OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.

DISCLAIMER

FAIR USE POLICY

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

NACIONES UNIDAS

PROGRAMA PARA EL DESARROLLO

PANAMA

17721

3a/49

PAN/J/84 07/1/Y/7

Report on Country Conditions:
P A N A M A

prepared by Luc Dejonckheere
JPO in Panama

31st July, 1984

REPORT ON COUNTRY CONDITIONS - PANAMA

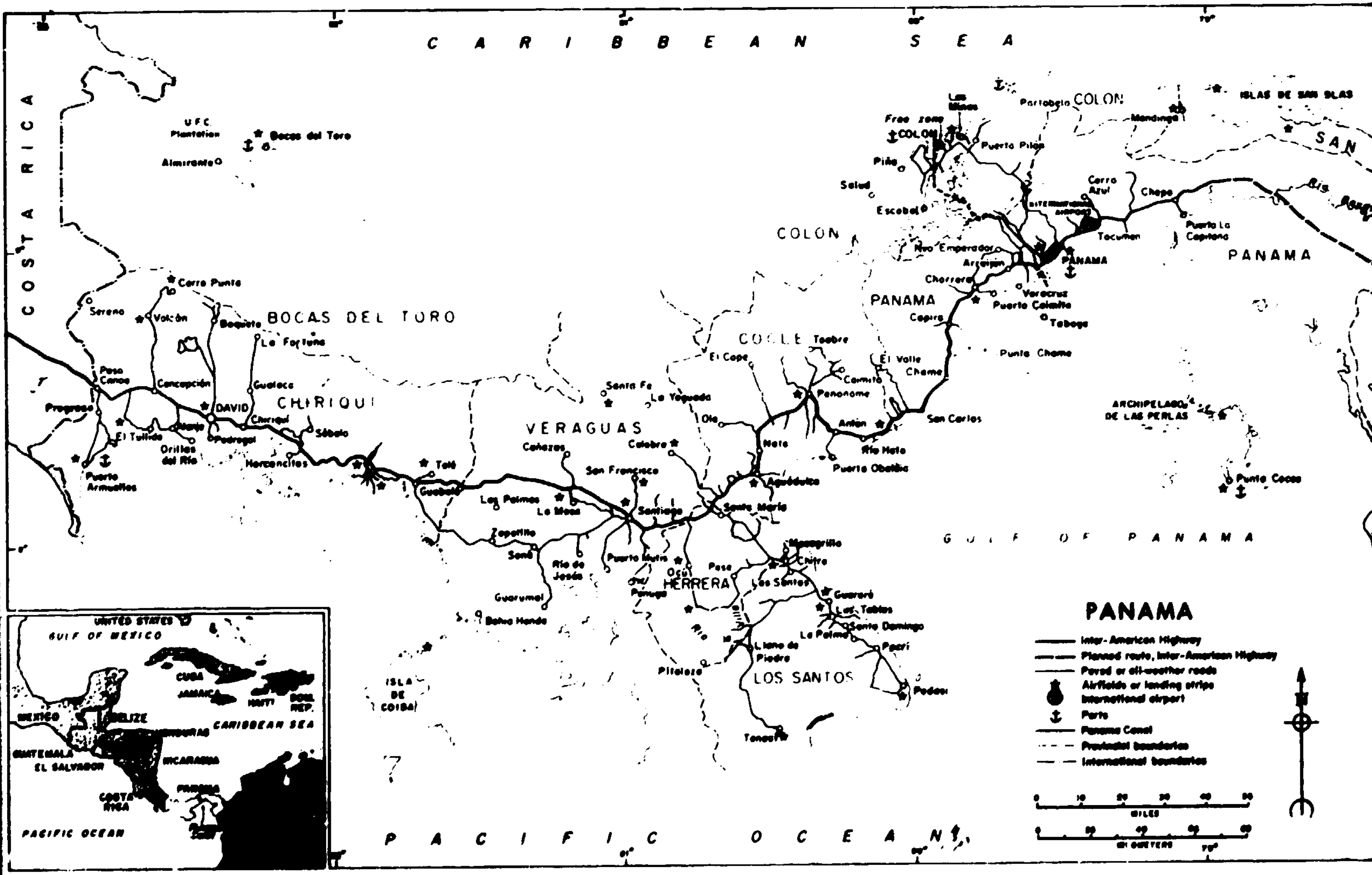
REPORT ON COUNTRY CONDITIONS - PANAMA

(CONTD.)

