

Czech University of Life Sciences Prague

Faculty of Economics and Management

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Diploma Thesis

**International business as an element of the development of
the country (Panama case study) - financial and capital
accounts development**

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DIPLOMA THESIS ASSIGNMENT

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Thesis title

International business as an element of the development of the country (Panama case study)- financial and capital accounts development

Objectives of thesis

The main goal of this work is to determine the impact of international companies' activities in Panama on its economy performance development, by using system of financial and capital accounts.

Sub-goals

- 1) To identify the dynamics of changes in economic and social indicators in Panama over the past 10-15 years.
- 2) To develop the SWOT analysis for Panama in relation to its international economy policy
- 3) To develop the suitable regression model of mutual relation between GDP performance and foreign capital flows
- 4) To set up some proposals for the further economy policy development of Panama

Hypotheses

Ho: Development of financial and capital accounts of Panama has an impact on its GDP.

Methodology

- 1) The problem definition
- 2) The relevant state of the arts/Literature review
- 3) Research objectives definition
- 4) Data collection
- 5) Data processing
- 6) SWOT-analysis
- 7) Statistical analysis (vertical analysis)
- 8) Econometric modeling method (Regression analysis)
- 9) Factual research

The proposed extent of the thesis

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Keywords

Panama, economic indicators, financial accounts, capital accounts, social indicators, analysis, offshore zones, development, influence, SWOT-analysis, dynamic, offshorization.

Recommended information sources

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Declaration

I declare that I have worked on my diploma thesis titled " International business as an element of the development of the country (Panama case study) - financial and capital accounts development" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on _____

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International business as an element of the development of the country (Panama case study) - financial and capital accounts development

Abstract:

This work is dedicated to identifying the importance of foreign business in the economic development of the country.

In this paper, using the example of Panama, the economic and social indicators of this country were considered. Were also reviewed indicators of activity of foreign business.

In the course of the work, a SWOT analysis was conducted, based on which the main strengths, weaknesses, opportunities and threats of Panama regarding its international policy were identified.

Also, in the course of the work a regression model was built to reveal the relationship between Panama's GDP/HDI and foreign business in this country.

The main objectives of this work are to define and proof that offshore status of Panama has a relationship with its economic and social development, by using econometric tools.

According to the results of this work, the set hypothesis was partially proved, and based on the analysis of economic and social indicators, proposals for further development were made.

Key words:

Panama, foreign business, financial account, economic development, social development, SWOT analysis, offshore zone, capital account, GDP, T-test.

Table of content

<u>Introduction</u>	9
<u>1 Historical background, definition and essence of offshore zones, capital and financial account</u>	11
1.1 <u>Historical background of offshore zones</u>	11
1.2 <u>The definition and essence of offshore zones</u>	12
1.3 <u>Definition and essence of financial and capital accounts</u>	14
1.4 <u>Review of the previous investigations</u>	16
<u>2 Historical background of economic and social development of Panama</u>	19
2.1 <u>Historical background of economic development of Panama</u>	19
2.2 <u>Historical background of social development of Panama</u>	23
<u>3 Methodology</u>	27
<u>4 Analysis of current state of Panama</u>	31
4.1 <u>Analysis of economic indicators</u>	31
4.2 <u>Analysis of social indicators</u>	39
4.3 <u>Analysis of foreign companies' activity</u>	45
<u>5 Practical Part</u>	56
5.1 <u>SWOT-analysis of Panama</u>	56
5.2 <u>Construction of the regression model</u>	61
5.3 <u>Results and discussions</u>	67
<u>6 Conclusion</u>	70
<u>7 References</u>	72

List of figures and tables:

Figures:

Figure 1 – SWOT analysis scheme

Figure 2 – GDP of Panama (current US\$), 2000-2016, billion USD

Figure 3 – Import of goods and services in Panama (current US\$), 2000-2015, billion USD

Figure 4 – Export of goods and services of Panama (current \$ US), billions USD

Figure 5 – Inflation rate in Panama, 2000-2017, consumer prices (annual, %)

Figure 6 – Population of Panama, 2000-2017, total, billion USD

Figure 7 – Annual unemployment rate in Panama, 2000-2017, total (% of total labor force)

Figure 8 – GINI coefficient in Panama, 2000-2017 (%)

Figure 9 – HDI coefficient

Figure 10 – Foreign direct investments in Panama, 2000-2017 (billion USD)

Figure 11 – Net capital account in Panama 2003-2017 (BoP, current US\$,mln)

Figure 12 – Net financial account in Panama 2000-2017 (BoP, current \$US, bln)

Figure 13 – New businesses registered in Panama, 2006-2016, (number)

Figure 14 – SWOT analysis for Panama in relation to its international economy policy

Tables:

Table 1 – Social indicators of Panama, 2017(world rating)

Table 2 – Data set №1 (GDP and Capital account)

Table 3 – Regression analysis for «Data set №1»

Table 4 – Data set №2 (GDP and Financial account)

Table 5 – Regression analysis for «Data set №2»

Table 6 – Data set 3 (HDI and capital account)

Table 7 – Regression analysis for “Data set 3”

Table 8 – Data set 4 «HDI and Financial account (bln USD)»

Table 9 – Regression analysis for «Data set 4»

Table 10 – T-test results for GDP and Financial accounts

Table 11 – T-Test results for HDI and Financial accounts

Introduction

Recently, offshore zones have become widespread. Such well-known world organizations as the International Monetary Fund, the Organization for Economic Assistance and Development show interest in the development of this topic. This issue is also given the necessary attention by the specialized units of the United Nations, the European Union and individual countries.

The relevance of this topic is determined by the influence of offshore zones and companies operating in them, on the redistribution of financial resources, which is associated with the inflow or outflow of capital, which has an indirect impact on the economies of individual countries and the global economy as a whole.

Interest in this topic is quite justified, since huge amounts of financial resources are concentrated in offshore zones, which are formed both by legal means and by illegal means.

Today, there are more than 60 countries in the world whose legislation provides for tax breaks for offshore companies.

In this work will be considered the case study of Panama and the influence of the offshore status of this country on its development by analysis of financial and capital accounts.

The main goal of this work is to determine the impact of international companies' activities in Panama on its economy performance development, by using system of financial and capital accounts.

The main tasks of this work are:

- 1) To identify the dynamics of changes in economic and social indicators in Panama over the past 10-15 years.
- 2) To develop the SWOT analysis for Panama in relation to its international economy policy.
- 3) To develop the suitable regression model of mutual relation between GDP performance and foreign capital flows/HDI
- 4) To set up some proposals for the further economy policy development of Panama.

The hypothesis of this work is:

H1: Development of financial accounts of Panama has an impact on its GDP.

H2: Development of capital accounts of Panama has an impact on its GDP.

H3: Development of financial accounts of Panama has an impact on its HDI.

H4: Development of capital accounts of Panama has an impact on its HDI.

The main methodological tools which will be used in this work are:

- 1) Data collection
- 2) Data processing
- 3) SWOT-analysis
- 4) Econometric modeling method (Regression analysis and T-test)

The work will consist of 5 parts. In the first part, the historical background and theoretical foundations of offshore zones will be considered. In the second part, the historical background of the development of Panama will be considered. Part three will contain the methodological tools. Part four will analyze the economic and social indicators in Panama in recent years. The fifth part involves the construction of the SWOT analysis, regression model and summarizing the proposals for the further development of the country.

This work will contain numerical and graphical data reflecting the economic and social situation in the country in recent years. These data will be very useful for further statistical analysis, constructing a SWOT analysis and proposing further development of the country.

The different types of sources will be used during this work: books, Internet resources, namely, official websites of state and world statistics and electronic books. Sites of world and state statistics will be used to a large extent, as most of the work is based on the collection, processing and analysis of statistical data.

Also, in addition to electronic resources of statistics, this work will use book editions that will help highlight the theoretical part of this work. In this work, books by domestic and foreign authors will be used.

1. Historical background, definition and essence of offshore zones, capital and financial accounts

1.1 Historical background of offshore zones

The term "offshore" first appeared in one of the newspapers on the east coast of the United States in the late 50s. and designated a financial institution that avoided government control by geographic selectivity. That is, the company has geographically shifted the activities that the US government was supposed to regulate and control, beyond the reach of the tax authorities.

In Russian, the term "offshore" came from English, where "off-shore" literally means "off-shore", "on the high seas", "isolated". In modern economic literature this term designates one of the types of special economic zones, a specific form of organization of commercial activity.

The use of offshore schemes is not an exclusively modern phenomenon. When the ancient Athens introduced a two percent import and export tax, the Greek and Phoenician merchants began to make a detour of twenty miles to avoid paying these fees. Soon, the small neighboring islands became shelters for duty-free and tax-free trade and places of accumulation for the smuggling of goods into Athens without paying taxes.

In the fifteenth century, Flanders was a thriving international commercial center with few restrictions or taxes on local or foreign goods. As a result, English merchants preferred to sell their wool in Flanders, but not in England, where they would have to pay high taxes and duties.

The United States has a history of tax evasion since the eighteenth century. To evade import tax imposed by England, American colonists moved and directed their trade through Latin America.

In the modern economy, the most important goal of creating offshore jurisdictions is to attract financial business. Switzerland is the first modern model of jurisdiction of financial secrecy, created as a refuge for foreign capital and is a center for the exchange of money. In the eighteenth century, the City Council of Geneva (Switzerland) passed a law that required bankers to keep records of their clients' accounts, but forbade them to disclose this account to anyone without the express consent of the City Council.

The social and political upheaval in Germany in the 1930s and the enactment of the Swiss Banking Secrecy Act in 1934 (revised in 1971) ensured Switzerland a place in global financial

secrecy. Billions of dollars of European wealth were kept safe in Swiss banks during World War II.

Recently, other countries have enacted secrecy laws in the image and likeness of the Swiss and began to compete for attracting international capital. Many tax haven countries view financial business as a relatively stable source of income and actively develop it. Most tax haven countries have an active policy of attracting financial business. For many island countries that do not have competitive advantages, this type of activity is the only affordable way to attract resources for economic development. Many states organize seminars and their officials come up with articles promoting the advantages of their country as a tax haven and jurisdiction over financial secrecy. Barbados, for example, recently adopted banking legislation to improve their competitiveness as a financial center. The Bahamas have started a very aggressive company in order to become an elite center for the registration of banks, insurance companies and ships. The Cayman Islands are recently the fastest growing and most prominent among the new jurisdictions of financial secrecy. These assets have become one of the largest tax havens in the world. Today, there are 18,000 corporations registered there, others that exceed the number of residents.

1.2 The definition and essence of offshore zones

In the modern world, the concept of "offshore zone" is becoming more common. Offshore zones are closely connected with state policy and economy, international relations, cover macro and microeconomic levels. Each country is considering and studying the issues of offshore zones to create an effective plan of measures to regulate the state economy and politics. Such zones have a significant impact on the economic situation of the country and the world. They are undesirable economic territories for many states. Therefore, these countries are trying to create the most favorable conditions for business activities within their borders, issue laws that prohibit or prevent registration of activities abroad, or create their preferential territories. At least more than half of all banking assets and a third of direct investments that multinational corporations make abroad go through «tax havens». Experts of the Tax Justice Network conducted a study and found that 99 of the 100 largest companies in Europe used offshore subsidiaries. According to estimates by the International Monetary Fund, only the balance sheets of small island financial centers amounted to one third of the world's GDP, or rather, \$ 18 trillion.

Thus, an offshore zone is a special territory of the state or a country with significant tax benefits or with the complete absence of taxes on the registration or re-registration of business activities for non-residents of the state. Most often they are island states with a stable political and economic situation. Offshore companies provide favorable conditions for doing business: low tax rates or their complete absence on the company's profits and personal incomes; guarantee of confidentiality of information on registered companies; an accelerated and secure process for registering or re-registering firms; lack of currency control; minimum requirements for existence. Offshore zones offer a tax-free regime for foreign companies with the condition that firms will not conduct their activities within this state. The prohibition of doing business within the preferential zone or the country in which it is located was created to ensure the security of national business activities. Tax havens receive their main revenues from fees for registering or re-registering foreign companies; tax revenues; the cost of companies in the management and maintenance of offices in the zone. For example, office rent, electricity, communications, staff salaries, transportation, food, accommodation, etc. In case an offshore company needs automobiles, equipment or other goods outside the offshore territory, then import they are not taxed. The states have their own lists of preferential zones, there is no specific list of them. One of the functions of the International Monetary Fund and the Central Banks of the countries is the control and supervision of offshore zones. The effect achieved when creating tax havens has two sides.

A thriving offshore zone can bring significant benefits to the country in whose jurisdiction it falls. First of all, such zones are created for the purpose of making a profit, achieving a certain positive effect or benefit. They are also created to develop individual sectors of the national economy, for example, to develop high technologies, the manufacturing sector, the tourism and recreation sector, the transport and telecommunications infrastructures, to develop new technologies, etc. Moreover, creating a preferential zone can be a partial solution to the problem employment and unemployment of the population. Thus, in some areas, it is required to have a job required for the work of residents of a given state in the offices of offshore companies. One of the negative aspects and problems of the existence of offshore zones is the anonymity of registered companies. Governments need to establish measures to ensure security when finding companies whose activities are directly or indirectly related to terrorism, the shadow economy and other crimes. Despite the fact that offshore companies are not small, the criteria for their creation are quite strict. According to these criteria, future offshore companies choose the most favorable jurisdiction: high political stability, namely, the absence of political tension in the country, riots, riots, lack of likelihood of state coups, etc.

Island examples that are most isolated from world crises and state unrest such as the Bahamas and Bermuda can serve as vivid examples. stable economic situation. Here, the low level and rate of inflation, the absence of sharp jumps in the exchange rate of the state's currencies — stability, favorable conditions for the import and export of capital, conducting commercial and industrial activities, the absence of currency restrictions, etc. — are important. The currency with which the tax function harbor, for example, if the state works with dollars, then there will be no additional need and problems with currency conversion, since dollars are among reserve currencies, but at the same time officially, but perform the role of world money. a high degree of development of innovation, infrastructure, telecommunications, international routes and the transport network, liberal tax laws.

Despite the fact that English is the working language for all states, it is preferable that it is the official language of the tax-free zone. For example, the Bahamas, Panama, the British Virgin Islands, Belize, Caicos are popular for keeping funds. One of the advantages of these jurisdictions is that these are former or present colonies of Great Britain. This makes communication convenient (English is the state language) and is also well perceived by partners and banks. the level of development of services and their variety in the banking sector: how much and what types of services in banks are provided in offshore jurisdiction affects their attractiveness, guarantee of preservation of financial and commercial information about an offshore company. Strict confidentiality and the prohibition of access to valuable company data is one of the main criteria for the selection of tax-free territories. the cost of consulting, auditing and other services, the price of maintenance of firms, the costs of various activities of the company, the value of fees for registration or re-registration, etc. Thus, for the creation and effective functioning of the tax haven, you must meet the above requirements.

Offshore companies are also widely used to store personal savings. This allows citizens of countries with unstable economies to keep funds in reliable foreign banks, while not violating the laws of their own country.

In most countries, with the exception of a few European ones, there are no restrictions on the formation of authorized capital and its payment at the time of registration of the company.

As a rule, offshore companies are exempt from the provision of accounting reports to any government agencies, so the forms of bookkeeping can be completely arbitrary. The only exceptions are a few countries that require offshore companies to submit an annual audit report. The confidentiality of information on company owners in most offshore countries is guaranteed by the relevant laws, some of which criminalize the disclosure of the names of company owners. If a company is registered in one of the few countries where information on owners is public, full confidentiality is provided by the services of nominee shareholders and directors.

Offshore companies also stimulate reduction of transaction costs of the tax system in “onshore” states. If the country's economy has a low level of development, is mono-oriented (for example, for the extraction and export of resources) and does not have competitive firms in key sectors of activity, its interaction with offshore companies will reduce the level of taxation for foreign TNCs. Finally, for local entrepreneurs, the creation of a company abroad and running a business through its branch within the country can serve as a factor in improving reputation: after all, formally, the company is foreign.

1.3 Definition and essence of financial and capital accounts

The capital account reflects income from asset trading, for example, from the sale of stocks, bonds, real estate and companies to foreigners, and expenses arising from the purchase of assets abroad.

$$\text{Capital accounts} = \text{Assets sales proceeds} - \text{Expenses for the purchase assets abroad}$$

The balance of capital movements shows, thus, how net foreign assets change, and hence the net inflow or outflow of capital. If the proceeds from the sale of assets to the rest of the world are greater than our expenses for the purchase of assets for boundary, the balance of capital movements is reduced with a surplus. In this case, capital flows into the country, i.e. there is a net capital inflow.

