the opportunities

Panama has already gotten many things right. It has moved assertively to modernize and expand its vital canal. It has created free-trade relationships with many of the world's most important trade partners. It has moved systematically to de-militarize a society once gripped by dictatorship, and developed a broad political consensus that boosts stability. From an economic perspective, it invested government resources in a host of infrastructure projects that aim to boost the nation's future potential.

In its next phase of development, Panama needs to continue this momentum. Most important, now that a contract dispute among contractors has been resolved, it must complete the canal expansion by the end of 2015 without going any further over budget. Panama should also ensure that mining franchise regulations permit economic development of the nation's massive reserves in an ecologically friendly way that balances the legitimate claims of indigenous peoples. And national leadership needs to do more to address the income disparities in the Panamanian society, managing development so that local populations share in the wealth.

While the World Economic Forum lists Panama as 40<sup>th</sup> on its global list for economic competitiveness—ahead of its neighbors—areas remain where Panama's performance could improve. A critical area is talent: almost half of the nation's employers cite difficulty finding skilled labor as a challenge<sup>4</sup>. Government programs to increase school attendance and modernize the curriculum are needed to help bridge this skill mismatch. And as the International Monetary Fund has noted<sup>5</sup>, the nation's justice system could be reformed and additional funding of the health sectors is needed to improve basic access to services, as well as new steps to bring women into the workforce, which can boost the nation's productivity.



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Panama's strategic geographic location, natural resources, and political stability will continue to serve as key advantages over the coming years. By investing wisely in its people and infrastructure, and keeping its economy open to investment and trade, it can ensure longer-term prosperity for its citizens.

<sup>4</sup> IMF, Panama 2012 Article IV Consultation: <http://www.imf.org/external/pubs/ft/scr/2013/cr1388.pdf>

<sup>5</sup> IMF Concludes 2014 Article IV Mission to Panama: <https://www.imf.org/external/np/sec/pr/2014/pr1466.htm>

## PART 4

# Public Policy and Competitiveness

There are a number of non-industry issues that are ripe for development which, if adequately addressed, would add to Panama's competitive positioning. One of these is corporate governance, which would increase confidence in the country's financial market and help attract foreign direct investment. The other is tapping the gender dividend: encouraging more women in the workforce overall, and more in leadership positions, both within companies and the government.

### Instilling market confidence through effective corporate governance

Corporate governance is a critical component to Panama's international competitiveness. Study after study shows that better corporate governance eases investment in countries around the world <sup>6</sup>. Not only do high standards of corporate governance help attract foreign direct and portfolio investment, they can inspire confidence among domestic retail and institutional investors, leading to a virtuous circle supporting higher levels of growth.

But better corporate governance also brings about support for the rule of law. Strong corporate governance supports protection of property rights and is highly correlated with consistency in the application of rules. For investors of all kinds in Panama, it is important to know whether there is legal recourse if something goes wrong; to know that the rules of the game won't suddenly be changed. It is precisely this improvement in corporate governance that can drive investment spending.

For Panama, corporate governance remains an opportunity to seize the initiative; moreover, policy changes in this area are relatively easy to make and completely in the government's control. According to a recent World Bank report<sup>7</sup>, progress in Panama's corporate governance will require changes in a number of fronts, in particular with respect to shareholder rights and disclosure:

- Improvement in disclosure of beneficial ownership of shareholders would allow investors to identify the ultimate owners of Panama-listed companies. Panama also needs to improve disclosure around the reporting of related-party transactions. Abusive transactions between companies and their owners on non-market terms can do a great deal of damage to investor confidence. The World Bank has recommended that Panama consider requiring issuers to file board minutes with the Comisión Nacional de Valores (today Superintendency of Securities Markets), Panama's equivalent to the U.S. SEC, to bring more of these transactions to light.
- Clarification and enhancement of the powers of the CNV allowing it to regulate listed companies and their governance practices more effectively. While Panama has relatively strong governance rules on paper, consistent enforcement of these rules remains a challenge. The World Bank has recommended that the CNV provide staff with further training so that they gain greater awareness of corporate governance issues and abuses <sup>8</sup>.
- The more consistent introduction of audit committees onto the boards of listed Panama companies. While some Panamanian companies have introduced audit committees, the practice is far from widespread. Independent audit committees would increase foreign investor confidence and provide a myriad of benefits to companies themselves, including independent oversight of the external auditor and a greater focus on improving financial reporting, internal auditing, and internal controls, among other benefits.

<sup>6</sup> [http://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/corporate+governance/publications/guidelines/reviews+and+case+studies/raising+the+bar+on+corporate+governance](http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/corporate+governance/publications/guidelines/reviews+and+case+studies/raising+the+bar+on+corporate+governance)

<sup>7</sup> World Bank report, 2004; <http://documents.worldbank.org/curated/en/2004/06/6582362/panama-report-observance-standards-codes-ros-corporate-governance-country-assessment>

<sup>8</sup> *ibid.*

In addition to the above recommendations from the World Bank<sup>9</sup>, there are additional benefits from a focus on the following areas:

- Professionalization of the community of Panamanian and foreign directors in Panama. The Panamanian Institute for Corporate Governance was established following the World Bank 2004 Reports on the Observance of Standards and Codes (ROSC) recommendations, and can play a strong and constructive role in enhancing the skills of existing and future board members. The delivery of best practice training on a number of fronts including risk oversight, internal controls, skepticism, and business ethics will enhance oversight effectiveness and provide for a larger and diverse pool of board candidates.
- Market incentives for good corporate governance. Panama should consider leveraging its stock exchange to encourage stronger governance practices. Panama could follow the lead of the Bovespa in Brazil, for example, which has introduced the Novo Mercado, a special listing segment of the exchange reserved for companies that voluntarily adopt enhanced governance standards. The system, used in Brazil and a number of other countries including China, Korea, and Turkey, helps improve governance awareness. The improved access to capital also provides a positive incentive to companies.