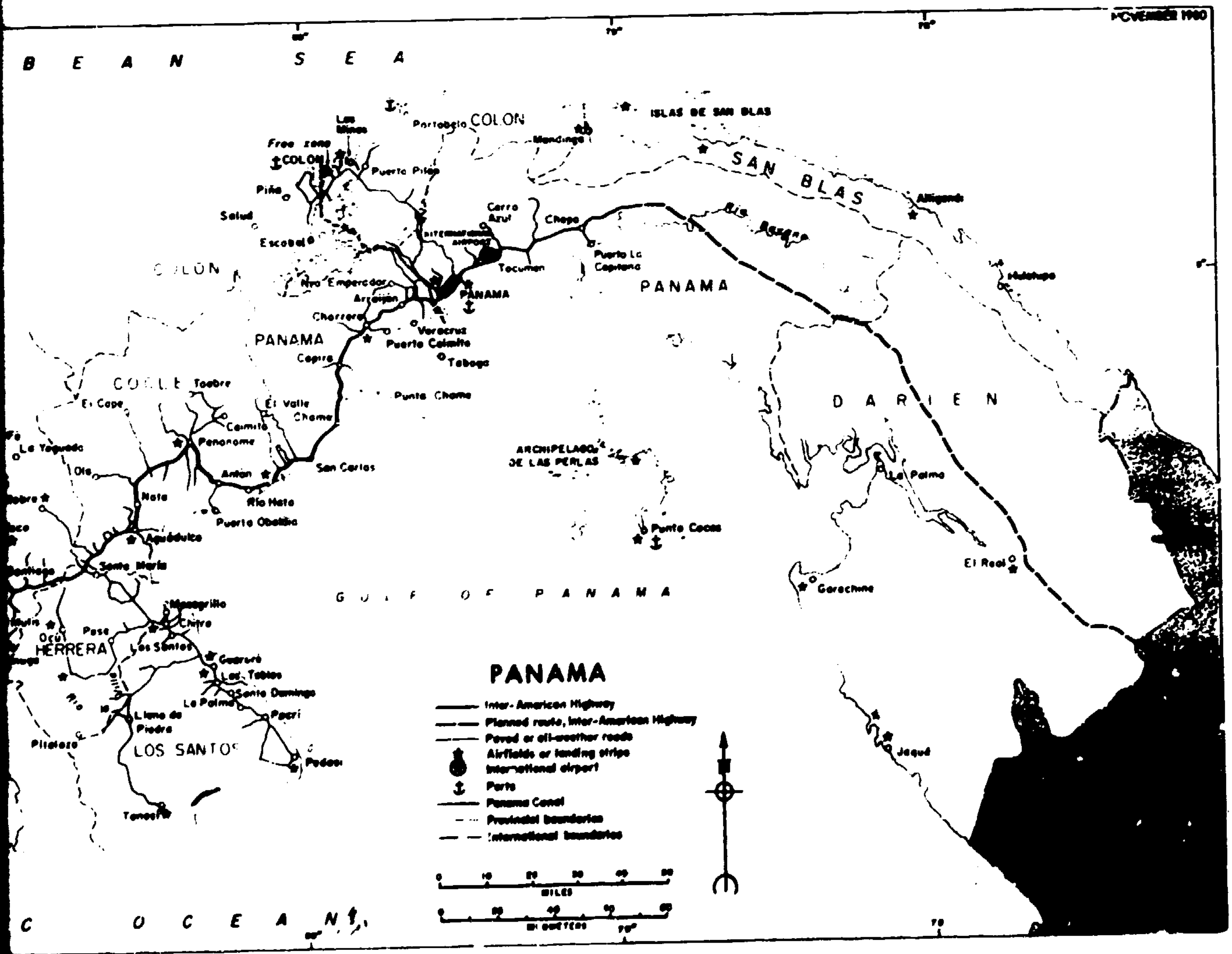
LIST OF TABLES

List of Maps

I N T R O D U C T I O N


CARIBBEAN SEA
PACIFIC OCEAN
GULF OF PANAMA
COSTA RICA
PANAMA
Inter-American Highway
Planned route, Inter-American Highway
Paved or all-weather roads
Airfields or landing strips
International airport
Ports
Panama Canal
Provincial boundaries
International boundaries
MILES
KILOMETERS
BOCAS DEL TORO
CHIRIQUI
VERAGUAS
COCLE
COLON
HERRERA
LOS SANTOS
DAVID
Bocas del Toro
Almirante
U.F.C. Plantation
Cerro Punta
Volcán
Boquete
Concepción
Puerto Armuelles
Santiago
Penonomé
Chitre
Las Tablas
Aguadulce
San Carlos
Chorrera
Taboga
Colon
Portobelo
Free zone
ARCHIPELAGO DE LAS PERLAS
ISLA DE COIBA
ISLAS DE SAN BLAS
UNITED STATES
GULF OF MEXICO
MEXICO
CUBA
JAMAICA
HAITI
DOM. REP.
BELIZE
HONDURAS
GUATEMALA
EL SALVADOR
NICARAGUA
COSTA RICA
CARIBBEAN SEA
PACIFIC OCEAN

SECTION 1



NOVEMBER 1980
PANAMA
Inter-American Highway
Planned route, Inter-American Highway
Paved or all-weather roads
Airfields or landing strips
International airport
Ports
Panama Canal
Provincial boundaries
International boundaries
MILES
KILOMETERS
ISLAS DE SAN BLAS
SAN BLAS
COLON
PANAMA
DARIEN
COCLE
HERRERA
LOS SANTOS
GULF OF PANAMA
ARCHIPELAGO DE LAS PERLAS
Portobelo
Mandinga
Free zone
COLON
Puerto Pilon
Piña
Salud
Escobal
Cerro Azul
Chepo
Tocumen
Puerto La Capitana
Arraijan
Chorrera
Veracruz
Puerto Caimito
Taboga
Capira
Punta Chame
El Valle
Chame
San Carlos
Penonome
Anton
Rio Hato
Puerto Obaldia
Nata
Aguadulce
Santa Maria
Chitre
Pese
Ocu
Los Santos
Guarare
Las Tablas
Santo Domingo
La Palma
Pocri
Llano de Piedra
Pedasi
Tonosi
Pitaloza
El Cope
La Yeguada
Ola
Punta Cocos
La Palma
El Real
Garachine
Jaque
Ailigandi

SECTION .2

INTRODUCTION

The Country, Location and Area

Panama is located at the southeastern end of the Central American isthmus which connects the North and the South American Continents. The country has an area of 77,082 square kilometers (29,761 square miles), including an area of 1,432 square kilometers (553 square miles) of Panamanian national territory formerly known as the Panama Canal Zone. This strip of land, 8 kilometers (5 miles) wide, along each side of the Panama Canal was under the jurisdiction of the United States of America until 1 October, 1979, when the treaty signed in September 1977 went into effect, superseding earlier treaties.

As the connecting link between the narrow Central American ishtmus and the South American Continent, Panama occupies a strategic position.

The Panamanian isthmus lies on an eastwest axis, with the Republic of Colombia at its eastern most border and the Republic of Costa Rica as its western neighbor. The isthmus faces the Caribbean Sea to the North and the Pacific Ocean to the Sourth, with the Canal actually on a northwest to southeast axis, cutting through the isthmus at one of its narrowest sections. The width of the isthmus ranges from 51 kilometers to 190 kilometers from the Caribbean Sea to the southernmost tip of the Azuero Peninsula in Central Panama.

Topography and Climate

Panama's topography is mostly mountainous and hilly (highest point: 3,321M); two mountain ranges from the backbone of the isthmus. The eastern regions are covered almost entirely by heavy tropical forests, and rainfall is heavy but seasonal. The Atlantic side has much higher precipitation and a less clearly defined dry season than the Pacific side. The annual rainfall in Panama City averages about 178 centimeters and in Colón, about 328 centimeters.

There are no great natural waterfalls in the Country, but in recent years several dams have been built to generate hydroelectric energy. The most important dams are on the Bayano River(150,000 kilowatts), at La Estrella-LosValles (90,000 kilowatts) , and a project is under construction at La Fortuna (300,000 kilowatts) in western Panama.

Manmade Gatun Lake, with an area of 420 square kilometers is located in the center of the Canal and supplies the fresh water that is essential for the operation of the Canal's system of locks.

Population

Panama is a multiracial country with an estimated population in 1982 of 2,043,653. The rate of population growth was 2.5% a year between the 1970 and 1980 censuses, but it is expected to decrease in the future. As a result of the recent high growth rate, the population of Panama is very young, averaging about 18 years of age.

The culture, customs, and language of the 2 million Panamanians are basically Caribbean-Spanish. Ethnically, the population is mostly mixed Spanish, Indian, and West Indian,but separate elements of the West Indian and indigenous Indian also exist. Although Spanish is the official and dominant language, English is a common second language.

Principal Cities

Panama City, the capital, is the largest and principal urban center of the country, with a population of approximately 800,000 inhabitants. Since its founding in 1519, the City of Panama has had a long tradition as an important trading center in the Western Hemisphere. Since the early 1970's Panama City has become a major financial center in Latin America.

Next to Panama City is Balboa, the terminal port on the Pacific side of the Canal. The port has specialized facilities for the handling of cargo, including a crane for containers and some capacity for bulk cargo unloading.

Colon, the second most important city in Panama, is located on the Caribbean cost of the isthmus, adjancent to the entrance of the Panama Canal.

The population of Colon is estimated at 59,832 (1980). Next to the city of Colon is Cristobal, the terminal port on the Atlantic side of the Canal, and the Colon Free Zone, one of the world's major free trade centers for the redistribution of manufactured goods from Japan, Europe, and the United States to Latin American.

In 1980, the Cristobal port acquired new equipment for handling containers, and an ongoing improvement program provides for facilities to handle 56,000 containers annually. The facilities include a yard for 2,000 containers, with handling equipment, a stuffing shed, and facilities for weighing and computerized control.

Other urban centers include San Miguelito, which is actually a suburb of Panama City, with a population of 157,063 (1980) The City of David, in western Panama, is the center of an important agricultural and cattle region and has a population of 80,371.

The Panama Canal

The interoceanic waterway which cuts through the isthmus of Panama is 82 kilometers (51 miles)long. On the average, it takes a vessel eight hours to travel from one ocean to the other, passing through three sets of locks; Miraflores, Pedro Miguel, and Gatun. The depth of the navigating channel is 12 meters (40 feet). The waterway, which began operating in 1914, handles approximately 13,500 oceangoing vessels a year, with over 182 million tons of cargo. More details about the canal and its impact on the Panamanian economy under point 4.0 Miscellaneous.

History

Columbus sighted Panama in 1501; the City of Colon is named after him. Twelve years later, Vasco Nuñez de Balboa crossed the isthmus and discovered the Pacific Ocean. Following the Spanish establishment of the old city of Panama (Panama Viejo) on the Pacific Ocean in 1519 and the dispatch of expeditions into Perú and Central America, the narrow area surrounding the present Panama Canal became an important link in the Spanish colonial empire. Passage through Panama became a compulsory element in Spanish monopolistic control of trade with the South American colonies on the Pacific cost. Gold and silver from the South American Colonies moved by ship to Panama Viejo, and were then hauled accross the isthmus by Indians, mules and small boats to Portobello on the Caribbean Coast.

The Gold and the silver were then loaded aboard Spanish vessels and taken to Spain. Panama Viejo was destroyed in a pirate attack by Henry Morgan in 1671.

Administratively, Panama was a Spanish colony until 28 November, 1821, when it achieved its independence from Spain and volunatarily joined the Great Colombia Confederation, which was formed by present-day Venezuela, Colombia, Ecuador and Panama.

In 1855 the first railroad was completed across the isthmus of Panama. It carried goods and passengers travelling between the East an West coasts of the United States and between the West Coast and Europe.