On the contrary, when more assets are bought abroad than foreigners buy in our country, there is a net outflow of capital and the balance is reduced with a deficit.

There is the following simple rule that helps to distinguish the surplus from the deficit in the current balance of payments and the balance of capital flows.

1) When related transactions lead to net foreign exchange earnings, this balance is reduced with a surplus.

2) When a country buys more goods abroad than it sells, i.e. when a country spends more foreign currency than it receives, then there is a deficit in the current balance of payments.

3) When the sale of assets to foreigners and loans abroad ultimately exceed the purchases of foreign assets and loan payments, the country acquires foreign currency as a result of net capital inflows and, consequently, there is a positive balance of capital movements.

The financial account reflects transactions with assets and liabilities (liabilities) of residents in relation to non-residents, which were carried out in the reporting period.

Traditionally, in PB, assets and liabilities are primarily classified according to their functional characteristics: direct investments, portfolio investments, reserves and other investments.

The boundaries between these groups are rather arbitrary. Direct investments are made to influence the process of enterprise management, which is achieved through participation in the company's equity. The provision of capital to an enterprise by a major shareholder in a form other than participation in the equity capital of this enterprise is also defined as direct investment.

Portfolio investments are debt securities, shares, etc., which are acquired mainly to generate income while maintaining a certain liquidity of funds.

To distinguish between direct and portfolio investments, the following criterion is used: if the investor owns 10% or more of the company's ordinary shares (or voting rights if the company is not a shareholder), then it is considered a direct investment enterprise. Portfolio investments also include money market instruments, for example, short-term securities traded in financial markets (including short-term bonds and promissory notes), as well as financial derivatives, such as options and currency futures.

The reserves are liquid foreign assets that are owned or controlled by the country's monetary authorities, i.e. central bank and other bodies that perform its functions. Reserve assets are used by monetary authorities (CRO) to eliminate payment imbalances in the country's foreign economic sector (for example, by intervening in currency markets inside the country).

Other investments cover all transactions with assets or liabilities that are not included in the three functional categories mentioned above, for example, loans, cash and deposits.

1.4 Review of the previous investigations

There are a lot of researches about different aspects of Panama. Some of them are devoted to healthcare, some of them to economic development, some to environmental changes. But in this research, it would be relevant to use researches which are devoted to social and economic development. So, to discuss 2 articles/reports were chosen: «Panama economy confidently moving forward in 2017» from «SCG: Safety Consulting Group» portal and «Crossing Over: Development & Inequality in Panama's Dual Economy», written by Michael King. These researches have one direction of investigation, but different point of view on the problem.

Report from SCG shows that in the first place for economic indicators is the Panama Canal, which leads the Panamanian state revenue items. In January and February 2017 alone, the Panama budget received \$ 375.23 million in revenue.

The expanded Panama Canal, which began work after its reconstruction in late July 2016, is gradually increasing its capacity. Thanks to the improvement of the canal, Panama can now serve larger vessels, thereby increasing the global significance of its waterway for the shipping industry. In the first five months of 2017 alone, freight traffic through the Panama Canal increased by 12.6% compared to last year.

At the same time, amid growing economic activity and low inflation, the unemployment rate in Panama is increasing. Given the merits of the president and the government in terms of attracting investment and reform, there is a huge gap in the field of education and training of workers. Panama is experiencing a shortage of skilled labor, despite efforts by the government to introduce general education programs. According to officials, unemployment in Panama is 5.5, and this is within 100,000 people.

Back in 2012, the former President of the Republic of Panama, Ricardo Martinelli, to address unemployment problems, introduced a decree on migration policy. A new state policy was adopted to accelerate the attraction of qualified specialists and businessmen to the country.

This is the so-called Visa of friendly countries. Today, these are 50 states that are among the partners of Panama, whose citizens can obtain a residence in Panama on an expedited basis with low costs. Thus, the government wants to increase jobs through the development of foreign business, attracting investors and eliminate the shortage of qualified personnel in its high-tech enterprises. The government expects that attracting foreign capital and a number of categories of specialists will affect not only economic growth, but also partially solve the issue of employment of indigenous Panamanians.

So, the main idea of this report that economy of Panama is rapidly growing, and Panama Canal is the main factor of progress, but it also shows that there are a lot of problems in social and economic development of this country, for example unemployment rate and education problem. There are the sharpest problem in this country and they need to be solved as soon as it possible.

The second report is more about problems of this country. There are some quotations from this article: «The marked disconnect between Panama's historic and projected patterns of GDP growth and income inequality are largely explained by the nation's unique economic structure and role in the global economy. Panama can be described as a 'dual economy' – one in which a "dynamic services export sector has few linkages with the rest of the economy.”

While the Panama Canal is by far the most prominent feature of the country's economic landscape, it provides less than 1% of the country's employment, so the small number of individuals who earn wages ten to twenty times the national average are not a significant portion of the total population. Of course the Canal does not operate in total isolation: related sectors like finance, banking, and the Colón Free Trade Zone provide income to large segments of the population, and it has been estimated that more than 30% of annual economic growth is the result of port activities alone.¹³ In total, the internationally-focused services sector accounted for upwards of 60% of annual GDP in 2001.¹⁴ Yet at the same time some 21% of the population still makes its living through agriculture – a sector that accounts for only 8% of total value added each year.¹⁵ These rural individuals, including the isthmus' indigenous groups, see little direct benefit from the Canal's presence in their country. The \$5.25 billion canal expansion project currently underway will likely do nothing to change this situation, and studies indicate that national income inequality actually stands to increase along with the anticipated rise in Canal traffic from 2014 onward.¹⁶ For Panama to close its income gap it will be necessary to bridge this divide, whether by boosting agriculture's profitability or by transitioning farmers into the more globalized services sector that drives the nation's economy. How best to accomplish this goal is open to debate?»

These investigations could be used for result and discussion paragraph to define the points of contact between opinions.

2. Historical background of economic and social development of Panama

2.1 Historical background of economic development of Panama

The economy of Panama is based on the exploitation of the Panama Canal, as well as on banking, insurance, ship registration under the flag of the country and tourism. These industries account for about two thirds of Panama's GDP, and about two thirds of the workers are employed. GDP per capita in 2009 was \$ 11.9 thousand (93rd place in the world). Industry gives about 17% of GDP (18% of workers are employed), and agriculture - about 6% of GDP (15% of workers are employed). The main crops are bananas, rice, corn, coffee, sugarcane, vegetables; cattle are raised. Industries - construction, brewing, cement and other building materials, the production of granulated sugar.

The peculiarity of the geographical position of Panama was also manifested in the structure of its economy, which has specialized since colonial times in the sphere of international services, the range of which has been constantly expanding. The services sector accounts for about 82% of GDP, while agriculture - 6.0%, manufacturing - 17.0%, and construction - 5.0%. This type of economy was defined as "transit economy". Its backbone elements are the inter-ocean gateway channel, leading in the Western Hemisphere, the free trade zone in the city of Colón (WTCA), a major international banking center, the formal status of Panama as the largest maritime world power since 1994 (the phenomenon of "tax haven" or "convenient flag ") and tourism (from the middle of 1990s).

Since the opening of the Panama Canal on August 15, 1914, St. 850 thousand passes through the canal annually cross the canal approx. 13 thousand ships, and duties for the passage of ships amount to about 600 million Balboas, i.e. OK. 6% of GDP. In 2001, the volume of import-export operations in the West Siberian railway complex was equal to 10.16 billion balboas, and the number of companies operating here is close to 2 thousand.

The main partners of the zone (in terms of imports) are the countries of Asia (Hong Kong, Taiwan, Japan, etc.), the main users are the countries of Latin America, which are, in particular, members of the Association of Latin American Integration. In recent years, the export of the Russian Federation to the West Siberian Customs Union has sharply declined, although it was previously small in terms of value (\$ 0.5 million in 2001 compared with \$ 21.5 million in 1997).

The International Banking Center in Panama, whose development was inspired by the 1970 law, as of December 31, 2001, 81 banks were registered with assets exceeding \$ 38 billion, although the center's operations peaked in 1983, when more than 125 banks operated and their

assets were approaching \$ 50 billion. In the registry of the national merchant fleet of Panama to the beginning of 2002 10,095 vessels with a total tonnage of 143.2 million tons were registered. Thanks to the preferential legislation of 1994, international tourism began to develop intensively in Panama, including cruise and ecotourism, due to the influx of large-scale investments, including foreign ones, in infrastructure and land, returned to Panama the United States. If in 1994 the country was visited by 362 thousand foreign tourists, who spent \$ 261.6 million in P., then in 2001 their number was 500.3 thousand (expenditure - \$ 485.9 million).

The openness of Panama's economy also gives free circulation of dollar bills throughout the country. The very low rates of inflation are due to the lack of the right of the Panamanian government to issue paper balboas (only coins are minted), there is no central issuing bank in the country. Therefore, the amount of money in a country is determined by the flow of foreign capital, the state of the balance of payments, which in the conditions of a developing country leads to the need for external borrowing.

The uniqueness of the economic model of Panama, based on its comparative advantages in the global division of labor and the claims of the country's ruling elites to turn Panama into the Singapore of the Western Hemisphere, also determines its high degree of vulnerability to global market conditions, foreign investment and differences in the global climate of cooperation. Thus, in the conditions of slowing down the development of the world economy in recent years, changing the vector of international cooperation and the unstable economic situation in Latin America, which has a direct impact on the activities of the international banking center in Panama, a slowdown in economic growth has occurred.

Speaking about agriculture, half of the peasants use state land. For domestic consumption, rice, maize and sugarcane are grown. For a long time, strong land inequality persisted. In 1968 an agrarian reform was carried out and a number of lands were redistributed towards the peasants. The most fruitful area is the province of Chiriqui, where large plantations of American companies such as United Fruit are located. They are grown mainly bananas, plantations are located on the Pacific and Atlantic coasts. Cocoa and coffee are also grown.

In 2004, the agriculture sector showed an increase of 3.0%. The volume of production of non-traditional export products, such as pineapples, melons and watermelons, increased mainly (an increase of 39.2%). In addition, the volume of production of traditional products increased, such as grain (growth by 5.2%), beans (by 4.8%), cane (by 3.3%), coffee (by 4.8%) and floriculture (by 11.4%). The number of cattle increased by 2.7%; pigs - by 6.9%, and poultry - by 12.7%.

A negative factor was the decline in banana production by 1.1%, due to labor problems, phytosanitary and weather disasters; but mainly from the problems of demand in the European

market and the prevailing problem of phytosanitary (combating black plague), directly affecting production costs.

Fishing in 2004, this industry showed an increase of 1.5%, compared with 12.6% in 2003. The increase in industrial and export fish catch (sea bass, dorado, anchovy and herring) was a small figure (only 1.5%) in this field of activity. Shrimp exports faced the problem of falling world prices, which was a result of Europe's refusal to import shrimp, and an increase in the supply of this product from Asian countries, leaving this industry a chance to work only with the US market.

Manufacturing industry in Panama also is taking place. In 1968, one of the world's largest copper deposits was discovered in Cerro Colorado (Chiriqui). The government has developed a plan to build a mine, a copper smelter and a seaport on the Pacific coast, but this project, worth \$ 2 billion, had to be frozen due to the enormous financial costs and the unstable world prices for copper. Small reserves of copper are in Cerro-Petakilia; explored but not yet estimated deposits of copper at Cerro-Choich and Rio Pinto. In the province of Veraguas in 1980, deposits of gold and silver were explored.

Oil fields were discovered in 1980 on the shelf near the San Blas Islands and 180 km east of the city of Panama. In 1982, the government approved a project to build an oil pipeline from Chiriqui Bay on the Pacific coast to Bocas del Toro on the Caribbean coast, where it is planned to build a terminal for loading tankers. The project cost is estimated at \$ 250 million

The manufacturing industry was developed after the end of the Second World War. The food and light industries are more developed; the chemical and petrochemical industries are developing. There are sugar cane processing plants.

The manufacturing industry after Panama's accession to the WTO in 1997 was in the lingering crisis period (a decline of 3.5% in 2000) due to the loss of competitiveness, which leads to a reduction in its share in GDP and merchandise exports. The manufacturing industry is represented by small enterprises, the leading place in it is occupied by the food industry: sugar production (146 thousand tons, 2001), processing and canning of milk, fruits, vegetables, fish, production of alcoholic and soft drinks. The production of the coking and clothing industry is reduced. There is a small capacity for the production of furniture from mahogany. Against the background of the crisis in the manufacturing industry, with not a significant amount of mining production and a sharp decline in construction (-11% in 2002), electricity production is growing at a steady rate, most of them at 4.86 billion kWh (2001) and 5.1 billion (2002), an increase of 14%.

The Panama Canal is the one of the most important factors in the development of this country. Since the discovery of the Pacific coast of Panama, many have dreamed of creating the

opportunity to connect the Atlantic and the Pacific Ocean, thus avoiding the 12,000-mile journey around South America. August 1914 became such a significant day in the history of the world shipping company, after decades of planning and excavation, one of the most interesting structures in the world began its existence, thus opening a new era of development for Panama. Although the distance from one coastline to another is only 40 miles, the ingenuity and perseverance of the canal's creators are evident in every section of this unique structure.

The Panama Canal runs across the country, its length is 80 km. (50 miles) from the capital on the Pacific Ocean to the city of Colon on the Caribbean. The Canal is widely believed to be one of the world's most interesting technical advances. The United States is the largest user of the Canal in terms of cargo tonnage, although recently Asian countries have also begun to use the route for their merchant ships. Approximately 12% of US maritime international trade, in terms of tonnage, passes annually through the Canal. Ships bound for Japan from the East Coast of the United States save approximately 3,000 miles when passing through the Canal; ships sailing from Ecuador traveling to Europe save approximately 5,000 miles.

About 13,000 ships transit the Canal each year, towing about four percent of the world's goods around the globe. 70 percent of all Canal trading is tied to US-based companies. Fifty million gallons of freshwater are needed to float one ship across the Canal, all of which is supplied free by forests from the nearest slopes, which capture the abundant tropical rains and feed the Canal with rivers.

The Panama Canal Administration has implemented an improvement program worth \$ 1 billion, which contributes to the maintenance of the Canal. The program includes the expansion of the narrow Gaillard Cuts, allowing two-way traffic for even the largest vessels and increasing the capacity and throughput of the Canal.

In 1903, the Republic of Panama and the United States signed the Panama Canal Agreement, which allowed the United States to build and manage a canal connecting the Pacific Ocean to the Caribbean Sea through the Isthmus of Panama. The agreement granted the United States the use and control of the Canal Zone, approximately 10 miles wide, in which the United States possessed full sovereign rights. In turn, the United States guaranteed the independence of Panama and paid the government of Panama \$ 10 million, as well as a rent of \$ 250,000, which each year increased according to a specified formula.

On September 7, 1977, the New Panama Canal Agreement was signed by Panama President Torrijos and US President Carter, who transferred full control to the Panama Canal on December 31, 1999. According to this Agreement, the Panama Canal Company, the Canal Zone, and its government were dissolved and replaced by the Panama Canal Commission, which managed the Canal over the 20-year transition period, which began with the Agreement. The Panama

Canal Commission has now been replaced by a new Panamanian legal entity, the Department of Management of the Panama Canal. The agreement guaranteed the permanent neutrality of the Canal. Control of the US military facilities in the former Panama Canal Zone has returned to local authority. The American South Command and the US Army forces of the South left Panama at the end of 1999.

The canal itself is constantly undergoing a modernization and maintenance program, for which up to \$ 1 billion is allocated, the process includes ending the expansion of the Gaillard Cuts, as well as improving the locomotives leading the ships through the locks, the port pool, jerks and all the Canal operation machines. In addition, the Government of the Panama Canal has announced the preparation of a project to build a third set of locks. The multi-phase program includes building additional water basins that will help increase water availability for the Canal and the terminal cities; excavation of entrances to the Canal in order to allow the entry of large vessels into the ports; construction of new castles and two bridges in the next ten years.