### Recognizing the gender dividend

When it comes to realizing the gender dividend, Panama is not starting from a zero base. In fact, culturally, women are respected and considered equal to men. On a number of statistics<sup>10</sup>—unemployment, percentage working in the informal sector, holders of formal financial institution accounts—women and men come out fairly evenly. The

country also has a strong history of women in leading government roles including Mireya Moscoso, who was Panama’s first female president, serving from 1999 to 2004.

According to a World Bank report<sup>11</sup>, 49 percent of women 15 years and older are economically active. Forty-three percent of women have a remunerated job<sup>12</sup>. Of these, 37 percent work in commerce, 30 percent work in white collar jobs (office work and the like) and 12 percent have professional, technical, or managerial roles<sup>13</sup>.

In the public sector, Panamanian women hold 21 percent of seats in the executive branch of government, 8.5 percent in the legislative branch, and 11 percent within the judicial branch<sup>14</sup>. Further, according to the World Economic Forum<sup>15</sup>, Panama ranks 37 of 135 in a study that analyzed gender gap.

This data compares relatively well with other countries. But with only 53 percent of women in the workforce in Panama, compared to 87 percent for men, and a substantial wage gap<sup>16</sup>, the gender dividend is still to be realized.

Furthermore, women in corporate leadership falls well short. In Panama, out of 208 directors of the 24 corporations that have its common shares registered with the securities regulator, only 18 (or 9 percent) are women<sup>17</sup>.

Numerous recent research studies show clearly that there is an undeniable correlation between diversity and business success. Companies with greater gender and racial diversity performed better in terms of sales revenues, number of customers, and market share<sup>18</sup>. More women in senior management translate into a higher return on equity, higher operating profits, and a more buoyant share price<sup>19</sup>.

<sup>9</sup> *ibid.*

<sup>10</sup> World Economic Forum Gender Gap Index, Country Profile Panama

<sup>11</sup> <http://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS>

<sup>12</sup> 2013 Gallup

<sup>13</sup> *ibid.*

<sup>14</sup> CEPA 2010

<sup>15</sup> World Economic Forum Gender Gap Index, Country Profile Panama, 2012

<sup>16</sup> *ibid.*

<sup>17</sup> <http://www.prensa.com/impreso/economia/mujeres-en-juntas-directivas/61136>

<sup>18</sup> “Does Diversity Pay? Race, gender and the business case for diversity,” Cedric Herring, *American Sociological Review*, Vol 74, April 2009

<sup>19</sup> “Women Matter 2010. Women at the Top of Corporations: Making it Happen,” George Desvaux, Sandrine Devillard, Sandra Sancier-Sultan, McKinsey & Company, 2010

Gender diversity is an asset to corporate image. Diversity increases the ability to deliver relevant products and services. A very high proportion of students say that an organization's approach to promoting diversity in the workforce is "important" or "very important"<sup>20</sup>. Diverse teams that are managed well outperform homogenous teams<sup>21</sup>. Innovation is a key benefit of having diversity policies and practices. There is a significantly higher return on equity for companies with more women board members<sup>22</sup>. There is a significantly higher return on invested capital for companies with more women board directors<sup>23</sup>. The Top 20 organizations in the *BusinessWeek* best companies for leaders are twice as likely to have more women in senior leadership positions<sup>24</sup>. All of these research findings together build the case for the economic empowerment of women and greater diversity.

### Ongoing progress

Recognizing the gender dividend will require progress on a number of fronts:

- Collaboration and leadership across business. Panamanian businesses need to continue to do more to advance women into leadership. Diversity and inclusion needs to be embedded into company culture so as to deliver the pipeline and promotion of talented women. Being aware of unconscious biases, providing appropriate career development support, sponsorship—not just mentorship, and encouraging male CEOs and executives to lead the way, are all important drivers of change. This holds true for the public sector as much as the private sector.

- A public policy framework that promotes and enables labor market and social policies supporting women if they choose to be in the workforce. Some examples include supporting frameworks for entrepreneurship, tax and benefit structures, education and training, and ongoing public/private partnerships. It could also include setting targets for the number of women on boards, women in leadership (public and private) and women in Panama National Assembly.
- The Panama government acting as a role model and promoting the voice of change. This includes leadership and a willingness to collaborate with business to bring best practices and a strong voice to the public debate.

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While this report looks predominantly at global industry trends and mentions just two policy drivers, this is not to underestimate the importance of effective public policy. Public policy must be considered alongside global industry trends when assessing competitiveness. In the case of Panama, continued focus on a strong public policy framework coupled, with ongoing political stability, provides for sustained strong competitiveness in the years ahead.

<sup>20</sup> Global Deloitte Recruitment surveys, 2010

<sup>21</sup> "Something New: Measuring Team IQ," Dr. Karsten Jonsen, IMD Research, June 2011

<sup>22</sup> "The Bottom Line: Corporate Performance and Women's Representation on Boards", Lois Joy, Nancy M Carter, Harvey M Wagener, Sriram Narayanan, Catalyst, 2007

<sup>23</sup> *ibid.*

<sup>24</sup> "Women Leaders: The Hard Truth About Soft Skills." *BusinessWeek*. February 16, 2010

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