From 1880 to 1900, a French company unsuccessfully attempted to construct a Canal on the site of the present Panama Canal.

After the Great Colombia Confederation broke apart in 1830, Panama tried to separate itself from Colombia in three occasions, but was unable to do so. In 1903, with the support of the USA, and after Colombia rejected a treaty enabling the United States to build the Isthmian Canal, Panama finally proclaimed its independence from Colombia. Shortly there after the new Republic of Panama signed a Canal Treaty with the USA (Hay/Banau-Varilla Treaty).

In 1914 the United States completed a 83-kilometer lock canal in the U.S. administered Canal Zone, which extended 8 kilometers (5miles) on each side of the waterway. While Panama retained sovereignty in this area, the United States obtained all the rights, powers, and authority that it would have possessed had it been sovereign of the territory, until the entry into force of the new Panama Canal Treaty on October 1, 1979. (see also point 4.0 Miscellaneous)

A relatively small elite group has always dominated Panama politically, until 11 October 1968, when the National Guard overthrew Dr.Arnulfo Arias, President at that time, and established a provisional Junta Government. Constitutional Government was restored in October 1972 following elections in August for a National Assembly of Community Representatives. This body approved a revision of the 1946 constitution and elected Demetrio Lakas as president. It also vested temporary extraordinary executive powers for a period of 6 years in General Omar Torrijos Herrera who had emerged as the strong man in the Junta Government.

These powers expired on October 11, 1978, and a newly elected National Assembly (6 August 1978 election day), appointed Mr. Aristides Royo to succeed Lakas as President for a 6 year term.

On 31 July 1983, Mr. Royo resigned from the presidency and was succeeded by Mr. Ricardo de la Espriella, former Vice-President.

1984 had long been announced as the next general election year, when a new president would be elected, not by the National Assembly, but directly by popular vote.

On February 1984, three months before the scheduled election date (6 May), Mr. Ricardo de la Espriella resigned from the presidency and was succeeded by his Vice-President, Mr. Jorge Illueca. Elections on 6 May 1984, indicated Mr. Ardito Barletta as the next panamanian President, who will take office in October, 1984.

GOVERNMENT

1.0 GOVERNMENT

1.1 Structure and Organization

Central Government

The Panamanian Government operated as a formal presidential style democracy form its founding as an independent Republic in 1903 up to 1968. At that time a military junta took over an established a revolutionary government which took permanent form under the Constitution enacted in 1972. The Presidential democracy has been formally restored in 1984, when direct presidential elections were held.

Panama's 1972 constitution separates the government into Legislative, Executive and Judicial branches:

a.- the Legislative Branch

The Legislative functions of the Panamanian Government are carried out by separate bodies:

The National Assembly of Representatives, with 505 members elected every six years by the corregimientos[1/], votes on international treaties, approves new administrative subdivisions of the national territory, and ratifies the appointment of Supreme Court Justices. The National Assembly meets once a year for an approximate period of 30 days.

A smaller National Legislative council (56 members) performs legislative functions when the Assembly is not in session; the council is composed of 37 members elected by the National Assembly of Representatives, and 19 members elected directly by the population 18 years and older.

1/ Administratively, the country is divided in nine provinces and a special Indian territory (the Comarca of San Blas). The provinces are subdivided into 65 districts, which are further divided into 505 corregimientos, the smallest administrave units in the country, each of which elects a member of National Assembly of Representatives.

The Council has the authority to adopt its own bylaws and to approve, with two public readings, bills proposed by any of its members or by the President and Vice-President the Chief Justice of the Supreme Court, the Attorney General, the Electoral Court, and members of the Cabinet. Coordination between the various branches and levels of Government takes place through the General Council of State, which has general advisory functions and includes the members of the National Legislative Council plus the heads of most other government institutions, and through the Provincial Coordination Councils. The latter council exists in each of the nine provinces, and is made up of the members of the National Assembly from that province (i.e. the Representative of the Corregimientos), and the governer of the province. The Provincial Coordination Council coordinates plans and public programs with the heads of government institutions in the province.

b.- the Executive Branch

The executive branch is headed by a president, elected for a six year period by the National Assembly of Representantes, but following a 1978 constitutional amendment, to be elected directly by popular vote for succesive six year terms, starting from 1984 on.

The President and the Vice-President, elected in the same manner, excercise their executive authority jointly with a 12 member Cabinet of Ministers, appointed by them. The Cabinet consists of the ministers of:

1.- Planning and Economic Policy (MIPPE)
2.- Commerce and Industries (MICI)
3.- Agricultural Dvelopment (MIDA)
4.- Labour and Social Welfare (MITRAB)
5.- Public Works (MOP)
6.- Education
7.- Health
8.- Human Settlements
9.- Finance (Hacienda y Tesoro)

10.- Government and Justice

11.- Foreign Affairs

12.- Presidency

The President also appoints the judges of the lesser courts.

c.- the Judicial Branch

Judicial power is vested in the Supreme Court of Justice, magistrate's courts, and lesser courts as established by law. The Supreme Court has exclusive jurisdiction over the constitutionality of laws, decrees, resolutions, and other acts of the Administration. The Supreme Court is also th final appelate court on decisions of lesser courts and quasi-judicial acts of the Administration.

Until recently the National Guard had retained a constitutionally mandated role in the governmental decision making process. A plebiscite early 1983, however, approved a constitutional amendment,which places the National Guard (now called the "Defense Forces") under the authority of the executive and legislative powers. This new constitution was considered an important landmark in preparing the country for the direct presidential elections of 6 May 1984.

1.2 National and Development Policy

The degree of openness of the economy and the special nature of its monetary system (there is no National money emmission institute and the US dollar is legal tender), means that the traditional instruments of monetary, credit and exchange policy cannot be used by the Panamanian Government. Consequently, the management of public finances is the key element in economic policy, and the financing of the public sector deficit is directly related to external indebtedness, that is, public expenditures that are not met by fiscal resources have to be financed from external credit.

At present, Panama does not have a National Development Plan; nevertheless, the country does have annual operating plans, and the present policy of the government, in line with earlier plans, is to continue improving social well being, achieving greater national integration, and fostering greater economic independence.

The development strategy is based primarily on stimulating investment and production in the private sector, as the primary source for future employment and GDP growth. This is partly based on the recognition that a larger role for the public sector is not consistent with the objective of further reducing the level of the public external debt (see below) and partly on the persistently poor profitability record of public sector investments made during the seventies.

Given the role assigned to the private sector, the main focus of Government involvement is in determining the policy environment within which the private sector operates, and in conducting a program of public investment in infrastructure which is complementary to and supportive of private economic activity.

To promote private investment, both domestic and foreign, the National Investment Council was established in 1982, where most of the representatives are from the private sector.

With respect to sectorial development, government policies continue to assign special importance to the agricultural sector, in order to guarantee the food supply of the population. In other sectors, apart from the general promotion of private investment, as mentioned above, efforts are being made to re-activate small and medium scale manufacturing enterprises and tourism activities. In addition, it is planned to continue the housing construction program, designed to meet the shortage of housing for the low and middle income population.

ECONOMIC PROFILE

2.0 ECONOMIC PROFILE

2.1 Analysis of general trends and Economic outlook

2.11 Background

1.- The economic development of Panama has traditionally been determined by its geographic location. The building of the trans-isthmian railway in the 1850's, and of much greater significance, the construction of the Panama Canal in the early years of this century, have always endowed Panama with international transport facilities of exceptional importance. Panama has capitalized on this to build on export-oriented services economy.

2.- A major step in this direction was the establishment in 1948 of the Colon Free Zone warehouse area which is used for the display and transhipment of merchandise mainly towards the markets of the Latin American Region. The Colon Free Zone developed fastly into one of the world's largest Free Zones, only surpassed by Hong Kong. The free convertibility of the US dollar in Panama, and the absence of any controls on remittances of dividends, royalties and interest payments are attrative to many investors. These advantages are complemented for the Colon Free Zone users, by the complete exemption from import duties, the preferential Panamanian income taxes on locally generated income, and no tax of any kind on income generated outside of Panama.