2.2 Historical background of social development of Panama

Panama is a unitary presidential republic in which the formation of the legislative and executive branches of government takes place mainly in accordance with the principles of representative democracy. The 1972 Constitution is in effect, amended 1978, 1983, 1993, and 1994, due to the fact that it was adopted during the actual rule of the military (1968–89). Administratively, Panama is divided into 9 provinces (Bocas del Toro, Veraguas, Darien, Cocolé, Colon, Los Santos, Panama, Chiriquí, Herrera), 75 districts, or municipality, 3 mosquitoes (special territories with a predominantly Indian population - Kuna-Yala, Amber and Ngebe-Bugle) and 599 Korremimyentos (the smallest administrative-political unit of the district type). The largest cities are Panama, Colon (174.1 thousand people), David (124.3 thousand people).

The 1972 Constitution establishes that state power emanates only from the people, while providing for the principle of separation of powers. The Constitution, however, specifically states that legislative, executive and judicial bodies should act in a spirit of harmonious cooperation. The highest legislative body is the Legislative Assembly (unicameral parliament) consisting of 71 deputies elected by universal direct and secret ballot (as president and two vice presidents) for a term of 5 years from among candidates nominated by officially registered political parties. Executive power is exercised by the president and government ministers who are members of the government (cabinet council) and are appointed by the president. The president heads the government, being in fact the prime minister. The head of state is Mireya Elisa Moscoso, the first woman in the country's history, elected to the highest state post in the

general election on May 2, 1999 and taking office on September 1 of the same year. The first vice-president is Arturo Ulisses Valyarino, the second vice-president is Dominador Basan Jimenez. The President of the Legislative Assembly is Laurentino Cortiso.

Despite the huge number of parties that defaulted in the political arena of Panama (over 100) in the 20th century, at the end of the century, a stable, two-party political system of the peripheral type was formed. Its main axes are formed by two leading left-center and center-right parties - the Revolutionary Democratic and the Arnulfist, whose sources were respectively O. Torrikos and A. Arias. It is these parties whose leaders are now Martin Torrijos (the son of General O. Torrijos) and Mireia Moscoso (the widow of A. Arias) who possess the real possibilities of coming to power in a constitutional way. These parties, alternating in power, won in the course of the last five election campaigns. The peripheral type of this system is connected with the fact that both parties formed and led interparty coalitions to win elections. In the presidential election of May 2004, Martin Torrijos won.

Other parties seeking representation at parliamentary elections are the Nationalist Republican Liberal Movement (MOLYRENA), the Papa Egoro Movement (Motherland in the Indian dialect), the Christian Democratic Party, the Civic Renewal Party, the Genuine Liberal Party, etc.

The leading organization of the country's business community is the National Council for Private Enterprise (CONEP). In general, Panama is characterized by a fairly high level of civil society organization, manifested in its mobility and the functioning of various human rights, youth, women's, and Indian organizations. The trade union movement is represented by the Confederation of Workers of Panama, the National Council of Workers, the Trade Union of the Isthmus of Panama.

The population of Panama, according to the 2016 census, is 4.04 million people. (2.33 million in 1990 and 1.805 million people in 1980; according to the first census of 1911 - 336.74 thousand). Males prevail in the total population - 50.48%, the proportion of the population under the age of 14 is 31.6%. The fertility rate is 22.1%, the infant mortality rate is 132.7 people. per 1000 newborns, the average life expectancy is 74 years. The share of urban population is 57.6%. Illiterate is 8.1% of the total number of residents over 15 years.

The consequence of the geographical location, a number of historical features of the formation and development of the Panamanian nation, several migration waves from different parts of the planet was a special flavor of the ethnic image of Panama, which represents a kind of cut ethno-history of civilization, 5 major races and 40 nationalities. As a result, more than 60% of Panamanians are representatives of various metisan groups, the largest of which is the Hispanic-Indian Mestizo. The Afro-colonial group is represented by descendants of African

slaves introduced to the isthmus during the period of Spanish colonization. The Afro-Antilles group includes descendants of workers from the French-English Antilles, who got to Panama during the construction of the inter-oceanic canal, first by the French and later by the North Americans. Other ethnic groups, numerically small, are classified as immigrant, of which the Chinese first appeared during the construction of the Panamanian railway in the middle. 19th century Later, people from the Indian subcontinent, Central Europe, Central America, as well as Jews settled in Panama

The dominant religion is Catholicism; people from the West Indies adhere to Protestantism. However, due to the ethno-cultural peculiarities of the Panamanian nation, there are adherents of different religions in the country, including Buddhism, Judaism, Islam and Orthodoxy. Pre-Christian beliefs and the worship of various cults are spreading among the Indian population.

In Panama, there is a developed system of training highly qualified specialists and scientific personnel at more than 10 universities. The main ones are the University of Panama, the Panama University of Technology, the Autonomous University of Chiriquí Province, the Specialized University of the Americas and the University of Santa Maria la Antigua. The Panama Academy, the Panama Academy of History, the National Academy of Sciences of Panama, the National Indeanistic Institute, as well as various scientific and applied centers, including Institute for Nuclear Research. The system of library and museum affairs is widely developed. Panamanian society has pinned its hopes on the construction of the Cities of Knowledge at the former American military base Fort Clayton, which includes the construction of educational institutions, research centers, a high-tech park and international forums within the framework of scientific and cultural exchange. The literature and art of Panama reflect the uniqueness of its historical process, the complexities of the formation of a sovereign Panamanian state, the life-affirming optimism of a young nation.

The social security system in Panama is managed by the Ministry of Social Development (Ministryio de Desarrollo Social). This ministry, otherwise known by the acronym MIDES, deals with insurance programs for pensions, health and unemployment.

Workers in Panama must contribute monthly to social security. If gross monthly income is 500 balboa (500 US dollars) or less, 7.5% of their income will be spent on social security. If a person earns more than 500 balboa a month, 7.5% is still paid for social security, and another 6.5% for an individual account and 1% for old age and disability insurance. Employers also contribute to social security.

All residents and citizens of Panama can receive retirement benefits after they reach a certain age. For women, this age is 57 years. For men it is 62.

Some of the benefits include:

- 50% deduction of cost in cinemas and concerts
- 30% deductions on public transport, such as buses, boats and train
- Deduction 25% for the price of the plane Tickets
- 50% deduction of the cost of the hotel from Monday to Thursday and 25% from Friday-Sunday
- 25% deduction to the restaurant bill

Women can take maternity leave for three months. Many women in Panama will take leave for six weeks before the birth of their child, and after six weeks for three months. For men, parental leave allows three days of paid vacation. The employee must inform his employer at least a week before leaving.

Those who are unemployed, temporarily ill or disabled are not eligible for any benefits. However, there are private companies that help people with disabilities.

3. Methodology

In this work will be used following methodological tools:

- 1) The relevant state of the arts/Literature review
- 2) Data processing
- 3) SWOT-analysis
- 4) Econometric modeling method (Regression analysis)
- 5) Student t-test criterion

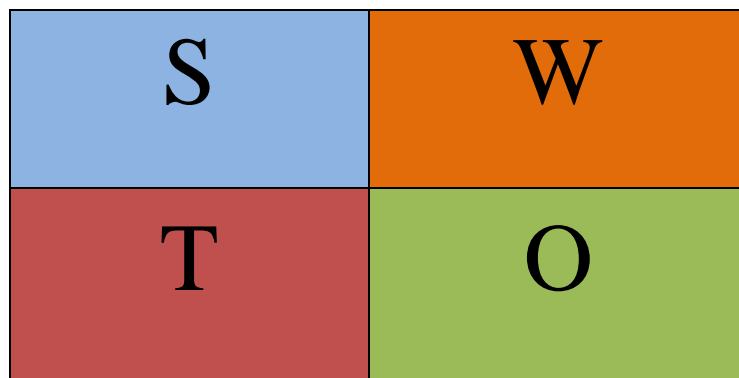
It is worth considering the last four of them in more detail.

Data processing. At the end of the search, they proceed to the ordering, statistical processing and analysis of the data obtained. Generally speaking, the requirements for the form of providing results should be defined at the very beginning of the research. After collecting all the necessary information, proceed directly to its systematization and analysis. At this stage, the collected information is presented in a convenient form for subsequent generalization and analysis by grouping it according to certain characteristics, information in generalizing tables and charts, and graphs and diagrams.

SWOT analysis. SWOT analysis is a way to assess the current situation in business and its development prospects, identifying four key aspects: strengths, weaknesses, opportunities and threats.

The method of conducting a SWOT analysis allows us to describe the situation clearly and structured, to make a conclusion about whether the company is developing in the right direction, what risks it should protect against and how to do it, what the potential of the enterprise is.

Figure 1 – SWOT analysis scheme



The SWOT analysis method is based on four main issues:

- 1) Strengths (S) – positive factors of internal environment that the subject of analysis can affect. Strengths show the factors of advantage of subject of analysis among the whole specter of competitors.
- 2) Weaknesses(W) – negative factors of internal environment that the subject of analysis can affect. Weaknesses show the disadvantages of internal environment.
- 3) Opportunities (O) – positive factors created by external environment that the subject of analysis can not affect. Opportunities show the positive possibilities of development of subject created by external environment.
- 4) Threats (T) – negative factors created by external environment that the subject of analysis can not affect. Threats show the possible regress of the subject and this regress can be prevented only by change of external environment.

In this SWOT analysis the internal factors will be the factors that Panama can influence. The external factors will be defined as factors which Panama cannot influence. The factors will be assigned to certain category according to its degree of impact.

SWOT analysis is a simple and universal method, widely used in business and not only. In business, when planning and developing a strategy, it can be used both separately and in conjunction with other marketing tools, which makes it very convenient for company managers and private entrepreneurs.

In this work SWOT analysis will be used to define strengths, weaknesses, opportunities and threats for Panama in framework of its international economy policy. It will help to create the proposals for its future development.

Econometric modeling method (Regression analysis). In statistical modeling, regression analysis is a study used to assess the relationship between variables. This mathematical method includes many other methods for modeling and analyzing several variables, with the focus on the relationship between the dependent variable and one or more independent ones. More specifically, regression analysis helps to understand how the typical value of the dependent variable changes if one of the independent variables changes, while the other independent variables remain fixed.

In all cases, the target score is a function of independent variables and is called a regression function. In regression analysis, it is also of interest to characterize the change in the dependent variable as a function of the regression, which can be described using a probability distribution.

In this work regression analysis will be used to find a correlation between capital + financial accounts and GDP of Panama. By using this method, we can find out the influence of international companies on Panama's economic development.

$$y = f(x, b) + \varepsilon, E(\varepsilon) = 0, \quad (1)$$

Where:

b – parameter of model

ε – random error

It calls called regression if the regression function $f(x, b)$ has the form:

$$f(x, b) = b_0 + b_1 x_1 + b_2 x_2 + \dots + b_k x_k, \quad (2)$$

Where:

b_i – parameter (coefficient) of regression

x_i – regressor (factor of model)

k – quantity of model's factors

The parameter, for which there are no factors, is often called a constant. Formally, this is the value of the function with a zero value of all factors. For analytical purposes, it is convenient to assume that a constant is a parameter with a “factor” equal to 1 (or another arbitrary constant, therefore this “factor” is also called a constant). In this case, if we renumber the factors and parameters of the original model (leaving the designation of the total number of factors - k), then the linear regression function can be written in the following form, which does not formally contain a constant:

$$f(x, b) = b_1 x_1 + b_2 x_2 + \dots + b_k x_k = \sum_{j=1}^k b_j x_j = x^T b, \quad (3)$$

Where: $x^T = (x_1, x_2, \dots, x_k)$ – vector of regressors; $b = (b_1, b_2, \dots, b_k)^T$ – vector of parameters.

A linear model can be either with a constant or without a constant. Then, in this representation, the first factor is either equal to unity, or is an ordinary factor, respectively.

To proof the relevance of constructed model the Student's t-test criterion will be used.

T-statistics are usually constructed according to the following general principle: in the numerator, a random variable with zero mathematical expectation (when the null hypothesis is fulfilled), and in the denominator, a sample standard deviation of this random variable, obtained as the square root of the unbiased variance estimate.

To calculate the empirical value of the t-criterion in the situation of testing the hypothesis about the differences between two dependent samples (for example, two samples of the same test with a time interval), the following formula is used:

$$t = \frac{\hat{b}_j - a}{s_{\hat{b}_j}} \quad (4)$$

Where:

S_{b_j} – Standard error

If the null hypothesis is true, the distribution of these statistics is $t(n-k)$. If the statistic value in absolute value is higher than the critical value, then the difference of the coefficient a from a is statistically significant (nonrandom), otherwise it is insignificant (random, that is, the true coefficient is probably equal to or very close to the expected value a).

Also, the verification of linear constraints can be reduced in the case of different variances. In this case, the variance of model errors takes two values. Based on this, one can also obtain t-statistics similar to those given for the two-sample test.

4. Analysis of current state of Panama

4.1 Analysis of economic indicators

The economy of Panama has a strong position. Since the country's GDP is more than 52 billion dollars, in terms of per capita Panama is 13,000 dollars per person. No country in Latin America has such high rates. From 2005 to 2010, the growth rate of Panama averaged 8.47% per year, thanks to such indicators the state was identified as a list of progressive countries in the Americas with a fast-growing economy. Despite the fact that in recent years the growth rates of the economy of Panama have slowed down a bit, experts still predict stable growth in the next five years at the level of 5.5%.

If you try to compare the economy of Panama with the economies of other Latin American countries, you can say that its potential is many times greater than that of other neighbors in its region. And this is all because:

First, the state is in the heart of the two Americas and owns the famous Panama Canal, which is the basis of the entire economy of Panama. This strategic sea route allows for a significant reduction in the distance to ships from America to Asia. For the past 18 years, Panama has been successfully managing it and making significant profits from it. In the past eight years, the country has been engaged in the development of expansion and reconstruction of the Panama Canal in order to increase the capacity of vessels with a large displacement.

At the end of June 2016, the expanded channel resumed work and gradually enters the planned schedule. Now the Panama Canal at the expense of new locks and locks will be able to pass large vessels of the New Panamex class. Also, the traffic of ship passes increases, which means that the volume of cargo transportation will increase and the country will receive more profit. However, the revenues of Panama from the capacities of the Panama Canal do not end there, the consequence of the reconstruction of the channel carries a huge business interest in the related port infrastructure. This implies the expansion and construction of new docks, warehouses, maritime registration and logistics centers, and this is an investment interest for foreigners, and at the same time additional income for Panama.

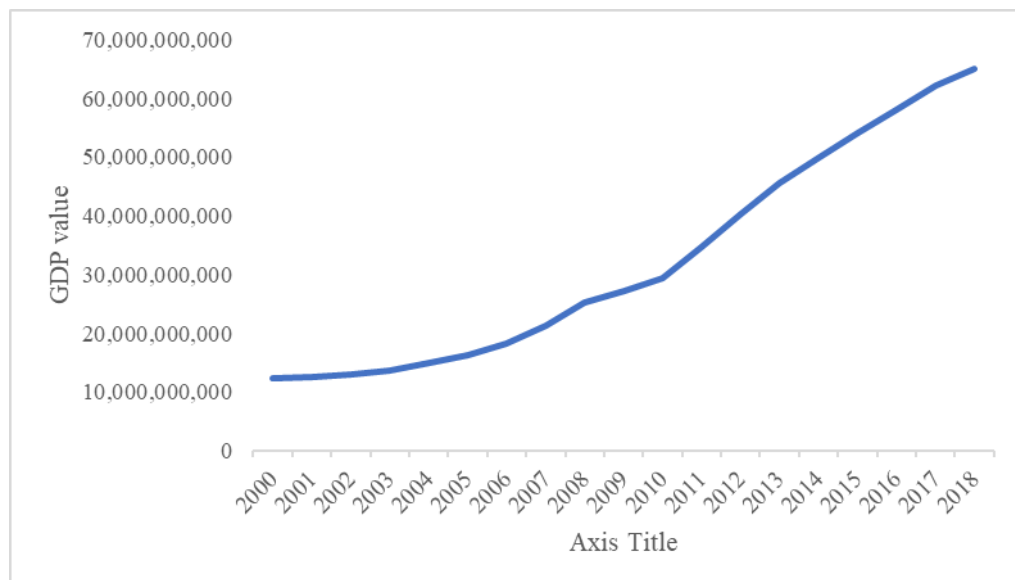
Secondly, Panama has been known for many years as a safe state for foreign investment. Today, investments from abroad account for 9% of the country's national GDP. Among the investors in Panama are: the countries of the Latin American region, North America, the Middle East, China, Europe and Russia. At the end of 2015, the volume of foreign investment in Panama reached almost \$ 6 billion.