3.- Another important step in the development of Panama as an international services and business center was the establishment of a very liberal Banking Law in 1970, which guarantees freedom of capital movements, total absence of foreign exchange controls and which does not impose reserve requirements or interest rate ceilings for foreign deposits. The Banking Trust Confidentiality Agreement, established by law, guarantees safety and secrecy in all financial transactions, with a system similar to the one used in Switzerland. This favourable financial climate has attracted to date some 140 banks who established subsidiaries or branches in Panama, mainly engaged in offshore business.

In addition, Panama is increasingly becoming a center for insurance and reinsurance services for international commercial activities

2.12 Rapid unbalanced growth and low Government profile: the decade of the sixties

4.- Along the above mentioned lines, Panama has experienced rapid economic expansion in the decade of the sixties, with annual GDP growth averaging 8 percent and with average GDP per capita growth of 5 percent per year. Much of the impetus came from the buoyant commerce and services sectors and from the Canal related activities which benefited from fastly expanding world trade. Agricultural output increased by nearly 5.2% per year, based largely on the expansion of grass-fed-cattle raising and on increased output of bananas, following important disease eradition measures (sigâtoca). Industrial growth in the sixties was majorly directed towards the domestic market in response to a modest import substitution strategy installed by the Government.

5.- The idea was to create a relatively secure and attractive domestic environment which would allow investors to start new manufacturing industries for products which traditionally had been imported. Protection for "infant-industries" was installed, usually by import quotas and was, in later years, complemented by fiscal incentives. It is generally accepted that this "Import substitution strategy" has been relatively successfull in the decade of sixties, specifically for sectors such as food and beverages, garment and textiles. The limited size of the domestic market however, does not allow for continued growth beyond that stage. Moreover, the absence of economies of scale in the production in some sectors will lead, as became evident in later years, to increasingly inefficient production, to distorted factor and consumer markets, and consequently to a sub-optimal allocation of national resources.

6.- The principal source of investment and entrepreneurial initiative in the decade of the sixties, was the private sector. Private domestic savings averaged about 15 per cent of GDP, while private investment rose from 12 per cent to 18 per cent of GDP between

1960 and 1970. Total employment grew at 3.5 per cent per year, well in excess of of the 2.5% annual increase in population.

7.- The benefits of this rapid development, however, were heavily concentrated in the infrastructurally well-endowed metropolitan corridor between Panama City and Colon. Today the metropolitan area contains more than half the nation's population and produces over 70% of its value added.

A far lower standard of living persisted in the country side, however, where the social and economic infrastructure was inadequate to ensure continued economic and social development.

2.13 <u>Government intervention for social welfare and continued economic growth: the decade of the seventies.</u>

8.- Panama's unbalanced economic development in earlier decades left the country, at the beginning of the seventies, with a highly dual economic structure; a high income, service oriented urban economy, adjoining rural areas, primarily dedicated to subsistence agriculture, and poorly linked with the Metropolitan area or with the banana enclaves near the Costa Rican border. The intensity of urban-rural disparities at the end of the sisties, was reflected in a US $730 versus US $ 220 average per capita income in the Metropolitan area and the interior of the country respectively. In addition, an estimated one third of all rural residents had per capita incomes below US$100.

9.- In response to this economic reality, the development strategy, initiated by the Torrijos administration in 1969, aimed at major social reforms, and at integration of the national economy, while attempting to sustain economic growth through increased and diversified exports. Greater national integration was achieved by increasing and improving the communications and transport linkages among the regions of the country, and was aimed at the social and economic development of the interior provinces and at a more equal distribution of the National economic benefits. Major social improvements were achieved by supporting human resources development, by agrarian reform and by the provision of basic needs, particularly in health, education and public utilities.

10.- The impact of these public social investment programs can be seen from the dramatic improvement of the Panamanian socio-economic indicators , which rank Panama among the most advanced countries of the region. Adult literacy increased from 73.3% in 1960 to 84.6% in 1980, life expentancy at birth from 62.2 years in 1960 to 70.7 years in 1980, infant mortality rate diminished from 67.6 per thousand in 1960 to 21.2 per thousand in 1980 and access to safe water was available to 46.2% of the population in 1960, figure which increased to 84.6% in 1980.[1/]

1/ Source: World Bank

11.- Other ambitious public investment projects were aimed at providing the basic infrastructure which would entail and stimulate private investment, especially in the export sector; the construction of a new international airport, the expansion of the Colon Free Zone (including areas for industrial processing), the fisheries port and processing facilities at Vacamonte, the International Convention Center, several hydroelectric dam projects, and the establishment of industrial estates in Chitré and David were expected to generate high socio-economic rates of return, create new growth poles throughout the national territory, and attract complementary, domestic and foreign private investment.

12.- In addition a special incentive package was introduced in 1970-71, to encourage private investment in export oriented industries and to further decentralize productive activities. The standard mechanism for granting incentives is the contract between the government and the investor (Contrato con La Nación); under such a contract the government awards certain tax or other benefits as provided in the law[1/], and as quid pro quo, the investor undertakes to carry out a given investment project within a certain time table as specified in the contract. One of the principal aims of this incentive package was to make Panama an international processing as well as distribution center.

1/Incentives, as contained in lawdecree No.413 (1970) and No.172 (197) are awarded to Exporting industries and consist in, firstly, complete import tax exemptions on machinery, equipment and spare parts, and on raw materials or semi-finished components used in the production process, and secondly total income tax exemptions including any capital gains, on income generated by exports. A detailed analysis of the incentives package will be given below under point 3.1

13.- Although this strategy was initially successful in combining rapid growth with social reform, the economy was adversely affected by both external and domestic developments in the mid 1970's. Real growth fell from 7.3 per cent per year between 1968 and 1973 to 4.6 per cent between 1973 and 1982[1/]. The increase in world oil prices and inflation brought about international economic uncertainty, while Canal activities slowed down. Uncertainty on the domestic level stemmed mainly from the intensive Canal Treaty negotiations, though confidence was also reportedly undermined by increased Government regulation of the economy. Furthermore, the inadequacy of the Import substitution strategy, still in force, became increasingly evident, as the possibilities for such substitutions within the capacity of the domestic market diminished gradually, and required ever higher rates of effective protection.[2/]. An increasingly inefficient national industry, passed its high costs on to the consumer, which on its turn resulted in higher wage costs. Government reacted to this increasing cost-price spiral by expanding its price control and minimum wage system.

14.- Neither has the Agricultural sector ever been a significant source of growth and development for the Panamanian economy; although, as mentioned higher, in the 1960-69 period, led by export crops, the sector expanded at a 5% annual rate, since that time however performance has fallen sharply. Production for export, particularly bananas, declined and crop production for domestic consumption did not keep pace with growing local demand. While the sector posted a brief recovery in 1975 because of favourable weather conditions and a return to normal export banana production, performance since then has been lackluster.

1/ World Bank figures

2/ As an example, the last industrial branches which have been substituted, pencils and tooth brushes, required an effective rate of protection of 550% and generated in total 50 jobs.

Indicators of the relative level of inefficiency in the agricultural sector include employment in 1979 of 29% of the total labor force, which accounted for but 14% of the GDP. Furthermore, increasingly high annual levels of food and fiber imports are noted, which in 1976 cost almost $70 million in foreign exchange -about 10% of Panamá's total import bill; including milk and milk products, vegetables, fruit, oils, pork and basic grains. One consequence of the absence of growth and continued low productivity in agriculture is widespread rural poverty, underemployment and skewed land ownership. Rural to urban migration, in part fueled by the lack of opportunity in agriculture, serves to increase unemployment and underemployment in the metropolitan corridor.

15.- As a result of the above mentioned factors, overall domestic private investment declined in absolute terms between 1973 and 1977[1/]. The public sector compensated for this, not only through investments in large infrastructure projects, but also by the creation or acquisition of a number of directly productive enterprises [2/], and was more or less able to offset the

---

1/ The depressed level of private domestic investment at the end of the seventies can be easily understood, considering that at the end of 1960's productivity in agriculture, industry and agro-industry was slightly greater than 10%, with an inflation rate of about 5%, while at the end of 1970's, profitability was less than 10% and inflation was on the order of 14%, producing negative real profits. Furthermore, certain policies and legislation favoured investment in time deposits, in services, in finance, in re-exportation through the Colon Free Zone, and in real estate speculation.

2/ A new concept, "the state as producer", was introduced and developed progressively in line with the depressed private sector. Large scale public investment projects include the "La Victoria" Sugar Corporation, the Cement factory, several Development Corporations and agro-industrial plants such as "Cítricos de Chiriquí". In other instances, the Government functioned as the ultimate Guarantor for a number of private investment projects, and has as such been obliged to take over a number of private firms; the Contadora tourist resort, Air Panama, the Marriot Hotel Complex, etc..

decline in private investment: Annual total Investment was thus kept more or less at the 1973 level.

16.- However, the source of most of these investment funds were high cost commercial loans. By 1976 already, this fiscal policy left the Panamanian Government with a high public debt, and with little immediate impact on the economy, because most projects invested in, tended to be capital intensive, to have large import components, to require long operation periods, and to have low or negative rates of return. Furthermore, state subsidies and high support prices absorbed an increasing proportion of the current budget, while public sector employment accounted for over 80 per cent of the new jobs created. This expansion resulted in a sharp increase in public sector spending which rose from 21.8% of GDP in 1970 to 30.1% in 1980[1/]. Despite additional revenue measures (e.g., the establishment of the 5% value added tax in 1976), the public sector deficit and consequently the government's external debt rose sharply, the latter from 18.6% of GDP in 1970 to almost 80% of GDP by 1980[2/].

17.- The atmosphere of political uncertainty dimished considerably after agreement was reached on the Canal Treaty terms in 1977, and this enabled the Government to modify its

---

1/ Figures from the Panamanian Planning Ministry.

2/ Panamá's special dollar standard and absence of Central Bank create a peculiar situation in which the governments fiscal policy is virtually the only instrument for economic policy. Indeed, the extent to which financial markets and interest rates can be manipulated by the Panamanian Government is seriously limited. Furthermore, in view of the absence of a money emission institute the public sector deficit, i.e., the public expenditures that do not have a counterpart in fiscal revenues, has to be financed through external credit, and stands therefore in direct relation with external debt creation; as a result, the credit worthiness of the country is directly linked to Government finances.

economic policy; the public sector entered into a period of retrenchment as several large capital projects were completed, no further state enterprises were created, and the Government began a sustained effort to reduce the public sector deficit through increased taxes and tighter controls on expenditures. More emphasis was placed on the role of the private sector, which partially restored confidence after the preceding period of uncertainty. Private investment however, did not recover to the level of 1960's. Between 1978 and 1982 it was still less in real terms, and as a percentage of GDP, than between 1968 and 1973. Furthermore, although the service and construction sectors once again flourished agricultural output was less in 1982 than in 1977, while industrial value added declined from 11.5 percent of GDP to 9.8 per cent.

18.-In 1979 the Panamian government proclaimed decree No.5, in order to stimulate private investment in the light assembly industry, locally also called the maquila[1/] industry. Additional incentives, for these export oriented industries, apart from those contained in the 1970-71 incentive law, include the right of the employer to engage in temporary labour contracts, which allows him to adjust the number of employees in accordance with the necessities.

It is generally accepted, however, that the global incentive policy of the seventies, has not met the expectations in terms of industrial growth and employment creation.

1/ "Maquila" is the local name for the fee charged by the miller for processing the grain brought to him by the farmers; here it is referring to those export activities that create value added through assembly of imported components or semi-finished products, and that re-export the end product, in many instances to the same country of origin of the components, under favourable tariff regulations that tax only the value added and not the total product value.

2.14 World Economic Recession and Structural Adjustment: The Decade of the Eighties

19.- It was not until 1982 that Panama began to feel the impact of the world recession in general, and of the deepening economic and financial crisis in Latin America in particular. Growth in the financial sector was less than half that of preceeding years, the construction boom in Panama City's financial district came to a halt, and value added in tourism and in the Colon Free Zone declined sharply.

20.- Public revenues were adversely affected by this economic slowdown and by mid-1982 it had become clear that Panama's fiscal targets would be grossly exceeded. The consolidated public sector deficit for the year as a whole was 11 percent of GDP, almost double the amount stipulated in the Government's Stand-by Arrangement with the IMF. Public investment was over 12 percent of GDP as against a target of 10 percent. Net foreign borrowing by the public sector amounted to over $500 million, and the outstanding public medium-term debt reached $3.1 billion at the end of 1982, equivalent to 73 percent of total Government revenues[1/]. This ranks Panama among the countries with the highest relative debt indicators of the world.

21.- Rising unemployment became increasingly a first priority problem for the Panamanian government, with estimates in the 15%-20% range and with even higher estimates in certain urban areas (in Colon, for example, unemployment may be as high as 25% - 35% of the work force, up from the World Bank's estimate

---

1/ Defined as the current revenues of the Central Government and Autonomous agencies plus the current surplus of the public sector enterprises.
Source: World Bank figures.

of 17.4% in 1970[1/].) Detailed employment studies demonstrate that if employment is to be held at reasonable levels, the economy must average an annual GDP growth rate in excess of 8% at the current employment output/ratio. A 6%-8% GDP growth rate will require the nation's economy to become more labour intensive, and if either of the two events do not occur, Panama could suffer unemployment rates ranging from 10%-29.5% over the 20 year period from 1980-2000.

22.- In the face of these difficulties, the Panamanian Government has formulated a new medium term development strategy, geared to effective investment and employment policies. The Government realizes that renewed economic growth and employment creation can no longer be sought through further public sector expansion. Indeed, the scope of the public sector is to

---

1/ Some of the main factors which are frequently mentioned by the Panamanian private sector to have caused the stagnation in the industrial sector, the depressed private investment and thus, indirectly, the rising unemployment are:
- The capital intensive bias in the 1970-71 incentives law: duty free import and production related capital goods and complete tax exemption for re-invested earnings, are stipulations which have encouraged the adoption of increasingly capital-intensive production processes translated into fewer jobs per dollar invested, and a generalized over-investment in excess productive capacity. Estimates of the installed idle productive capacity in Panamá range between 40% and 60%.
- The Panamanian labour code, installed in 1972, and slightly modified in 1981, has strenghened collective bargaining, and has extended job-security, social provisions and fringe benefits to the Panamanian workers. Entrepreneurs, however, generally argue that certain stipulations in the labour code, specially those governing dismissals, are too radical and lead to a general tendency among the firms to restrict the use of labour, specially for "cyclical" production processes.
- The case by case treatment, without any sectorial analysis, in granting contracts with the government (Contratos con la Nación), and in the subsequent determination of protection levels for industrial branches, resulted in a highly intransparent system of incentives, tariffs, and quotas, which in many cases causes factor market distortions, bottlenecks and conflicting impulses and signals to the economic agents.
- The price control system, which created product market distortion, and which, according to the entrepreneurs is too slow in implementing price adjustments; minimum wage regulation and rigid price controls lead reportedly to a squeezing of private sector benefits.

be reduced and the remainder made more efficient. This is consistent with the financial reality of the Panamanian public sector; indebtedness is high and the era of easily available commercial credit has ended.

23.- Given be small size of the domestic market a new growth cycle is being sought in Panamá's external markets, through the accelerated production of non-traditional export goods. Indeed the traditional exports cannot guarantee a sufficient growth of revenues, with which to finance the increasing import requirements posed by a growing economy. Furthermore, the traditionally buoyant sectors of the Panamanian economy do not offer perspectives for further accelerated growth in the years to come; the banking sector has reached an advanced stage of maturity, while the Colon Free Zone and Tourism are dependent upon financial and economic recovery in the rest of Latin America which is unlikely to materialize before 1985.

24.- To provide the necessary context of financial stability for its new development strategy, the Government is now carrying out a major fiscal adjustment to reduce the public sector deficit to no more than US$270 million per annum or 6 percent of GDP. These fiscal adjustments entail:

- The freezing of Government employment and salaries.
- Stringent saving and austerity measures in the public sector; in this respect, a special Vigilance Committee has been established at the Ministry of Planning[1/] to ensure that assigned budgets are not exceeded, and to approve and monitor all public borrowing. These procedures, established in 1983, represent a considerably improvement upon past practices.
- Additional public revenues are being raised through an increase in the minimum tariff and in crude petroleum import taxes.