The open door policy, taxation principles, and various incentive innovation programs make it possible to attract both private investment and the capital of international corporations. As a result, many well-known multinational companies of the world establish their main offices in Panama and transfer their business here. According to the data, such a small country like Panama has more than 100 large foreign companies, including P & G, Maersk Line, Dell, Halliburton, Sinopec, Caterpillar and many others.

The economy of Panama relies primarily on a well-developed service sector, which accounts for three-quarters of GDP. Services include operations by the Panama Canal, banking, insurance, container check-in ports, and tourism. The economic growth will be supported by the Panama Canal Expansion Project, which began in 2007 and was completed in 2016 at a cost of \$ 5.3 billion - approximately 10% of current GDP. The expansion project has more than doubled the capacity of the Canal, allowing it to accommodate ships that are now too large for the trans-overseas intersecting road, and should help reduce the high unemployment rate. The United States and China are the main users of the Channel, and while lower cargo volumes are expected to transit the Channel with a global economic downturn, higher transit fees will result in a net increase in revenue. Strong economic indicators did not translate into broadly common prosperity, as Panama has the second worst income distribution in Latin America.

It will be reasonable to start analysis of economic indicators from the most relevant one, GDP:

Figure 2 – GDP of Panama (current US\$),2000-2018)



Source: World Bank (citing: World Bank, International Comparison Program database.)

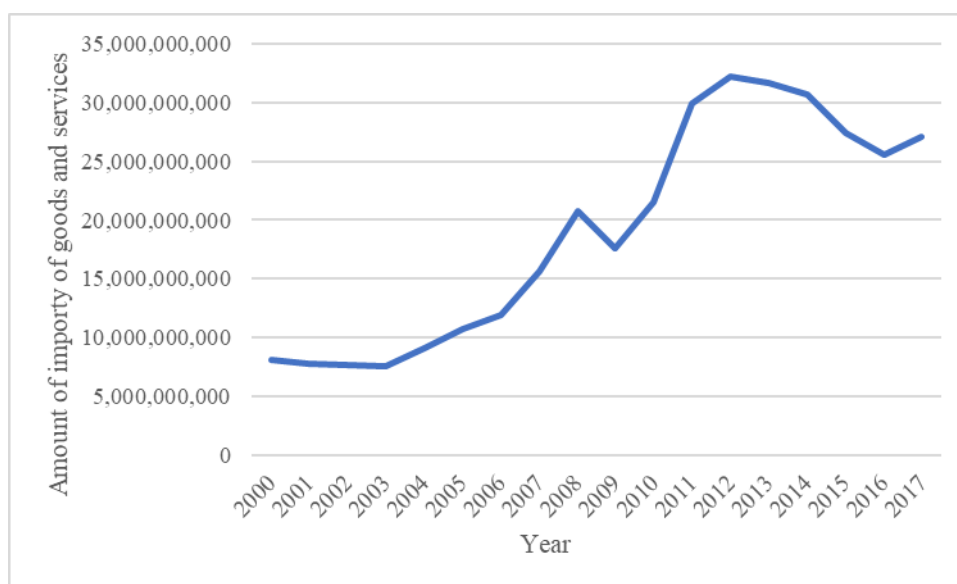
GDP of Panama is rapidly growing. During the 1970-2016. GDP at current prices in Panama increased by \$ 54.0 billion (48.1 times) to \$ 55.2 billion; the change occurred at \$ 1.9

billion due to a population growth of \$ 2.5 million, and also at \$ 52.1 billion due to a growth in GDP per capita of \$ 12,925.0. The average annual GDP growth in Panama is \$ 1.2 billion, or 8.8%. The average annual growth of Panama’s GDP at constant prices was at 5.0%. The share in the world grew by 0.039%. The share in America grew by 0.13%. The minimum GDP was in 1970 (\$ 1.1 billion). The maximum GDP was in 2016 (55.2 billion US dollars), in 2018 this indicator reached 65 billion US dollars.

The average annual increase in per capita GDP at current prices is \$ 281.0, or 6.5%. For the last 15 years it grew from \$ 12 billion to \$ 65 billion, more than 5 times. Such an intensive growth of GDP is associated with a high rate of development of the country. Today, Panama is ranked 73rd in the ranking of countries in terms of GDP.

It is also important to consider such economic indicators as import and export of products.

Figure 3 – Import of goods and services in Panama (current US\$), 2000-2015



Source: World Bank (citing: World Bank national accounts data, and OECD National Accounts data files.)

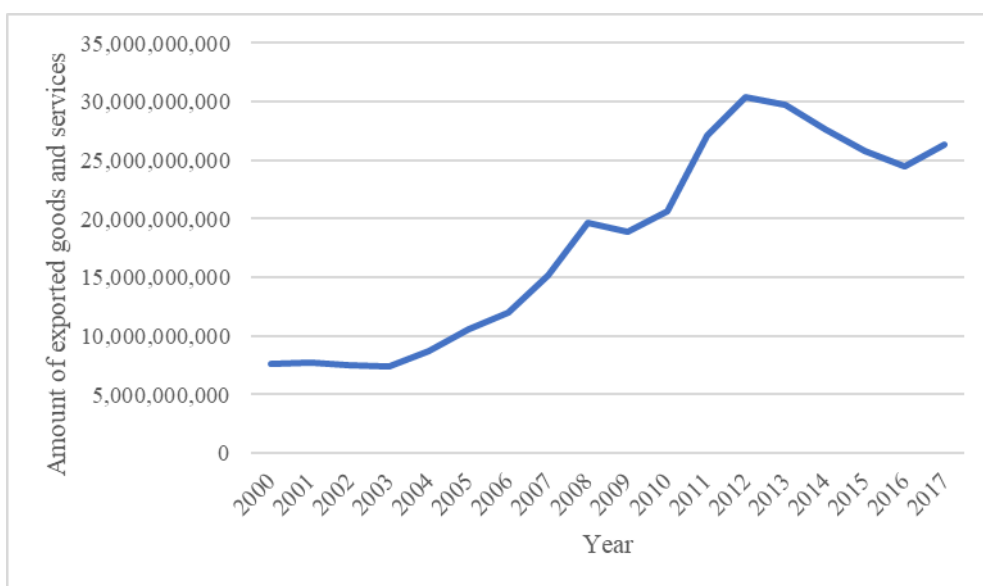
During 2000-2017, Panama's imports at current prices increased by \$ 20.0 billion, to \$ 25.0 billion. The average annual increase in imports of Panama is \$ 0.52 billion, or 7.4%. The average annual increase in imports of Panama in constant prices was 3.8%. World share declined by 0.12%. Share in America fell by 0.39%. The minimum import was in 2000 (\$ 9 billion). The maximum import was in 2012 (\$ 33.0 billion).

For 1970-2017 imports per capita in Panama increased by 5,564.3 dollars (9.9 times) to 6,189.6 dollars. The average annual increase in imports per capita at current prices is \$ 121.0 or 5.1%.

In 2015 decrease in Panama’s import is observed. It may be caused by crisis which was in Panama in that time, the government needed to cut spending on certain items and correctly redistribute funds in order to minimize the consequences of the current situation.

Export is also an important indicator which shows level of industrial and service sectors’ development.

Figure 4 – Export of goods and services of Panama (current \$ US),2000-2017



Source: World Bank (citing: World Bank national accounts data, and OECD National Accounts data files.)

During 2000-2017, Panama’s exports at current prices increased by \$ 19 billion to \$ 26.3 billion. The average annual increase in Panama’s exports was \$ 0.48 billion, or 7.5%. The average annual increase in Panama’s exports at constant prices is 4.7%. World share declined by 0.11%. Share in America fell by 0.21%. The minimum export was in 1970 (\$ 0.84 billion). The maximum export was in 2012 (\$ 30.4 billion).

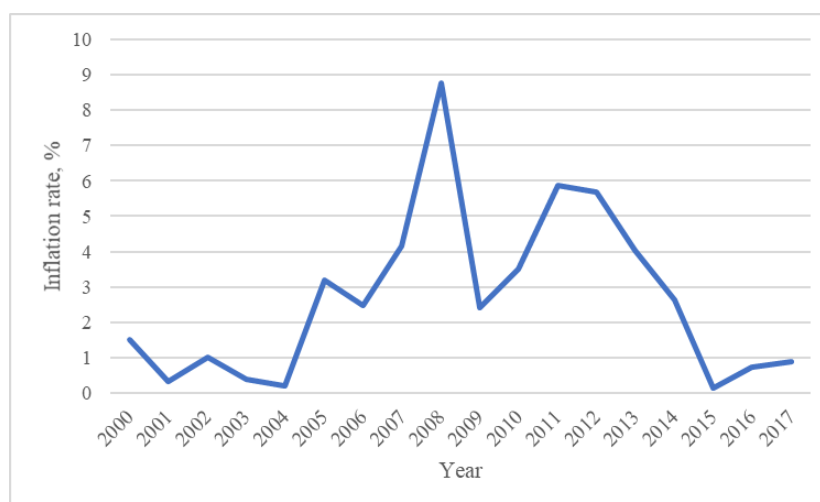
During the 1970-2016, export per capita in Panama increased by \$ 5,178.7 (10.4 times) to \$ 5,731.9. The average annual increase in exports per capita in current prices amounted to 112.6 dollars or 5.2%.

Regardless of the annual decline in the growth rate of the economy of Panama, the conclusions of international organizations and the conclusions of government experts predict a

further growth of the country's economy in 2019 within 6%. According to the Fitch rating, the banking system of Panama in 2019 will have negative trends that will gradually affect the balance of banks. Thanks to a stable operating system, credit debt will grow steadily but steadily. The first to suffer losses are those banks that have a lot of consumer loans and have a small yield. Also in 2016, as a result of increased competition at the local level, Panamanian banks may face a gradual increase in interest rates relative to the loan portfolio. The Government of Panama expects that the opening of the expanded Panama Canal, which will attract new investments and foreign business into the country, will play a significant role in 2016 for the banking sector. Including the latest events of February 2016, when Panama was removed from the “gray list” of FATF, will also affect the attractiveness of the Panama market. As a consequence, the withdrawal of the country from the “gray list” will strengthen the national economy, improve the image of Panama and, as a result, reduce the pressure on the financial sector, which has suffered from claims of opacity of operations. After the FATF organization announces Panama’s compliance with international requirements, the country must also settle differences with the OECD organization. Panama must confirm its true intentions to automatically provide information to other states upon request.

In May 2016, consumer prices in Panama, compared with 2015, increased by 0.61%. Inflation occurred within acceptable limits and is in line with previous forecasts. The Office of the National Control of Panama (Contraloria General de la Republica) reports that the increase in inflation in May is due to rising prices for food, transportation, soft drinks and alcoholic beverages, and tobacco.

Figure 5 – Inflation rate in Panama, 2000-2017, consumer prices (annual, %)



Source: World Bank (citing: International Monetary Fund, International Financial Statistics and data files.)

According to official data, following the results of the first quarter of 2016, consumer prices increased in 6 product groups out of 12. The most observed increase in prices in hotels and restaurants was 6.2%, also in the sale of alcoholic beverages and cigarettes by 3.8%. In the group of industrial goods, namely clothing and footwear, prices, on the contrary, fell by 0.4% and by 0.2% in the cultural and tourist area. In such groups as furniture and consumer goods, as well as consumer services, prices remained unchanged. Thanks to the introduction of the price management system, in July 2014, and in accordance with the presidential decree, Juan Carlos Varela managed to keep up the pressure of prices for basic goods.

Compared to last year, prices in May increased by 0.4%, and if you take April, prices remained unchanged. This is the first result of a positive trend in the first four months of 2016. Also, the government was able to keep inflation and achieve the lowest level, due to falling oil prices. Since the dollar is actually the state's currency, power cannot influence the economy through the financial leverage of monetary policy. It also assumes inflation rate for 2019 in the region of 1.5%.

Despite the level of inflation at the beginning of the year, the growth of the economy of Panama in the first quarter of 2018 was 5.9%, compared with the same period in 2017, which was a growth of 5.8%.

According to economist Philip Chapman, a low inflation rate is due to a number of internal and external factors. Among the key ones: a decline in world oil prices, a strengthening dollar position, low interest rates, an increase in the volume of food production in Panama, as well as "healthy" growth rates of the Panamanian economy, without overheating.

The most significant factor, according to the authorities, was the fall in oil prices to a level ten years ago. This provoked a decline in prices for raw materials and agricultural products. Strengthening the dollar against other currencies also helped stabilize prices in Panama, as manufacturers were able to purchase raw materials and supplies at lower prices. However, one should not expect that this trend will continue for a long time, in the end, the dollar should stabilize; otherwise any export of goods and services for the United States will become too expensive.

According to a study by the National Institute of Statistics and the Census of Population (INEC), there is primarily a significant increase in income in the Panama Canal zone. Expansion of the channel allowed the country to receive an increase in revenues in the field of service of ships, due to the increase in capacity. Because of this, in the budget of Panama for the period from January to June, 1 billion 60.3 million US dollars was received.

In more detail, it can be noted that for the passage of the sea route through the Panama Canal there were 12.6% more ships registered than in the same period of 2016. This allowed the

Administration of the Panama Canal to increase revenues from fees by 19.7%, while the ports of Panama also increased their revenues by 13.4%.

Air transport also showed profit growth of 24.1%, compared with the same period last year. Statistical Office reports that revenues in the provision of transport services in Panama for the period June 30, 2017, grew by 4.7%, which amounted to 3 billion 219.9 million dollars. It is also noted that the transport sector of the economy brings the bulk of income to the gross domestic product of the country, and of the total GDP, this figure is 16.8%.

INEC notes that in the first quarter of 2017, the demand for issuing building permits noticeably increased within 10.2%. In the same period of time in 2016, budget revenues from issuing building permits decreased by 4.6%, then the turnover amounted to \$ 360.3 million. In 2017, for the first three months alone, the turnover from the issuance of building permits in Panama City for residential buildings amounted to \$ 272.8 million, and for non-residential buildings - \$ 294.4 million. The resumption of construction projects in the health sector and the construction of a second metro line in Panama City were also noted.

This trend of increasing interest in the construction sector of Panama is observed, despite the preliminary observations of developers, in relation to barriers to the development of the industry. Previously, investors and developers complained that the documentation and the process of obtaining permits in the country is rather complicated, too extensive and takes a lot of time. However, the economic growth of the state, political stability and the absence of terrorist threats give grounds for investors to rely on the long-term prospects for the development of their construction business.

The real estate sector of Panama City in recent years has been of particular interest to foreigners. This is due to the noticeable progress in the development of Panama. Every year the standard of living rises, roads and modern infrastructure are being built. Foreign investors are attracted not only by the strategic location of the country and the comfortable climate, but also by the loyal migration policy of Panama, and the tax system, which does not tax foreign business with international operations.

An important moment of attractiveness is that Panama is also a powerful financial center in Latin America. About 80 banks are concentrated in the state, including many well-known and reputable institutions. Therefore, taking into account the above and a number of other factors, many investors understand that investing in real estate in Panama is a step in the future.

Despite the fact that the price of real estate in Panama City during 2015-2016 increased by 35% and there are a large number of offers of residential and office buildings on the market, demand still continues to grow. Developers also, watching the stable level of sales, do not want to miss their chance to profitably invest in real estate construction. The largest number of

construction sites and finished real estate is observed in the capital, Panama City, as 2/3 of the population is concentrated here.

In addition to the capital, developers also erect facilities in the provinces of Panama, but still the advantage is in favor of Panama City, which is gradually expanding its municipal borders. The investment attractiveness of Panama real estate is also affected by international liquidity ratios, which are quite high. At the same time, the quality of buildings, their comfort and the surrounding infrastructure are in no way inferior to the real estate market of the United States or Europe, and even prevail in some areas.

In the coming years, the economy of Panama will maintain high growth rates, but more moderate compared with previous periods. According to the forecasts of the investment agency Moody's in 2017-2020, Panama's GDP will maintain rates close to 6%.

Also, statistics show an increase in profits in the construction sector. The first half of the year in this segment is confirmed by a GDP growth of 8.1%. Construction in Panama after the Panama Canal is in second place in terms of revenue, which form the state's GDP.

In such areas as banking and financial services, the growth in the first half of the year is 3.1%. In the field of legal, consulting services and real estate, revenues increased by 3.5%. The manufacturing industry recorded an increase in revenues by 2.1%. The lowest growth rate was recorded in the agricultural sector, and amounted to 0.2%.