1/ In Panama it is the Ministry of Planning and Economic Policy (MIPPE) and not of the Finance, which produces and monitors the National budget and prepares the Public Investment Programme. This combination of planning and budgeting in one institution, makes MIPPE a real "Primus Inter Pares".

25.- These measures, together with Panama's relatively remarkable economic achievements in 1982 and to a lesser extent in 1983[1/] led to the successfull conclusion in June 1983, of negotiations with the IMF for a two-year Standby Arrangement of SDRs 150 million (about US$ 173 million). In addition, Panama will receive some US$ 60 million in 1983 from the Compensatory Financing Facility. In September 1983 Panama also concluded negotiations for a US$ 278 million commercial bank loan, to cover amortization requirements through December 1984. However, although Panama's credit standing within the Region remains relatively high, negotiations were prolonged and difficult. The reluctance of commercial banks to increase, and even to maintain, their public sector exposure will likely persist in the medium-term. The Panamanian Government's economic policies reflect this reality.

1/ According to ECLA, Panama scored in 1982 a GDP growth of 4%, the highest in the region, and was hence the only Latin American country that achieved a positive per capita GDP growth (1.7 percent). Its official inflation rate fell in 1982 to the 5 percent level(see: La Crisis Económica Internacional y la Capacidad de Respuesta de América Latina", CEPAL, 28 de junio de 1983). These remarkable growth figures, however had a lot to do with the construction of the large scale, public and privately financed trans-isthmian oil pipeline,which boosted statistical figures. In January 1983, the pipeline was completed and officially inaugurated. The termination of this project, together with the deflationary effect of the new fiscal adjustment and austerity policies, resulted in a dramatically slower, but stillpositive GDP growth of 0.9% in 1983, ranking Panama at the sixth place within the region, behind Nicaragua, (5.3%), Cuba (5%), Dominican Republic (2.9%), Argentina (2.8) and Colombia (1%). The Panamanian GDP per capita decreased in 1983 by 1.2%, the first decline since 1976. (see "Estudio Económico de América Latina, 1983," CEPAL, 22 marzo 1984).

26.- The promotion of export oriented manufacturing industries through direct foreign and domestic investment is deemed to be consistent with Panama's comparative advantages; principal among these are Panama's geographical location and highly deve' ped international transport and communications faci. s, its open financial system and sophisticated commercial sector with its bilingual and relatively well trained labor force. However, Panama has also a relatively high wage structure, and its special monetary system does not allow it to achieve increased competitiveness on international markets through on adjustment in the exchange rate; indeed, due to the a par rate of the Balboa with the US dollar, increased international competitiveness can only be reached through higher productivity in each sector of the economy. As such, the implementation of the new export-oriented development strategy requires, apart from the above described fiscal policy implic tions also a well-defined process of structural adjustment of the Panamanian economy.

27.- To pursue these objectives, the Panamanian Government agreed with the World Bank on a Structural Adjustment Loan (SAL) of US$67 million, buttressed by a Technical Assistance Loan (TAL) for US$ 5 million. This structural adjustment program, will give practical shape to the Government's medium-term development strategy and may be divided into three main objetives, affecting the public sector and the industrial and agricultural sector (In the services and energy sectors, there is little need for structural reforms); these objectives are:

- To reduce the scope, and improve the efficiency of public sector:

The new government policy aims at restricting the public sector intervention to the provision of the necessary social and economic infrastructure, much of which is already in place in Panama.

This process of deregulation of the national economy involves a decreasing state intervention in product and factor markets, reduced price controls and labour market rigidities, reduction of subsidies to public sector enterprises, and the eventual sale or closure of loss-making ventures.[1/]

- <u>To re-orient the incentive structure in the industrial sector towards exports and employment generation;</u>

The industrial incentives, as contained in the 1970-71 incentive laws and in the "maquila programme", will be redirected towards export operations, and less towards import substitution. Consequently, the scope and depth of effective protection will be substantially reduced. Similarly, in order to address effectively the unemployment problem, estimated at about 20 percent of the available labour force in the urban metropolitan area, the bias, inherent in the current incentive structure in favour of capital-intensive production techniques will have to be reversed.

- <u>To increase productivity and output in the agricultural sector;</u>

The new Government policy will aim at a reorientation towards higher production at internationally competitive prices and less towards income redistribution through the present intricate subsidy and price support system.

28.- This process of structural adjustment will take several years to complete. Moreover, it can only be fully successfull if the economies of the OECD countries and Latin America recover in the mid 1980's together with world trade and services.

1/ The Marriot Hotel complex has been sold to a group of Japanese interests. The Government is also actively considering a number of options for divesting itself of all or part of the National airline, Air Panama, and of the Contadora Tourist resort. The Felipillo sugar mill has been closed down, and the National Corporation (COFINA) has initiated a major restructuring of its portfolio (see also point 3.3).

If this occurs, the Government visualizes Panama as having a more open, export-oriented economy in which the efficiency of the productive sectors would be on a par with that already achieved by Panama's international services. A more fully employed urban workforce would be dedicated to a broader variety of industrial and service tasks undertaken at competive world costs. Clearly the policy is not without risk, but Panama's private sector responded well to market signals in the 1960's. Furthermore, the strategy is based on the Governments' recognition that re-orientation towards the export of goods provides the best, if not the only, alternative to continued economic stagnation and increasing unemployment.

2.15 Preliminary 1983 figures

29.- Preliminary 1983 figures give Panama a global GDP growth of 0.9%, a declining GDP per capita (-1.2%) and an estimated inflation rate of 2%; this latter figure is determined by export and import prices in US dollar terms and by the rate of inflation in the USA, through Panama's special dollar standard, and is therefore the lowest in the Latin American region. Panama's external public debt has been estimated at US$ 3.3 billion on December 1983, representing 88% of the current GDP. Seventy percent of this total (or US $ 2.33 billion) is external debt, which equals 62% of GDP. External debt service payments are estimated at 36.6 of Panama's total exports of goods and services.[1/]

30.- The Panamanian agricultural sector, traditionally characterized by its low productivity, scored a remarkable growth of 3.1%, compared with the 0.3% growth figure of 1982[2/] but remained nevertheless, basically stagnant; indeed, the 1983 growth score cannot be accredited to internal factors but rather to the severe natural disasters,

---

1/ Estimates of ECLA "Estudio Económico de América Latina, 1983: Sintesis preliminar, 6 de abril de 1984.

2/ Panamanian Ministry of Planning and Economic Policy, preliminary 1983, estimates, which do not yet figure in the official statistics.

associated with the "El Niño" sea current, which affected the Ecuatorian banana-plantations; this allowed Panamanian producers in 1983 to take over a great part of the market which is otherwise taken by the Ecuatorian producers.

31.- Industrial output fell by 2.3% in 1983, which is partly explained by the dwindling domestic consumption (result of public austerity policy and of the declining disposable income per capita), and partly by sharply declining exports; a generally depressed Latin American region has strongly adverse effects on Panama's export oriented, light assembly industry. In the garment and textile sector for example, output in 1983 plummeted with 29%, mainly because of the virtual closure of its major outlet, the Venezuelan consume market. Ohter ailing subsectors in 1983 were the production of construction materials and the construction sector itself, which fell with 15.8% and 27% respectively; the decline in both these sectors is closely related with the termination, by January 1983, of the transisthmian oil pipeline, a US$ 250 million project, and of the major components of the "La Fortuna" hydroelectric complex; the latter project will generate 300 megawatt of hydroelectic energy and is expected to save Panama approximately US$ 84 million per year on petroleum imports.

32.- Quite predictably, commercial activities have also declined in 1983 (-6%); Diminishing national tax earnings on commercial transactions reflect the declining domestic demand, while the sharply falling turnover in the Colon Free Zone (-24%) is a good indicator of the severly depressed Latin Amerian demand. Transport and communications is one of the few sectors that scored positive growth in 1983 (+24.6), to a great extent thanks to the opening, in January 1983 of the transisthmian pipeline of oil in the Panamanian Chiriqui province. The 86 mile, 36 inch pipeline, located 300 km north of the Canal, and also called the "tubular" canal, is expected to pump 800,000 barrels per day and to carry all shipments of Alaskan crude. This diversion of oil shipments has obviously a direct effect on the Panama Canal traffic, which in 1983 slowed down with 14.2%, falling from a peak capacity of 42 transits per 24 hours, to a 1983 average of 34.

Other growing subsectors, were the International banking and Re-insurance activities, which grew with 4.9%, evolution which reaffirms Panama primary vocation as an international services and financial center.

2.2 Data on Economic Development

2.21 Population and Rate of growth

On 1 July 1982, Panama counted with an estimated population of 2,043,653, and an annual natural growth rate of 2.17%. Both figures are based on the data of the National Population Census of 1980.[1/]

Table 1 gives evidence of declining mortality rates throughout the seventies as a direct result of the intense public investments in health and sanitation infrastructure during that decade. The general birth rate, however declined at a faster rate[2/], so that the natural population growth rate diminished from an estimated 2.65% in 1973 to 2.17% in 1982.

With a total land area of 77,082 square kilometers, the average population density amounts to 26.5 inhabitants per km^2. Of this total land area, however, only 17,300 km^2 have agricultural potential, so that the population density per square kilometer of arable land amounts to 106.1 inhabitants.
Further socio-economic indicators are contained in table 2, where high health and sanitation indicators give further evidence of the considerable efforts made by the Government in these sectors, during the decade of the seventies. The Panamanian life expentancy and literacy indicators rank among the highest in Latin America.

1/ Source: General Comptroller, Statistics and Census Department.

2/ The birth rate in the sixties exceeded the 3% mark.

TABLE 1: PANAMA: Population, Natural rate of Growth and Migration

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
-Total Population (estimated on 1 July) (1,000 persons)	1,616.7	1,660.2	1,703.9	1,747.7	1,791.5	1,835.1	1,878.1	1,956.4	1,999.6	2,043.7
-General Birth Rate (Live Births/1,000 inhabitants)	32.2	31.8	31.6	30.3	29.4	28.9	28.2	26.9	26.[illegible]	25.5
-General Mortality rate (Deaths/1,000 Inhabitants)	5.7	5.4	5.1	4.0	4.5	4.1	4.4	4.1	[illegible]	3.8
-Natural Population Growth Rate (per 1,000 inhabitants does not include migration)	26.5	26.4	26.5	[illegible]	24.9	24.8	23.8	22.8	[illegible].9	[illegible].7
-International Migration (1,000 persons)	-15	3	-[illegible].3	-[illegible]	[illegible]	12	[illegible].8	12.7	[illegible]	-[illegible]

SOURCE: Controller General

TABLE 2

SOCIO ECONOMIC INDICATORS (1)

Sector	1970	1980
Access to Safe Water (2)		
URBAN	100.0%	100.0%
RURAL	43.0%	64.0%
Access to Sanitary Facilities		
URBAN	87.0%	81.0%
RURAL	68.0%	81.0%
Infant Deaths (3)		
URBAN	41.0	37.0
RURAL	48.8	37.6
Physicians/1,000 Population	6.3	9.0
Subcenters and Health Posts (4)	109.0	210.0
Health Centers (4)	53.0	139.0
Live birth delivery assistance (5)		
URBAN	97.3%	98.9%
RURAL	36.4%	60.4%
Natural Population Growth Rate (does not include migration)	3.0%	2.2%
Life expectancy at birth	66.0	70.0
Literacy Rate	78.0%	85.0%

(1) Some data are from years slightly prior to 1970 or to 1980.
(2) Within 200 meters: includes piped water, hand pumps, and well water.
(3) In 1st year of life/1,000 live births.
(4) 95% of new ones are outside of metropolitan area.
(5) By physician, nurse or other authorized personnel (not mid-wife).

SOURCE: General Comptroller and US/AID

Table 3 gives some population trends for Panama, starting from 1950 on, and based on the population statistics of 1977. Projections of general trends are made until the year 2,000; striking in these projections is the fastly increasing urbanization rate of the Panamanian population, which in 2,000 could reach 71.% of the total population.

TABLE 3

Population Trends 1/

Year	Total Population	Total Urban Population	Total Rural Pop.	Urb. as % of total Pop.
1950	805,285	335,300	469,985	42%
1960	1,075.541	488,300	587,241	45%
1970	1,428.082	739,000	689,082	52%
1980	1,830.175	1,046,000	784,175	57%
1990	2,320.022	1,475,486	844,536	64%
2000	2,940.977	2,081,321	859,656	71%

1/ Calculations are based on official government statistics from the Census and Statistics Division of the Controller General and work done by Fox, Robert and Jerrold W. Hugguet, Population and Urban Trends in Central America and Panama, Inter-American Development Bank, Washington, D.C. 1977.

2.22 Gross Domestic Product and Rate of growth

Table 4 illustrates the industrial origin of Panama's GDP from 1973 until 1983, at constant 1970 prices and table 5 calculates real annual growth rates of GDP and of its major components.

As mentioned above under point 2.1, the decade of the sixties has been characterized by a rapid, but unbalanced GDP growth cycle which made Panama figure among the Latin American countries with the highest per capita income, together with Argentina, Venezuela, Uruguay and to a lesser extent, Mexico.

At the beginning of the seventies however, although the economy continued to grow rapidly, it became increasingly beleaguered by structural problems and by more short term cyclical factors; thus when oil prices tripled in 1974, the Panamanian economy slid into a recession which lasted until 1977. During this period, the economy registered GDP real growth rates of 2.6%, 0.6%, -0.3% and 4.6% in 1974-75-76 & 77 respectively and marked Panama's worst recession since the late 1940's.

By 1978, a decline in the rate of inflation boosted private consumption in real terms for the first time in three years, and propelled the real growth rate of the economy, signalling the beginning of a period of economic recovery; in 1978, private investment increased for the first time since 1973, more than doubling the 1977 level, yet still less than the pre-recession levels. This resurgence in investment produced a 6.5% growth in GDP, and was a response to the increase in private consumption of the previous year, to the successful conclusion of the Canal negotiations and to a lagged response to some policy changes made by the Government in 1977 (labor code modifications and a number of investment incentives). In 1979 the economy grew at a 7% rate as the result a 16% increase in private consumption and a further increase, for the second year, of private investment. That same year, the manufacturing and financial sectors scored the highest growth rates with 11.0 and 11.6 percent respectively. Inflation, however, doubled from the previous year to 7.9%. In 1980 the

TABLE 4

INDUSTRIAL ORIGIN OF GROSS DOMESTIC PRODUCT AT CONSTANT PRICES, 1973-83
(Millions of 1970 Balboas)

Sección y número	Detalle	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982(P)	1983*
	TOTAL GROSS DOMESTIC PRODUCT											
	(At market prices)	1,233.5	1,263.7	1,285.7	1,307.1	1,321.4	1,450.8	1,516.3	1,745.8	1,818.8	1,919.0	1,922.4
	Agriculture	157.1	147.9	158.6	167.1	175.5	189.1	181.0	173.7	188.1	188.7	194.6
	Mining and Quarries	2.9	[illegible]	2.5	2.2	2.1	2.2	2.4	3.1	3.8	4.1	4.4
	Manufacturing	150.5	[illegible]	147.0	150.7	152.5	154.9	172.0	182.1	176.1	180.3	176.1
	Electricity, Gas, Water and Sewerage	[illegible]	[illegible]	38.3	42.6	44.0	46.7	52.4	53.5	56.2	59.2	65.1
	Construction	99.6	87.9	96.9	99.6	73.8	102.5	102.4	124.3	128.3	159.1	114.8
	Commerce (wholesale and retail)	193.3	202.1	191.0	197.9	202.3	219.6	240.9	256.4	252.9	251.1	235.2
	Transport, Storage and Communications	[illegible]	[illegible]	116.0	109.7	121.8	145.1	155.4	207.6	216.5	267.0	307.6
	Financial Intermediation	[illegible]	[illegible]	178.8	184.2	193.8	199.7	222.9	227.2	243.5	251.6	260.8
	Social and Personal Services	[illegible]	[illegible]	[illegible]	105.9	109.9	[illegible]	127.8	142.6	150.3	161.6	165.1
	Canal Zone Services	[illegible]	[illegible]	[illegible]	70.0	71.4	74.3	76.4	..	..	..	..
	Panama Canal Commission	..	..	..	..	..	..	..	175.5	188.6	204.7	175.7
	SUBTOTAL INDUSTRIES	[illegible]	[illegible]	1,105.8	1,129.9	1,146.9	1,252.4	1,333.6	1,546.0	1,603.9	1,767.4	1,699.6
	Governmental Services	[illegible]	154.5	160.7	160.0	158.2	180.8	166.4	182.1	196.4	192.3	203.3
	Domestic Service	[illegible]	[illegible]	[illegible]	17.2	16.3	17.6	[illegible]	17.7	18.5	19.3	19.5