According to the Minister of Finance and Industry, such indicators instill confidence in the government in the future, and speak of the correct policy of the authorities, which contribute to the development of the state. The overall economic growth in the first half was 5.8%. Positive changes in the economy are also confirmed by the improved outlook for the rating agency Moody's. On September 29, 2017, for the first time in the last five years, representatives of the agency changed the "stable" outlook to "positive" and assigned the investment level BAA2 to Panama. This indicator reflects the creditworthiness of the state and indicates moderate debt obligations.

International organizations, including the World Bank, the International Monetary Fund and the Economic Commission for Europe for Latin America and the Caribbean region under the UN (CEPAL), predict growth for Panama by 5.6%, 5.8% and 5.7%, respectively.

By all indications, Panama will remain the country with the most dynamically developing economy in the coming years. Such an assessment of Moody, the IMF and other organizations is not unreasonable: firstly, the traffic flow on the Panama Canal is constantly growing, especially in view of its expansion. Today, very large vessels can pass through the waterway, for example, transporting liquefied gas from the USA to Asia via the Panama Canal has now become a reality.

In addition to the Canal, logistics infrastructure is rapidly developing along it (ports, marshaling and storage areas), tourism, and transport infrastructure: the second and third Panama City metro lines are being built. The launch of a copper mine is planned for 2018, which will also allow an increase in Panama's GDP growth by 2%.

Moody approved Panama's investment rating at Baa2 with a positive outlook.

Panama, despite a high degree of dependence on imports and foreign investments, continues to maintain steady economic growth even in the face of negative global trends.

4.2 Analysis of social indicators

Panama cannot boast of good values of social indicators, but it is also impossible to say that these values are very low. But due to the intensive growth of economic indicators, social indicators are also growing, although not so fast.

As for the population, since 2000 the population of Panama is growing, but the growth rate is very low.

According to the 2017 census, 4.09 billion people lived in the country. Per 1000 population was born 20.78, and 6.25 people died. per year, i.e. natural increase was 1.36%.

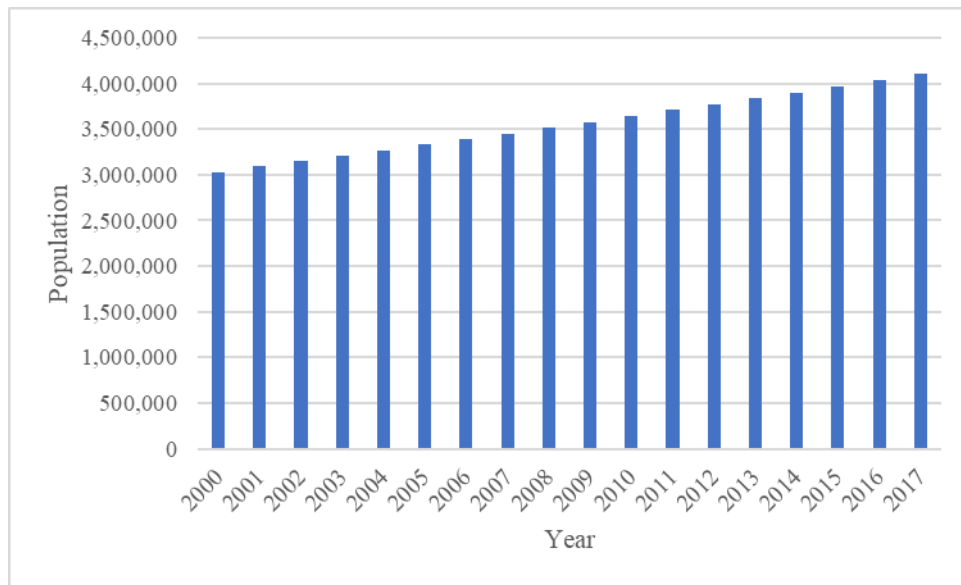
In 2012, the country had more than 3.7 billion. The natural population growth in 2012 was 1.41%.

Approximately 70% of Panamanians are either mestizos, in whose veins there is blood of Indians and whites, or mulattos are descendants of white marriages with blacks. Among the remaining 14% - "African Americans", 10% - white, about 6% are Indians. 75% of the population lives in cities (2010). The official language of Panama is Spanish.

Approximately 14% of the population is native English, and the Indians speak their own languages.

Approximately 85% of Panamanians are Catholics, about 10% (mostly black immigrants from the West Indies) are Protestants of various directions, and another 5% of the inhabitants, mainly from Hindustan and the Middle East, are Muslim.

Figure 6 – Population of Panama,2000-2017,total.



Source: World Bank (citing United Nations Population Division. World Population Prospects)

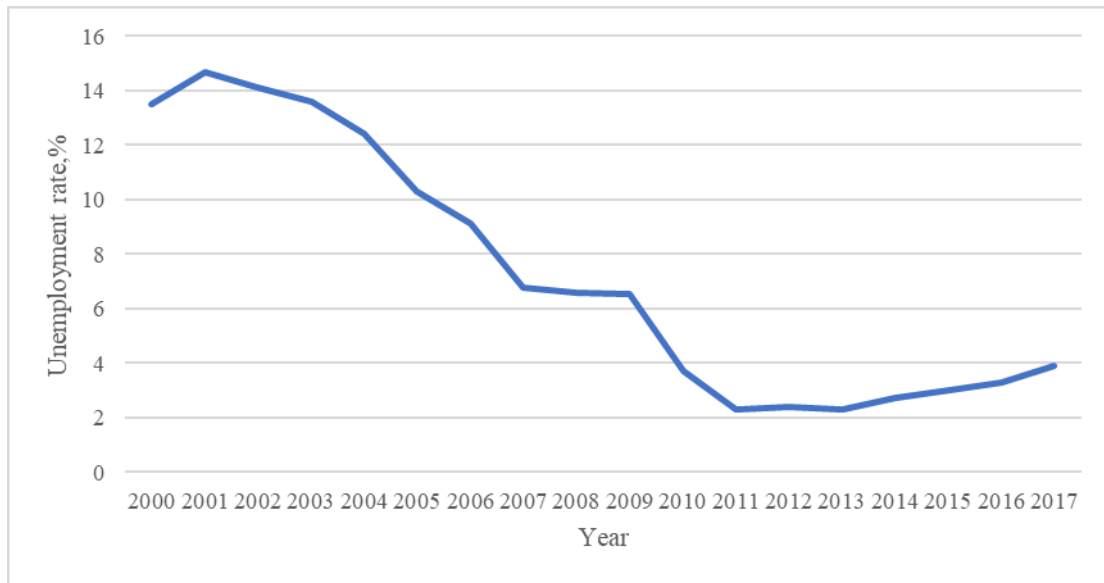
According to official data the population in Panama in 2000 was 3,03 million of people. Every year the population of Panama is growing, but the population growth is extremely small, over the past 17 years the population of Panama has grown by 1 million people, in 2017 it amounted to 4.09 million people. But taking into account the fact that Panama is a rather small country, and then you can to conclude that these rates of population growth are quite satisfactory to the norm. Average annual growth rate of population in Panama is ~1.5%,according to official data.

Unemployment is the sharp problem of Panama. In recent years, the Panamanian labor market has undergone significant metamorphosis. Panama, from a country with high unemployment, has become a country with a developing economy, where the demand for labor greatly exceeds supply, and with a marked increase in foreign workers.

However, this means serious problems for the country and for the authorities. What can be done for Panamanians so that they can take full advantage of the opportunities opening up in the country so that they can fill the jobs that the market offers them. Efforts to train Panamanian specialists are not yet in demand in the market.

Labor market surveys show that 34% of Panamanian businessmen could not find the right employees for various positions. In other words, one of the three companies has open vacancies. This is an enviable position, but at the same time it is worrying, because if the Panamanians do not receive proper training in the near future, foreigners will take these seats, and local workers will simply be observers of the economic boom that continues in the country.

Figure 7 – Annual unemployment rate in Panama, 2000-2017, total (% of total labor force)



Source: World Bank (citing: International Labour Organization, Key Indicators of the Labour Market database.)

According to official data, unemployment rate in Panama is decreasing during the last 17 years, in 2000 it was 13,5% and in 2017 it was 3,9%,so it is almost 10% decrease. But the main problem is that residents are not able to compete with foreigners.

Erik Quesada, regional director of human resources, said that “there are areas where employees are still needed because Panamanians are not prepared for an adequate entry into the labor market and not everyone adapts to competition, and without this it is enough to be professionally demanded in modern society difficult". Panamanians are reluctant to spend time acquiring new knowledge, even if they know that they need this knowledge for professional and career growth, says Quesada.

He gives an example of learning English, when everyone knows that you need to know English in order to find a good job, however, “they don’t want to invest in the acquisition of knowledge and hope to get a good salary”.

The biggest demand in the Panama labor market is for technical specialists, but students who come to university choose careers in business administration, law, journalism and social sciences. These specialties are popular among students, but not all find a job after graduation from universities in these specialties, while technical specialists are not enough.

In Panama, a high percentage of high school graduates prepare for further studies in the field of art and management, and very few students focus on technical careers, and even as

market demands become more pronounced, school education continues to evolve in the same direction.

The situation in Panama is not much different about the situation in Latin America, where 50% of students choose training courses related to the social sciences and only 35% choose a career related to the exact sciences, the rest receive knowledge in the field of medicine and the arts.

“It turns out that today companies are demanding changes: technical students should be at least 50%. Companies need engineers, mechanics, industrial systems engineers, biotechnologists, geologists, and telecommunications engineers, ”continues Quesada,“ and because of this lack of education policy planning, we are faced with a staff shortage that will not have to be met soon. ”

According to Manpower, "it seems that the changes in the field of education in Panama, which are aimed at promoting technical education, do not affect those areas where the main efforts should be made."

Proof of this is that, for example, agricultural development is now in the field of biotechnology, but locally no one is preparing personnel to interact with this new reality. Just as the question of cooperation with China: Latin American countries are moving into very close relations with China, but attention is little paid to studying Chinese. Also, few universities prepare workers for the maintenance of the metro under construction, which will begin to work within two years.

By 2012, according to the Ministry of Labor and Labor Resources, the unemployment rate will continue to decline, and there is full employment in the country today. But differences remain between what enterprises need and what is available on the labor market. The problem is to redirect free labor resources to fill existing vacant positions.

According to the latest report of the Comptroller General of the Republic, the unemployment rate was 4.5%. Panama, Mexico and Brazil are the countries of Latin America with the lowest level of urban unemployment in the region: 5.4%, 6.1%, 6.2%, respectively, according to World Labor Organization.

Last year, the number of economically active population in Panama was 1,570,774 people, of whom 1,500,854 were employed, 970,848 are considered not economically active, these are students, pensioners and housewives.

Panama is experiencing a real labor boom today, and experts say that now four generations work together, people 60-70 years old continue to work together with young people, and each generation gives something important work. However, studies have noted the problem of those who seek work for the first time, and those who seek work after 40 years.

It should be noted that among the Panamanians 256 155 people do not have a secondary education, and almost as many Panamanians (256 146) have a higher education, among them only 8.3% have a scientific degree.

It is also worth considering the social progress rating. The Social Progress Index is a combined indicator of The Social Progress Imperative international research project, which measures the achievements of the countries of the world in terms of social well-being and social progress. The index covers countries for which reliable indicators are available and is based on a combination of data from public opinion polls (12%), development experts' estimates (25%) and statistical information from international organizations (61%). The cross-country analysis of social development factors contained in the report provides information for comparisons and contains detailed profiles of each state, including details of the final position in the ranking, as well as guidance on their key advantages and disadvantages. The index measures the achievements of each country on a scale from 0 (the least degree of resilience) to 100 (the most degree of resilience) based on the data obtained. The latest version of the ranking of countries in terms of social development was released in 2018. The Social Progress index in Panama was 72.16 in 2018 according to official data. Panama is ranked 51 in the countries ranking on this index.

Table 1 – Social indicators of Panama, 2017(world rating)

Indicator	Value	Rating in the world
Human development	0.78	60
Lifespan	77.6	42
Population growth	1.7%	72
Social progress	72.16	51
Prosperity	64.19	40
Education level	0.691	84
Education costs	3.8	106
Healthcare costs	7	73
Ecological efficiency	62.71	56

Source: Humanities technology, analytical portal (<https://gtmarket.ru>)

This table shows that most of social indicators are lower than it should be. It is noticeable that education is a big problem of Panama, as was mentioned before, Panama is rated 84th in case of education level and 106th in case of governmental spending on education, this is a big problem

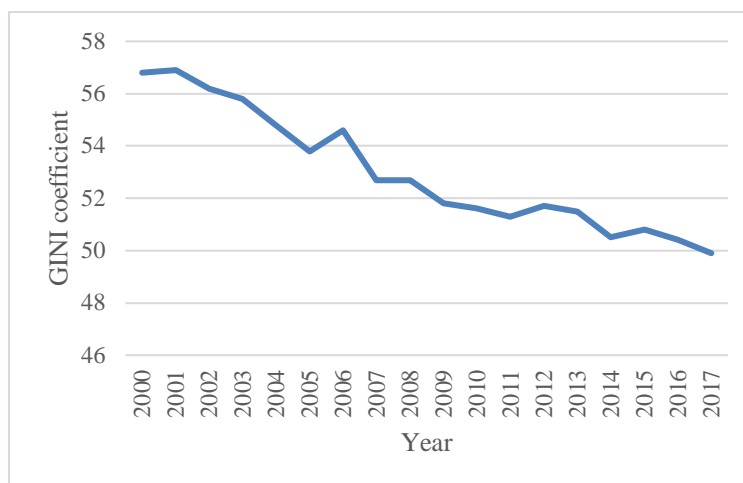
in 2019 and it could be crucial in the future. Governmental spending on healthcare is a big problem too. Panama is rated 73th in case of this indicator.

Population growth in this country is very low as was mentioned before, that is why this Panama ranked as 72th in case of this indicator.

The rest of indicators is on medium level.

Speaking about income distribution, in Panama this indicator is remaining stable, for the last 17 years it has had slight changes.

Figure 8 – GINI coefficient in Panama, 2000-2017 (%)



Source: World Bank (<http://iresearch.worldbank.org/PovcalNet/index.htm>)

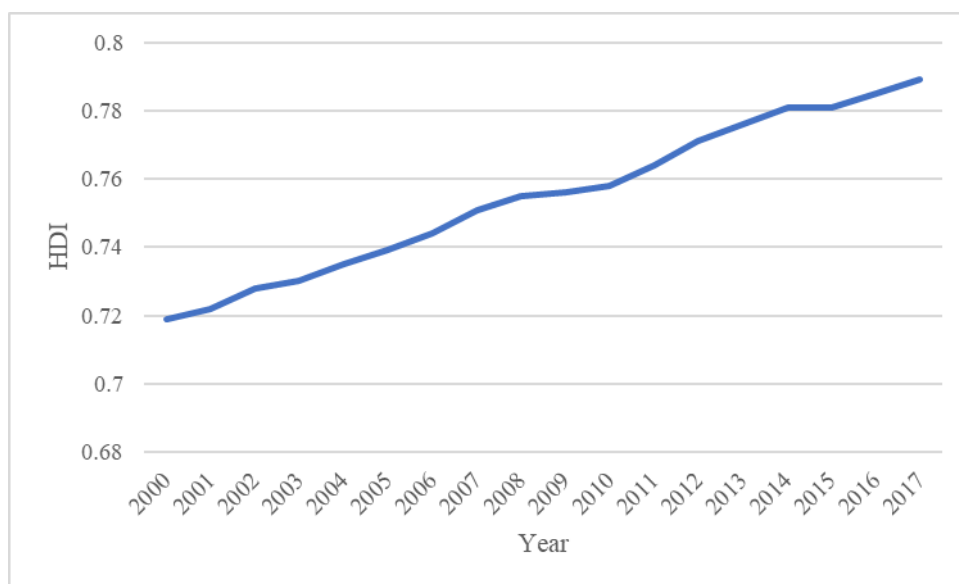
GINI coefficient shows how equally income is distributed.

According to official data GINI coefficient in Panama is 50.6% in 2017, it means that there is no total unfairness in income distribution and there is no full fairness at the same time

In the conclusion, according to analysis, is necessary to mention that social indicators of Panama are developing, but it is still lagging behind of economic development of this country.

Also is very important to take into consideration HDI (Human Development Index), when we are analyzing social development of country. The Human Development Index is an aggregate indicator of a person's level of development in a country, therefore, sometimes it is used as a synonym for such concepts as "quality of life" or "standard of living". The United Nations Development Program (UNDP) is in charge of ranking countries according to the HDI. It is also often called the index of living standards or the quality of life index of countries, since this indicator really demonstrates in many respects the quality of life and the capabilities of citizens.

Figure 9 – HDI of Panama, 2000-2017



Source: UNDP (citing: calculations based on data from UNDESA (2017), UNESCO Institute for Statistics (2018), United Nations Statistics Division (2018), World Bank (2018), Barro and Lee (2016) and IMF (2018).)

From 2000 to 2017, this indicator in Panama increased from 0.719 to 0.789, this increase is due to the high growth rates of this country. The fact that the offshore status of Panama has also contributed to the growth of this indicator in recent years cannot be denied.

4.3 Analysis of foreign companies' activity

Panama is much more than «Panamanian paper». The main advantage of a country is its economy, and all that relates to it. For a foreign investor, Panama can be called the Klondike of Central America. If an investor decides to invest his capital in the country's economy, and intends to live in it, he should take care of the economic situation in the country. By investing in the country of his residence, a person improves the quality of life not only for those around him, but also makes his living conditions more comfortable, because the person faces the economy at every step. By opening a business or directing investments into the country, an investor can obtain a residence in Panama, the legislation of which protects investments and provides impetus for the development of its business. For example, citizens of the countries of the former Soviet Union can use any of the three methods of obtaining residency. Here are four reasons for encouraging foreign investment, which is suitable for any country, if it is selected as a residence and investment:

1) Infrastructure investments make the state stronger in economic terms. Usually, income from investment projects is again invested in new infrastructure developments. From the level of electrification of the country, communications, as well as other strategically important sectors of the economy, there is a general characteristic of the state and its internal markets. After all, each of us, when thinking about living in any country, is interested in everyday things that a person will have to face every day, this is the quality of roads, traffic intersections and maintenance, the same Internet and much more.

2) Security is also one of the important factors that worry a person who intends to invest and live in the country. Panama is one of the safest countries in Latin America. Many expatriates say that many large countries with a strong security economy have more problems than Panama. Here you can list such countries as: The United States and many European countries, where the crime rate is much higher. Residents of these countries have recently been increasingly suffering from a situation involving the migration of refugees or the threat of a terrorist act.

3) The creation of jobs significantly affects the employment of the entire population, on which the standard of living of the country depends on. This is especially important for the younger generation, which should have a decent job, here you can also add the factor of the level of education. Young people are the future workforce, which is necessary to implement the same investment strategies. Thus, organized new jobs in Panama create opportunities for young people, providing an opportunity to exercise their civil rights. As a result, the level of poverty and crime in the country decreases, and social guarantees are increased.

4) Investments in real estate allow the investor to return the invested funds in the future. The Panama real estate sector offers a huge selection of private property with high quality construction and first class comfort. Prices in the real estate market are gradually increasing, real estate is in high demand, so today it's realistic to get 7-8% of the profit from real estate investments in a year, which means that in five years you can return up to 50% of the capital invested.

Offshore zone of Panama is very attractive for foreign business and real estate investments can be one of the most profitable types of business. This type of activity can be used, as any legal or physical person, together with members of his family, when moving to Panama to reside. A large number of foreigners decide to start a business in the country and directly in the real estate market.

Even though foreigners with citizens of Panama have the same rights in terms of land ownership and business, the procedure for registration of real estate in government structures may be some difficulties. Procedures for registration of real estate on the company are simpler and faster than the procedure for registration of real estate by an individual. More wisely come

those property owners who want to open a company and registered as a legal entity in the territory of Panama. The most favorable and profitable for foreigners will be such corporate structures as Sociedad de Responsabilidad LIMITADA and Sociedad Anonima. These corporate formations in the form of a company, a corporation (IBC) or a limited liability company (LLC), with a properly formed enterprise structure, allow the owner to have a large margin of safety. Such strength is already noticeable initially when buying property on behalf of the company, where the investor provides the rights to his heirs without unnecessary problems and eliminates the need to make a will. The next advantage is tax planning, in which corporate expenses are considered softer than those of private individuals. Also, when registering real estate on a company, it becomes the property of the company, and not an individual, so the owner can more reliably protect his assets.

These two structures of IBC and LLC have their shareholders, in terms of legal liability, they risk only the size of their share capital, which makes them protected from possible claims of creditors. Regarding the registration of an enterprise in Panama, a foreigner can also register a legal entity in the form of a branch or subsidiary, an existing foreign company abroad. The difference between a regular Panamanian company and a subsidiary is the difference in taxation.

Registering a company in Panama does not require the owner to open a bank account in Panama. But I want to note that on February 18, the FATF organization removed Panama from the “gray list” of countries, which confirmed Panama’s aspiration to comply with international requirements and laws. Now the financial transactions that will be carried out in the banking sector of Panama in 2016, will meet all international requirements. This important fact suggests that Panama is able to control all dubious transfers and at the request of other countries with which it has entered into agreements, can provide information about the beneficiary and its assets. After Panama has withdrawn from the “gray list”, the attractiveness of foreign investors to the country increases. Reforms of the government of Panama in the field of money laundering and combating terrorism have shown significant progress, which as a result does not require further monitoring by the FATF. After that, the financial system of Panama becomes on a par with global financial systems, and will no longer cause distrust among international financial institutions. All these events will positively affect the investment attractiveness and performance of Panamanian banks, whose operations were often blocked earlier.

You can long describe all kinds of businesses in Panama and potential business projects. Panama can offer a rich choice of business ideas and the final decision must be made by a foreign investor, based on their interests, business orientation and the scope of investment opportunities. The business attractiveness of Panama can be interesting, both in the domestic market with many benefits and in the external. In addition to doing business at the international

level, Panama provides the opportunity for an investor to permanently reside in a country with a further right to obtain citizenship.

Panama is a country from among states that enjoy the interest of foreign entrepreneurs and investors. The first thing that foreigners pay attention to is the country's annual economic growth and favorable tax legislation. The second is progressive government programs related to the provision of benefits to foreign investors, as well as attractive immigration policies of the state. The organization and conduct of business in Panama can be implemented in two planes. This is the registration of a Panamanian company in the country and engaging in international business using world market sites. At the same time, a foreigner will not need any licenses for activities, and his income will not be subject to Panamanian taxes, as they are obtained outside the country. In another case, an entrepreneur can start a business in the domestic market of Panama, in almost any sector of the economy. For reasons of national security of Panama, there are some limitations. Foreign companies and individuals can not do business in such industries as:

- Aviation
- Telecommunications services and communications
- Mining industry
- Explosives turnover

In the case of doing business in the domestic market of the Republic of Panama, a foreigner will have to pay all state and municipal taxes, and will also be required to receive licenses to conduct business. Depending on the type of business, it is also necessary to fulfill other requirements prescribed by government agencies directly for a specific type of activity. There are also restrictions with Ecuador, since this country in 2008 placed Panama in the list of countries "Tax havens". So, companies or private entrepreneurs from Ecuador will not be able to have concession rights and participate in state contracts of the country (Cabinet of Ministers Decree No. 13 dated May 1, 2012).

Mailboxes Etc provides sea freight services, international cargo delivery to different countries and works directly in Panama. Including Mailboxes Etc is engaged in packing materials, digital printing, lamination and binding books. For those who are interested in online trading, the company provides an online platform for buying an online store based on its high technical capabilities. The popularity of online stores in Panama is increasing every year. Of particular interest to using the services of an online store are expats, whose number is constantly increasing. Mailboxes Etc in Panama today represents a trading network of 18 online stores, the latter opened in the Playa Blanca area, which is not far from Rio Hato in Cocle province. E-

commerce is only taking its first steps on the territory of Panama, and this is a chance to take here "their place in the sun."

In the country, e-commerce can be implemented both through public B2C class Internet resources, also on the basis of corporate lines (B2B). As for the cost of opening in Panama branch of Mailboxes Etc., it ranges from 60,000 to 70,000 USD. To open a representative office, a thorough knowledge of Spanish is not required, and there is no need for a large number of staff. Enough to hire only three people from the local population and the work will be fully established. At the initial stage, when opening a new Mailboxes Etc office in Panama, counseling and training are provided to the entrepreneur. According to experts, this type of business requires a certain time in order to achieve stable income. So it will take about 6-8 months to get a monthly income of around 3,500 USD. After one year, revenues usually increase to 5,000 USD, and after two years of work, the income from Mailboxes Etc. can reach 6,000 USD.

Due to state immigration incentives, a mild climate and gorgeous nature, immigrants and tourists from all over the world come to Panama every year. In this regard, the government encourages foreign investors to invest in the development of tourism business. Priority in the tourist direction is enshrined in the law number 481, which allows you to expand the scope of tourist services in Panama in remote rural areas of the country. The constantly increasing influx of tourists into the country requires the construction of a larger number of small hotels and other infrastructure in undeveloped, but attractive places of Panama. There is also a demand for modern services that tourists want. In order to take advantage of the preferential conditions of Law 418, a minimum investment of at least 250,000 USD is required. The following benefits are provided:

- The five-year period of duty-free import of imported building materials, which are not in Panama.
- Exemption from income tax of an immovable tourist property for 20 years.
- Exemption from payment of duties on the importation of furniture and equipment for a period of 10 years.
- 10% depreciation on real estate, excluding land.

The effect of Law No. 481 is supposed to be until 2020, and the law may also be subject to investments of at least 100,000 USD aimed at renovating and improving the living conditions of hotels or other tourist infrastructure facilities. In addition to residential properties in tourist areas, tax discounts can apply to various cultural and scientific centers, as well as conference centers, zoos, marinas and marinas. Types of business associated with such objects may also be exempt from income for profit of 15 years. In order to qualify and take advantage of tax

privileges, construction projects in the tourism sector do not have to be in the form of luxury five-star hotels. The construction of any tourist property, like a small camping, wooden bungalows and hostels, also fall under the law.

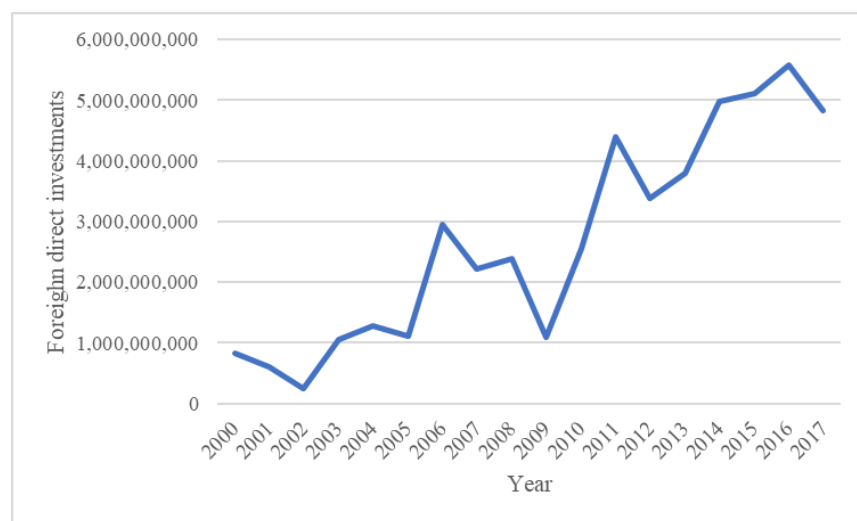
Every year the population of Panama increases, mainly due to immigrants who move to a country to live. It is quite likely a business aimed at the interests and habits of foreigners who have become permanent residents in a new country. It can be shops with goods and products to which emigrants are accustomed, as well as types of services that are not represented on the market or not fully. These can be cafes or restaurants with a specific national cuisine, wine shops, themed clubs or gymnasiums. Here, of course, you have to do marketing closely in order to correctly determine the direction that will be most in demand.

An entrepreneur in Panama has a unique opportunity to practice international trade or trade aimed at the domestic market of Panama. In the case of trading internationally, having an offshore company, an entrepreneur can save a significant amount on tax expenses. Panama has the famous Panama Canal, through which many cargoes from different countries pass. At the end of June 2016, the channel resumed its work after a long expansion. Now the capacity and volume of traffic of the Panama Canal is increased several times due to the ability to skip ships with a large displacement. If export or import is intended for the Panama market, then all the tax and customs regulations of the country must be observed. In this case, you need to carefully examine the demand of the market for goods or food products and understand the necessary need and monitor consumer prices. It is also necessary to take into account the size of state duties on imports, which will affect the size of the pricing policy of the goods. Despite this, by making efforts to monitor the market, there is always a niche in Panama that deserves attention.

The volume of the agricultural market of Panama is not very large, but it can be very beneficial for the entrepreneur. Given the wet climate of the country, there is the possibility of obtaining crops twice a year. Recently, competition in agriculture has grown, and some farmers are not always ready to adapt to new conditions. Some do not stand up to the confrontation and experience difficulties in managing their household. As a result, there are farms for sale that can and should be bought. With proper business organization and financing, many households can generate decent income and be competitive. Agricultural business, livestock and other related activities can be a good alternative to other businesses that are experiencing a slowdown or greater competition in the market. Foreigners who invest a minimum amount of USD 60,000 in the agricultural sector are entitled to temporary residence. To do this, a foreigner must use the “Agricultural Investor Visa”, which provides for a maximum stay for a period of up to 6 years. For obtaining permanent residence or citizenship, this visa is not suitable, for such purposes you should use other types of visas.

Renting a property can bring income from 5 to 8% and even more. When buying a property, a foreigner receives preferential tax benefits, and also legalizes his permanent residence in Panama, which in the future allows him to apply for citizenship. The process of buying a property must be taken very carefully. Often, you yourself will have to check the information about the location of a particular house, the previous owner and in what type of property he is located. You can read about the principles of the purchase process and types of property here. It often happens that the proposed options for condominiums or houses exist only on advertising brochures, but in fact they have already been sold, do not match the description, or are in the construction phase.

Figure 10 – Foreign direct investments in Panama, 2000-2017 (\$US)



Source: World Bank (citing: International Monetary Fund, Balance of Payments database, supplemented by data from the United Nations Conference on Trade and Development and official national sources.)

According to official data foreign direct investments in Panama increased from \$0,82 billion in 2000 to \$4,82 billion in 2017. The changes of this indicator were unstable. The decrease in 2008 might be caused by world crisis, but at the beginning of 2009 the amount of foreign direct investment have been increased again and in 2011 it reached \$4, 39 billion. The highest amount of foreign direct investments in Panama was in 2016 (\$5, 58 billion). The lowest amount of foreign direct investments in Panama was in 2001 (\$0, 6 billion).

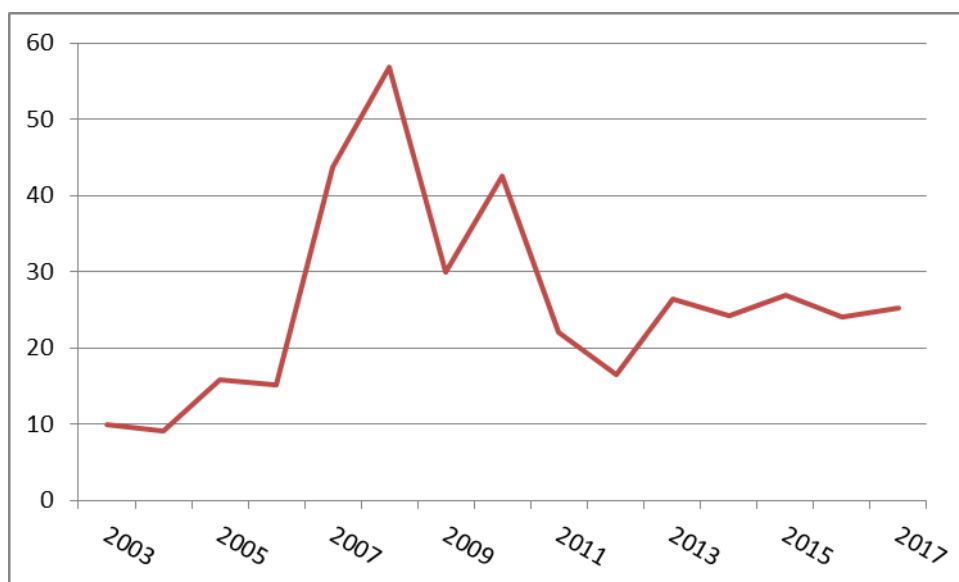
Foreign direct investments are included in the system of capital and financial accounts. The capital account is a section of the balance of payments of the country, a sub-account of GNP, which expresses the ratio of export and import of public and private capital, received and granted loans.

The income part of the balance of movement of capital and loans includes: receipts from loans and credits from other countries; income from investments abroad; dividends and interest on loans and loans provided by the country to other countries.

In the expenditure part of the balance of movement of capital and loans are reflected the provision of loans and loans to other countries; transfer of income abroad; direct and portfolio investments: the acquisition, construction of facilities abroad and the purchase of securities on investments; payment of dividends and interest on loans and credits received.

The capital account consists of (net) capital outflows, (net) capital inflows and the results of government reserve transactions. The capital account completes the country's international account and is complemented by a statistical discrepancy and a summary line summarizing the current account and capital account.

Figure 11 – Net capital account in Panama 2003-2017 (BoP, current US\$,mln)



Source: World Bank (citing: International Monetary Fund, Balance of Payments Statistics Yearbook and data files.)

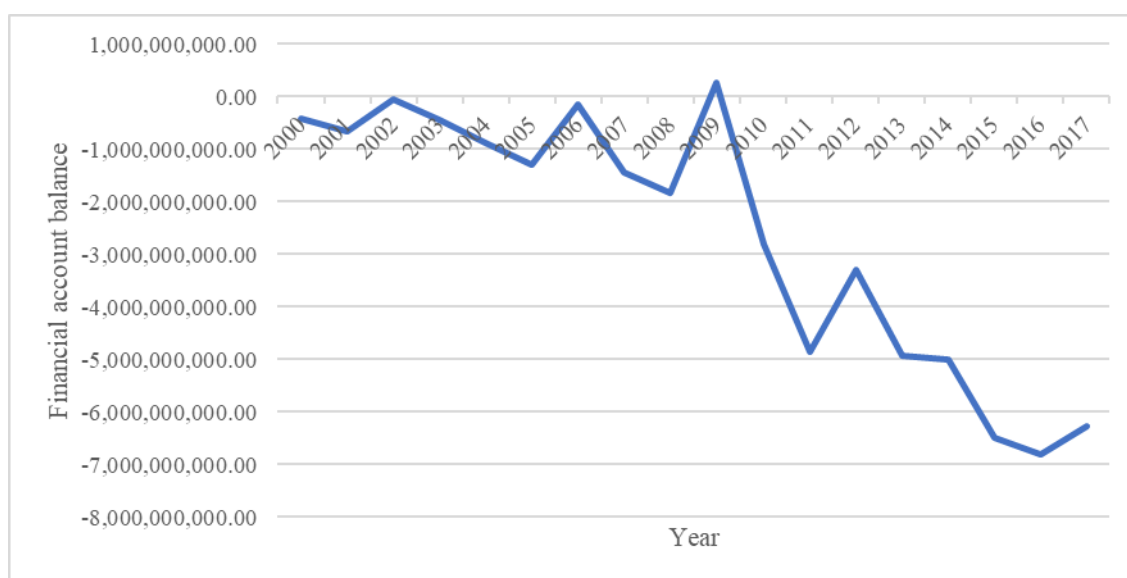
Capital account in Panama is remaining stable since 2003. Capital account surplus is defined as net capital inflows into a country. Such an inflow can occur either with an increase in foreign assets in the country (for example, the purchase by a non-resident securities), or with a reduction in the country's foreign assets (for example, a sale by resident of foreign securities). The highest value for this indicator for the last 15 years was in 2008 (\$56, 9mln.),but in 2009 due to the world crisis the value of this indicator dropped to \$30 mln. It may be caused by significant withdraw of international assets from the country. The lowest value for this indicator for the last 15 year was in 2004 (\$9,1mln).

One more indicator to define international activity in certain country is financial account.

Financial account is an account in the System of National Accounts shows how some sectors of the economy receive financial resources, taking financial obligations (or reducing any assets) and how other sectors manage their financial resources in excess financial assets (or reducing their liabilities).

Refers to domestic assets (entering the so-called accumulation accounts; along with it there are also: Capital account and other changes in assets account). Transactions reflect through changes in assets and liabilities of a financial account. The account includes the following categories: monetary gold and special drawing rights (eng. SDR); cash and deposits; borrowing (loans); securities, except for shares; shares and other equity interests; insurance reserves (technical); other accounts receivable and creditors.

Figure 12 – Net financial account in Panama 2000-2017 (BoP, current \$US, bln)



Source: World Bank (citing: International Monetary Fund, Balance of Payments Statistics Yearbook and data files.)

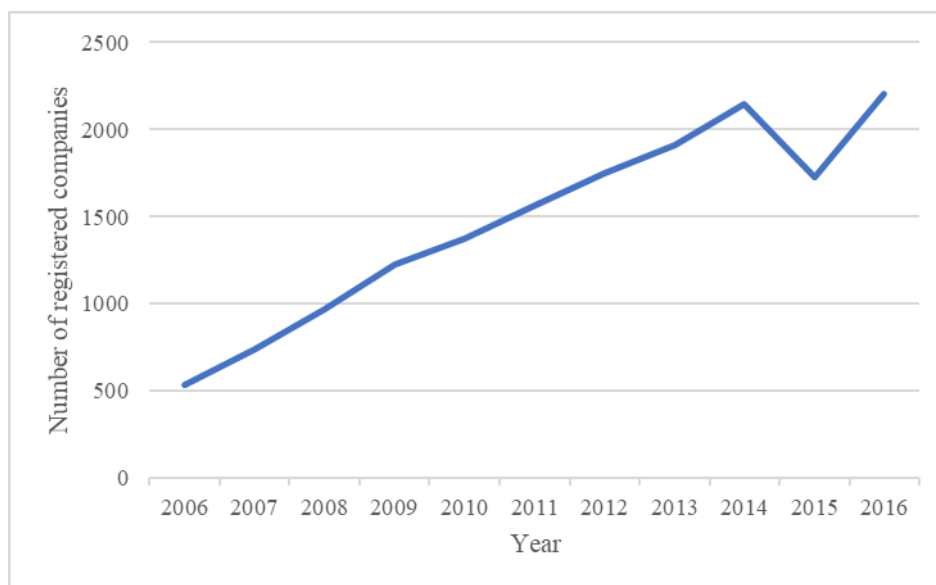
According to official data financial account in Panama has a negative value. The negative balance of the financial account shows net increase foreign assets of residents and / or a net decrease in their foreign liabilities in result of operations. On the contrary, a surplus means a net decrease in foreign assets of residents and / or growth of their foreign liabilities.

In the financial account, assets and liabilities are classified by functional a feature of five functional groups: direct investment, portfolio investment, financial derivatives (including employee stock options for employer companies), reserves and other investments.

Not surprisingly that value of this indicator is negative; Panama is very big and developed country in terms of international business. The highest value for this indicator was in 2009 (\$0,25 bln) it might be caused by withdraw of international assets from Panama due to world crisis. The lowest value for this indicator was in 2016 (-\$6,8 bln), it shows relevance of Panama as place to run business for foreigners.

Also is necessary to mention the number of new businesses registered, because it is a very important indicator to define international businesses' activity.

Figure 13 – New businesses registered in Panama 2006-2016 (number)



Source: World Bank (citing: World Bank's Entrepreneurship Survey and database <http://econ.worldbank.org/research/entrepreneurship>.)

According to official data, 16 152 new businesses have been registered since 2006 to 2016 in Panama. Such high number of new companies shows attractiveness of Panama as a country for running business. The highest number of registered companies was in 2016 (2204), the lowest number of new businesses registered was in 2006 (532), it could be connected with starting of Panama's development as an offshore zone.

Real estate investment in Panama can be not only a stable business, but also a reliable protection of its assets. The national real estate market offers a wide range of offers and prices that you want to notice, much lower than in other countries. These can be houses or condominiums in the business center of Panama City or real estate on the coast not far from the beaches. Since Panama is a country with a tropical climate, year-round summer and magnificent nature, it is in demand for a beach holiday with tourists from neighboring countries such as the USA, Canada, as well as from Europe.

According to the graph (Picture 11), it is possible to observe a continuous growth of this indicator from 2006 to 2014, only in 2015 this value of this indicator turned out to be lower than in the previous year, this may be due to the 2014 crisis, and the concern of businessmen to register a new business, just as a reason Panamanian documents, which caused great resonance in society and the concern of businessmen about the safety of their confidential information.

5. Practical part

5.1 SWOT analysis of Panama in relation to its international economy policy

The development of a SWOT analysis for Panama will help to clearly and clearly identify the most appropriate strategies for further development, which will undoubtedly affect further development. This analysis will look at the strengths and weaknesses, as well as the opportunities and threats of Panama, as a country that has concentrated a significant amount of international business, and then it will be possible to develop the necessary strategy for further development that will help smooth out the identified weaknesses and strengthen the strengths.

Figure 14 – SWOT analysis for Panama in relation to its international economy policy

Strengths	Weaknesses
<ul style="list-style-type: none">- Territorial taxation system- Assets protection and confidentiality of the company's beneficiary- Fast registration of a legal entity	<ul style="list-style-type: none">- Lack of qualified workers- Dependence on foreign business
Opportunities	Threats
<ul style="list-style-type: none">- Significant increase of world GDP- The opportunity to occupy a leading position in the world in the provision of services	<ul style="list-style-type: none">- Qualified Panama's residents may not be relevant for foreign companies (the influx of migrants)- Isolation of the «Tax Heavens»- «Panama paper» scandal (unstable state)- Terrorism and economic crimes

Strengths:

1) Territorial taxation system.

The main advantage of Panamanian offshore in 2019 is the ability to conduct international business without paying income tax in Panama. In order not to pay income tax in Panama, the company should not provide services or sell goods to residents. The tax rate on dividends paid for offshore companies is 0%. However, if you want to work in the domestic market of Panama, be prepared to pay taxes according to national tax laws.

The only payment the Panamanian international company is required to pay is the so-called franchise. The size of the franchise is 300 USD and is paid by the company once a year. Timely payment of the franchise further affects the company's business reputation (due diligence), since, based on the business reputation, Panamanian government authorities issue the "Good Standing" certificate, which is required when opening a bank account.

It should be noted that in connection with the international requirements for the preparation of the exchange of tax information in the CRS format and the obligations of Panama to the FATF and OECD organizations, requirements have recently been introduced for companies to obtain a tax ID number. This does not mean at all that international Panamanian companies must pay tax, simply all international foreign companies are now classified as "B" and must be registered in a special register of foreign companies. In this way, Panama is being prepared for the international automatic exchange of information.

Panamanian offshore in addition to the non-tax status for international companies, offers to use special economic zones. These are special economic zones that are located in various strategic areas of the state. In order to attract foreign investment in specific types of economic activity, Panama provides an opportunity for investors in such zones to have flexible migration conditions for attracting labor resources.

2) Assets protection and confidentiality of the company's beneficiary

The second reason why foreigners choose offshore Panama is the reliable protection of the company's assets and the high level of anonymity of its owner. This is the merit of the corporate law of the country. Protection of corporate information is in first place in Panama, therefore, for the unauthorized disclosure of corporate data even imprisonment is provided. At the same time, Panama does not accept the decisions of various foreign courts. The only one who can authorize the disclosure of information to a Panamanian company is the Panamanian judge.

The confidentiality of the names of the beneficiaries of the company and the shareholders is that their names are not registered in the public registry. The law requires only company directors to be appointed are registered. The minimum number of directors in a Panamanian company is three people. Directors can be both physical and legal persons. The personal data of the beneficiaries of the corporation appear only once when registering with the state registration authority. However, personal information about the owners is not accessible to the public.

In addition, the level of anonymity can be enhanced by using the "nominee service", which is officially authorized in Panama. To achieve a higher degree of confidentiality, you need to create a more complex corporate structure, that is, a combination of a Panamanian corporation and the Panama Private Foundation.

3) Fast registration of a legal entity

The corporate law of Panama allows you to register a corporation in a short time. Being in Panama, registration can be carried out within 2-5 days. The company can be formed by two or more persons, regardless of citizenship and place of residence. Such a company can be used to conduct any legal activity.

An offshore company has restrictions on activities that are part of the state monopoly. The company cannot engage in banking activities, provide trust, warranty and insurance services, that are related to financial activities. In order for the company to work in these areas, it must obtain a state license in Panama.

Legislation requires that the company's documentation from a foreigner be filed with the official registration agent of the company. In this role, only a licensed Panamanian lawyer (resident) can act, with which the company must enter into a contract. In the future, this registered agent will represent the company in all state structures of Panama and monitor the company's content throughout the year.

The size of the share capital is not limited and can be paid in any currency. At the same time, the law on corporations does not oblige the founders to pay the declared amount of the share capital. Basically, in Panama, companies indicate the size of the share capital of 10,000 USD, which in shares is, for example, 100 shares of 100 USD each. Such a sum of authorized capital allows the company to pay services for the annual maintenance of the company at minimum rates. Here it must be emphasized that the cost of the annual maintenance of the Panamanian company is several times less than in other offshore jurisdictions.

In order for the Panamanian offshore to be effective and not perceived by tax authorities in different jurisdictions as a "dummy company" for tax evasion, it is necessary to structure the business and adhere to the "Substance" criteria to the maximum. The factors affecting the "Substance" can already be said to be laid down in the very corporate legislation of Panama.

The law requires the Panamanian company to have a registered office in the country, which can be either rented or owned by the company.

The next factor that will show the real presence of a company in the country is the presence of corporate accounting in the country.

That is, according to the latest changes related to international requirements for preparing for the automatic exchange of tax information, Panamanian companies must keep accounting records and store financial reports in the registered office for 5 years. If a company is engaged in international business, it does not receive income from a Panamanian source, it does not submit an annual income statement, but is obliged to keep and keep financial reports. This requirement

of Act No. 52 for companies in Panama came into force on January 1, 2017. The presence of a corporate bank account in the country of incorporation.

Panama is famous for its banking sector, which has more than 100 banking institutions in the country, including a large number of well-known world famous banks. At the same time, the law on companies does not require the obligatory opening of an account at a local bank, but in order to comply with the “Substance” it is also possible to consider opening a corporate bank account in the country in Panama.

Other circumstances will also influence the positive perception of the company, for example, the presence of a corporate website, the attraction of local staff to the company and others.

Do not forget that the presence of Panama's offshore gives the owner the opportunity to get a residence in the country.

Weaknesses:

1) Lack of qualified workers.

As noted earlier, in Panama there are still serious problems in the field of education, the majority of applicants choose the humanities instead of the exact ones, and this situation creates a problem of employment and lack of personnel. Still, international business in Panama specializes in providing services, and this area needs more in the IT sector. The state should pay more attention to education and motivate applicants and students to study the exact sciences; this will significantly reduce the unemployment rate among the young population and may well be the impetus for improving the standard of living.

2) Dependence on foreign businesses

Most of the GDP of Panama creates an offshore business, and for whom it is not a secret, and this makes the economy of Panama dependent. Of course, one cannot exclude from the attention the Panama Canal, which brings large revenues to the state budget, but this activity alone is not enough to support the national economy. Taxes on a non-offshore business in Panama are quite high and not everyone can afford to conduct such a business there.

The state should pay more attention to national business in the same way, and in every way stimulate it, otherwise it could potentially lead to irreversible consequences.

Opportunities:

1) Significant increase of world GDP.

GDP is a very important incentive indicator for each country. Every year, each country tries to increase it in order to rise higher in the international ranking. The higher the country's GDP, the more developed it is, and therefore more attractive for investment. Increasing of world can push Panama's GDP to grow up and it will be significant opportunity for further development .

2) The opportunity to occupy a leading position in the world in the provision of services

Panama's foreign business is specialized in providing services, the policy of attracting foreign capital to the country leads to an increase in the provision of services, thereby increasing GDP and occupying a leading position in the rating of countries providing services. These opportunities can attract new investors and make Panama a reliable service provider.

Threats:

1) Qualified Panama's residents may not be relevant for foreign companies (the influx of migrants)

As noted earlier, the problem of education is very serious for Panama. Most foreign companies prefer to hire foreigners at senior positions than residents. This aspect cannot be ignored, because this problem has two adjacent paths of development. First of all, the majority of highly skilled residents may remain without work and will be forced to work in low-paid jobs. Secondly, an increase in the number of migrants will grow in proportion to the increase in registered companies, which can also adversely affect some aspects of a country's development.

The solution of this problem can serve as special conditions when registering a business in a given country, for example, a company is obliged to hire a certain number of residents in order to obtain permission to register.

2) Isolation of «Tax heavens»

In the modern economy, the attitude to offshore zones is extremely ambiguous. Someone argues that this contributes to the development of developing countries (increases GDP, reduces unemployment, improves infrastructure), but many also talk about the dangers of offshore zones for the global economy.

Most countries every year try to limit the use of offshore zones to national companies, because, sometimes, this leads to the use of imperfection of the law and a violation of the stability of the national market.

Therefore, this criterion can be considered a threat to Panama, as as offshore zones become more isolated, Panama's economy will decline. The relationship between these indicators is direct.

3) «Panama paper » scandal.

With all the thoroughness of bank secrecy and guarantee of anonymity of account holders and companies in the Latin American offshore zone, information leakage is still possible. Entrepreneurs doing business in Panama, based on the mistakes of world leaders, should think about the consequences and conduct their business as legally as possible so as not to lose a positive reputation. The essence of the recent "Panama scandal" that shook the public is in the publication of an extensive list that includes the names of well-known influential people, heads of state, politicians and other beneficiaries who, contrary to law, turned out to be owners of offshore companies. The informant, who presented documents to the public, said in an interview that the motivation of his action was the desire to publicize the existing injustice and highlight the secret actions of the powerful in order to hide their incomes and conduct corrupt activities. The scandal has affected a large number of both high-ranking Russians and representatives of the authorities of other countries and produced a huge resonance, entailing both excuses for those on the list and a complete rejection of the information that compromise them, as well as more decisive actions of the defendants, up to the resignation from their posts.

5.2 Construction of regression model

To identify the influence of foreign business on the economic development of Panama, a simple linear regression model will be constructed. To determine foreign business activities, indicators such as capital account and financial account will be used. The dependent variable will be Panama's GDP over the past 15 years.

The data set will contain the dependent variable of GDP (Y) and the independent variables of the capital account and the financial account (X).

First of all we will construct regression model for GDP and capital account.

Table 2 – Data set №1 (GDP and Capital account (bln USD, current prices))

Year	Y (GDP)	X (Capital account)
2003	13,60	10
2004	15,00	9,1
2005	16,30	15,8
2006	18,10	15,2
2007	21,30	43,7
2008	25,10	56,9
2009	27,10	30
2010	29,40	42,5
2011	34,68	22,1
2012	40,42	16,5
2013	45,60	26,4
2014	49,90	24,2
2015	54,10	26,9
2016	58,00	24
2017	62,20	25,2

This table shows GDP indicators and capital accounts from 2003 to 2017.

Based on this data set, a regression model will be constructed and the relationship between these indicators will be identified.

Table 2 - Regression analysis for «Data set №1»

Regression statistics	
Multiple R	0,083720793
R Square	0,007009171
Adjusted R Square	-0,069374739
Standard Error	17,1638109
Observations	15

To determine the relationship between GDP and the capital account, we need indicators «Multiple R» and «R Square». Multiple R is equal 0,083, it means that correlation between these two indicators is very low and it's unnecessary to continue further research. It might be caused by structure of capital account, because it includes mostly Panama's activity in other country and that is why we cannot relate it with international activity inside Panama.

But it is also necessary to observe the second data set with GDP and financial account.

Table 4 – Data set №2 (GDP and Financial account) (bln USD, current prices)

Year	Y(GDP)	X (Financial accounts)
2000	12,3	-0,4
2001	12,5	-0,6
2002	12,9	-0,04
2003	13,6	-0,4
2004	15	-0,88
2005	16,3	-1,28
2006	18,1	-0,14
2007	21,2	-1,44
2008	25,1	-1,8
2009	27,1	0,25
2010	29,4	-2,8
2011	34,6	-4,7
2012	40,4	-3,2768
2013	45,6	-4,94
2014	49,9	-5
2015	54	-6,47
2016	57,9	-6,8
2017	62,2	-6,27

Based on this data set, a regression model will be constructed and the relationship between these indicators will be identified.

This table shows GDP and financial account since 2000 until 2017. According to this data the regression analysis will be constructed.

Table 5 – Regression analysis for «Data set №2»

Regression statistics	
Multiple R	0,94170639
R Square	0,886810924
Adjusted R Square	0,879736607
Standard Error	0,85782355
Observations	18

According to regression analysis Multiple R is equal 0,94 it means that correlation between GDP and financial accounts is very strong. Correlation coefficient is equal (-0,94), because when financial account is reducing (international capital in Panama is increasing) GDP is increasing. Also, determination coefficient (R Square) shows the correlation between this two variables, it is equal 0,88.

So, it is safe to say that foreign business has a direct impact on the development of the economy of Panama. Even though the capital account did not show a clear dependence on GDP, it is quite possible that it depends on the structure of this account, the financial account showed a very strong dependence on GDP this country and allowed to draw conclusions.

The financial account most clearly reflects the activities of foreign business in Panama, in turn, the capital account reflects to a large extent the financial activities of Panama in the territory of other countries.

For finding the influence of financial and capital accounts on social development of Panama it is relevant to use HDI (Human Development Index).

First, it is necessary to find a correlation between HDI and capital account.

Table 6 – Data set 3 (HDI and capital account)

Year	Y (GDP)	X (Capital account)
2003	0,73	10
2004	0,735	9,1
2005	0,739	15,8
2006	0,744	15,2
2007	0,751	43,7
2008	0,755	56,9
2009	0,756	30
2010	0,758	42,5
2011	0,764	22,1
2012	0,771	16,5
2013	0,776	26,4
2014	0,781	24,2
2015	0,781	26,9
2016	0,785	24
2017	0,789	25,2

Based on this data set, a regression model will be constructed and the relationship between these indicators will be identified.

Table 7 – Regression analysis for “Data set 3”

Regression statistics	
Multiple R	0,205612
R Square	0.042276459
Adjusted R Square	-0.031394583
Standard Error	0.019334086
Observations	15

To determine the relationship between GDP and the capital account, we need indicators «Multiple R» and «R Square». Multiple R is equal 0,205, it means that correlation between these two indicators is very low and it’s unnecessary to continue further research.

Table 8 – Data set 4 «HDI and Financial account (bln USD)»

Year	Y (HDI)	X (Financial accounts)
2000	0,719	-0,4
2001	0,722	-0,6
2002	0,728	-0,04
2003	0,73	-0,4
2004	0,735	-0,88
2005	0,739	-1,28
2006	0,744	-0,14
2007	0,751	-1,44
2008	0,755	-1,8
2009	0,756	0,25
2010	0,758	-2,8
2011	0,764	-4,7
2012	0,771	-3,2768
2013	0,776	-4,94
2014	0,781	-5
2015	0,781	-6,47
2016	0,785	-6,8
2017	0,789	-6,27

Based on this data set, a regression model will be constructed and the relationship between these indicators will be identified.

Table 9 – Regression analysis for «Data set 4»

Regression statistics	
Multiple R	0.888983196
R Square	0.790291122
Adjusted R Square	0.777184318
Standard Error	0.01069439
Observations	18

According to regression analysis Multiple R is equal 0,88 it means that correlation between GHDI and financial accounts also is very strong. Also, determination coefficient (R Square) shows the correlation between these two variables, it is equal 0,79.

To check the relevance of these calculations we need to use t-test to define the importance of this correlation. Correlation could be so high by accident we need to prove that this is so because of strong relationship.

First, let's find out the importance of these relationships between financial accounts and GDP, the data will be used the same as for regression analysis, level of importance 0,05.

Table 10 – T-test results for GDP and Financial accounts

Observations	18
Pearson Correlation	-0.940657198
Hypothesized Mean Difference	0
df	17
t Stat	7.209520872
P(T<=t) one-tail	0.0000007
t Critical one-tail	1.739606726
P(T<=t) two-tail	0.0000015
t Critical two-tail	2.109815578

According to the results, it is safe to say that the relationships between these indicators is not caused by random. Coefficient of t-statistics (7.209) is more than t-critical one-tail (1,739) and t-critical two-tail (2,109), it means that we can reject 0 hypothesis and accept 1 hypothesis, and it allows to firmly assume that relations are strong between these two variables.

Second, we need to prove real existence of relationships between financial accounts and HDI (Human Development Index), the data will be used the same as for regression model, level of importance 0,05.

Table 11 – T-Test results for HDI and Financial accounts

Observations	18
Pearson Correlation	-0.888983196
Hypothesized Mean Difference	0
df	17
t Stat	4.520500633
P(T<=t) one-tail	0.000151106
t Critical one-tail	1.739606726
P(T<=t) two-tail	0.000302212
t Critical two-tail	2.109815578

According to the results, it is also safe to say that there is real relationships between these to indicators. T – statistics (4.52) more than t-Critical one-tail (1,739) and t-Critical two-tail (2,109). It means that that we can refuse 0 hypothesis and accept 1 hypothesis, which is allows us to assume that there is really strong relations between these two indicators.

So, it is safe to say that foreign business has a direct impact on the social development of Panama. Even though the capital account did not show a clear dependence on GDP, it is quite possible that it depends on the structure of this account, the financial account showed a very strong dependence on GDP this country and allowed to draw conclusions.

5.3 Results and discussions

Foreign investment is welcomed in all countries whose economies are open. Foreign investments serve as an impetus for the economic development of countries, especially developing countries. The volume of foreign investment continues to grow rapidly, strengthening the role of international production in the global economy. It can be argued that the impact of foreign investment on the economy of the host country is contradictory: it can be both positive and negative.

Investing foreign capital increases the competitiveness of the host country. The flow of investment improves productivity. Investments also improve the quality of products, and this affects the competitiveness of products, brings it to the international level, that is, it expands ties with foreign markets. These positive effects of investing foreign capital are most significant for the economy of the host country. Despite the obvious advantages of foreign investment, there are certain disadvantages.

Foreign investment increases the demand for highly skilled labor, and therefore increases the level of welfare of the population, as foreign investors pay higher wages compared to local firms. But the profits of local firms are reduced accordingly due to unfair competition. Foreign investment stimulates the production of intermediate products, since it creates a demand for it. Local firms are forced to create additional production facilities, since they would not produce these goods in the absence of demand from foreign companies and countries.

Another aspect of the negative impact of foreign investment on the economy of the host country is the effect of crowding out domestic investment by foreign investment, crowding out local firms with more competitive foreign ones, that is, local firms simply do not have the opportunity to develop, grow, or break into the world market. It can be said that this effect is far from ambiguous, since foreign investment can contribute to the development of national firms by increasing productivity, the external effect of technology transfer, which is one of the positive effects of foreign investment on the economy of the host country.

As for Panama, in the course of the survey it was found that foreign business has an impact on the economic development of Panama.

Foreign business and its offshore status also have their advantages and disadvantages. Speaking of benefits, one can note the high growth of GDP, which cannot positively affect the development of the country, a reduction in the number of unemployed, which increases the quality of life of the population and an increase in the average income of the population. It should also be noted the negative aspects, such as the interest of foreign enterprises to hire foreign specialists, this problem should be given very little attention, because residents often remain without work due to this situation. The Panama government should include partners in their offshore legislation on compulsory hiring of residents for pre-registration of the company, these amendments will help avoid this situation.

Also, the government of Panama needs to pay more attention to education, because most students prefer the humanities instead of the exact ones, and at the end of the higher educational institution, most of them become unclaimed. The government needs to invest more in the field of education and encourage students to study the exact sciences, the solution to this problem can be to increase the budget places in areas related to the exact sciences, or to increase the degree program in the same areas, all this will encourage future students to choose the exact ones Sciences for study. Also, government should pay more attention to the offshore companies' activity, because Panama papers scandal significantly damaged the reputation of Panama as an offshore zone, for example, to make most of the bank transactions more transparent, it could create loyalty and reliability of Panama as an offshore zone from other governments.

Most of the already made investigations made about Panama's economic development show that Panama Canal is « engine» of this development, but in my opinion its is not, according to Michael King's article, Panama Canal provides less than 1% of employment of Panama, and it would influence the social development of this country without its offshore status. Yes, it is very difficult the reject the point that Panama Canal has an impact on development of Panama, but it is also necessary to take into consideration the fact that offshore status of Panama provides a lot of work places, improves infrastructure and helps to develop Panama in general. My investigation proofs that foreign investments have an impact on economic and social development of Panama, and as far as it known, such amount of foreign investments is caused by offshore status of this country.

Panama's history over the past fifty years has been equal parts turmoil and progress. After emerging from decades of repression, corruption, and ultimately invasion, Panamanians have rebuilt their society as a democratic nation with a swiftly developing economy and prospects for continued prosperity. Yet this encouraging picture masks deep inequalities within the country, as many segments of the population are left behind socially, economically, and politically. Rural indigenous groups are the hardest hit, cut off from public services like health care and education as well as the national economy more generally. Modern Panama remains a dual economy in which urban centers are thriving and deeply imbedded in the international marketplace while rural peasants struggle to scrape out a living and provide for their families. This persistent inequality is Panama's greatest challenge and one that must be surmounted for sustainable and ongoing development to be achieved. The Panamanian government's best prospects for building a prosperous, equitable, and sustainable future lies in making smart policy interventions that boost human capital, expand ICT infrastructure, and close the income gap between the nation's richest and poorest citizens. These initiatives may take many forms and will require boldness and innovation to come to fruition. The Panama Canal will undoubtedly remain a critical national asset for the country, and one whose continued operation will require rigorous environmental management as well as an educated and healthy workforce. As Panama moves further along in its path towards national development, its leaders and citizens must remain cognizant of the challenges yet to be overcome and vigilant in their defense of democracy, inclusiveness, and effective governance. In doing so, they will reinforce the ever-strengthening foundations of a nation ready to reach new heights of prosperity and development as a vibrant global hub for the 21st century.

Conclusion

The main purpose of this work was to determine the influence of foreign business on the economic development of Panama by using the capital account and financial account as the main indicators of the activities of foreign companies.

In the course of this work, such concepts as offshore zone, financial account, capital account were covered. The historical aspect of the economic development of Panama and the historical aspect of the social development of Panama were also considered. It also analyzed the current state of Panama, namely, the analysis of economic and social factors, as well as analyzed the current activity of foreign companies in the territory of this country.

In the first part, the theoretical aspects of this work were considered the definition of an offshore zone and offshore business, as well as a definition of capital account and financial account.

In the second part of the work, the history was considered the historical aspect of the development of social and economic indicators of Panama. And based on the study, it can be summarized that Panama has progressed in all indicators since the beginning of the 20th century. This country managed to achieve high results from scratch.

In the third part, the methodology of the study was described, which describes the method of CBOT analysis and regression analysis, which were used in the practical part of this work.

The fourth part was described and analyzed the current state of Panama, with regard to economic indicators, we can say with confidence that since 2000, most of the important indicators are progressing noticeably. Speaking of social indicators, it is safe to say that not everything is as good as with economic indicators, most social indicators are at an acceptable level, but some indicators, such as education and health financing, are not at the proper level and Providence should give these areas much more influence. The performance of foreign business in Panama Were also reviewed. In the majority of indicators on this basis, there has been a steady growth, in such as the number of registered firms over the past 15 years and the financial account, which shows the number of foreign assets in the territory of this country. The offshore legislation of this country was also considered, the basic rules of the advantages and disadvantages of registering an offshore company in this country. As a result of this part of the work, it is safe to say that Panama is a country with a dynamically developing economy, but with noticeable weaknesses in the social sphere, over which government must work hard and get rid of.

In the fifth part, the SWOT analysis, regression analysis and the results of the work were analyzed. Based on the results of the analysis, the strengths were highlighted, such as territorial

taxation system, assets protection and confidentiality of the company's beneficiary, fast registration of a legal entity; weaknesses: «Panama paper» scandal, lack of qualified workers, and dependence on foreign business; opportunities: significant increase of GDP, the opportunity to occupy a leading position in the world in the provision of services; threats: qualified Panama's residents may not be relevant for foreign companies (the influx of migrants), the emergence of monopolies in the domestic market.

According to the results of the analysis, it was revealed that Panama has a great advantage among other offshore countries in the convenience and profitability of registering a foreign company, as well as great opportunities for this country on the international market of services. But we should also not forget about weaknesses and, as mentioned earlier, they are related to the social sphere, to which the state needs to pay more attention than to the economic sphere.

As part of the regression analysis, GDP, capital and financial account indicators were taken to determine the impact of foreign business on the economic development of Panama. As a result of this analysis, it was found that the capital account has virtually no effect on Panama's GDP, based on the structure of this account, it can be said that it is characterized by the activities of Panama in other countries. As for the financial account, based on the regression analysis, this indicator has a very strong correlation with GDP, and based on their structure of the financial account, it can be stated with confidence that foreign business has an impact on the economic development of Panama.

Summing up, we can say that Panama is a country with a dynamically growing economy, and average social indicators. It is unmistakable to say that this country will progress in the next few years, despite the not very pleasant situations that occurred several years ago related to the offshore policy of this state.

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