* Estimates

Source: Controller General

the economy's growth slowed to 4.9% with inflation reaching 13.7%. Private sector consumption and investment dropped slightly, while manufacturing and finance slowed to a growth rate of 5.9% and 1.9% respectively. The leading sectors were construction and, transport and communications, growing 21.4% and 33.6% respectively (see table 5) Mining and quarries scored also unsually high growth figures in 1980 and 1981, reflecting the activities in feasibility studies and preliminary exploration of the Cerro Colorado Copper mine, in the Western province of Chiriquí. This large scale project has been abandoned in 1982, however, and postponed indefinitely, in view of the persistently depressed copper prices.
1982 figures indicate that the economy's growth level has leveled-off at about 4%, that manufacturing continued to grow rather slowly, that the activities in the Colon Free Zone became increasingly affected by the worsening economic situation in South America, and that construction slowed down. 1983 preliminary figures give evidence of stagnation and of the first decline in per capita GDP since 1976.
Table 6 illustrates the sectorial composition of the GDP in some selected years and indicates how agriculture, and to a Lesser extent, manufacturing industries, are the weaker, stagnant sectors of the Panamanian economy; the agricultural sector dropped from a 23% share in GDP generation in 1960 to a 10% share in the eighties. The strong and emerging sectors are the transportation storage and communications sectors together with insurance, financial and other services.
Commerce is another strong vocation of Panama's economy, but is more dependent on the world and regional economical cycles.

TABLE 5

REAL ANNUAL GROWTH RATES OF GDP AND ITS MAJOR SECTORS, 1977-83
(Percentage)

	1977	1978	1979	1980	1981	1982	1983
TOTAL GROSS DOMESTIC PRODUCT 1/	4.6	6.5	7.0	4.9	3.8	4.0	0.9
Agriculture	+7.7	-0.4	-4.3	-4.0	8.2	0.3	3.1
Mining and Quarries	6.8	-9.7	9.1	29.2	22.6	7.9	7.3
Manufacturing Industry	0.1	5.7	11.0	5.9	-3.3	2.4	-2.3
Commerce (wholesale and retail)	-4.7	13.8	9.7	6.4	-1.4	-0.7	-6.3
Financial Sector	23.7	10.0	11.6	1.9	7.2	3.2	3.7
Transport, Storage and Communications	10.7	12.4	7.09	33.6	4.3	14.1	24.6
Construction	11.6	0.3	-0.1	21.4	3.2	24.0	-27.8
GROSS DOMESTIC PRODUCT PER CAPITA 1/	2.0	4.1	4.8	2.1	1.7	1.9	-1.2

1/ Source: ECLA

2/ Source: Controller General and own calculations

TABLE 6

SECTORIAL COMPOSITION OF GDP - PERCENTAGE OF TOTAL

	1960	1965	1970	1975	1979	1980	1981	1982	1983
-Agriculture	23.0	21.4	18.0	16.1	11.9	10.4	10.2	10.3	10.1
-Mining and Quarries	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
-Manufacturing Industry	13.1	15.9	17.2	15.4	11.3	10.4	9.7	9.9	9.2
-Electricity, Gas and Water	2.0	2.3	2.9	3.8	3.4	3.1	3.1	3.2	3.4
-Construction	5.5	5.7	6.0	5.8	6.7	7.4	7.8	8.9	6.0
-Wholesale and retail commerce, hotels and restaurants	13.9	13.9	14.1	13.5	15.9	14.8	14.3	13.6	12.2
-Transportation, Storage and Communications	4.6	5.3	6.7	8.3	10.2	10.2	10.4	9.3	16.0
-Panama Canal Commission (*)	-	-	-	-	-	10.2	10.5	11.1	9.1
-Services exported to the Panama Canal area (*)	7.3	8.3	7.9	6.3	5.0	-	-	-	-
-Real Estate, Insurance, Financial and Service Companies	10.8	9.9	10.6	13.5	12.7	12.1	11.7	11.7	13.6
-Community, Social and Domestic Services	9.3	7.1	6.5	6.2	9.6	9.4	9.4	9.5	8.6
SUBTOTAL (a)	89.8	90.1	90.2	89.2	87.1	88.2	87.9	87.7	87.8
-Public Services and Administration	10.2	9.9	9.8	10.8	12.9	11.7	12.1	12.3	12.2
SUBTOTAL (b)	10.2	9.9	9.8	10.8	12.9	11.7	12.1	12.3	12.2
TOTAL GROSS DOMESTIC PRODUCT (a+b)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Controller General and own calculations.

(*) The Torrijos-Carter Treaties (1979) reverted the former Panama Canal Zone to the sovereign Panamanian National territory and the Panama Canal Commission, headed by the US-Panamanian Board of Directors.

2.23 Employment

Although there is a widespread agreement that unemployment in Panama has increased significantly since 1974, debate continues on how high the rate actually is, with Government estimates among the lowest, e.g. 8.8% in 1979. More common are national estimates in the 15-20% range with even higher estimates in the urban areas near the Canal. In Colon for example, unemployment may be as high as 25-35% of the workforce, up from the Worlds Bank's 1970 estimate of 17.4%.

Table 7 gives the official labor force data for the 1970-79 period, while table 8 reflects an alternative estimate, assuming a constant 60% labor force participation rate throughout the seventies, to smooth out the unexplained and erratic participation rate used in official statistics. This alternative procedure has been used by US/AID and World Bank missions in order to obtain a more realistic picture of Panama's unemployment situation. Furthermore in 1978, in view of the rising unemployment, the Panamanian Government has created an urgency Plan, which has absorbed in 1978 and 1979 and estimated 17,000 unemployed into the public service. In March 1980 however, this plan had to be formally abandoned in view of the fiscal deficit situation. As such, and since these jobs were not created by the economy, the official unemployment figures for those two years appear artificially low. Reducing the 1978 and 1979 employment figures by 17,000 would bring the estimated unemployment rate for those years at 17.0% and 15.4% respectively.

TABLE 7

LABOR FORCE DATA 1970- 1982 (Official Data)

(thousand of persons)

YEAR	POPULATION 15 YEARS OLD +	ECONOMICALLY ACTIVE	LABOR FORCE PARTICIPATION RATE(%)	EMPLOYMENT	UNEMPLOYMENT	OFFICIAL UNEMPLOYMENT RATE (%)
1970	762.7	466.2	61.3	432.9	33.3	7.1
1971	785.8	471.3	60.7	435.6	35.7	7.6
1972	811.7	482.2	60.2	449.4	32.8	6.8
1973	835.8	499.0	59.7	464.1	34.9	7.0
1974	869.5	517.4	59.5	487.4	30.0	5.8
1975	896.1	492.8	55.0	461.2	31.6	6.4
1976	917.9	505.3	55.0	471.6	33.7	6.7
1977 (R)	950.1	515.2	54.2	470.4	44.8	8.7
1978 (R)	973.7	543.0	55.8	499.2	43.8	8.1
1979 (R)	1,002.9	577.8	57.6	527.0	50.7	8.8
1982(R)	1,140.6	612.6	53.7	561.0	51.5	8.4

Source: Dirección de Estadística y Censo, Contraloría General de la Rep. de Pmá; Panamá en Cifras, Años 1974 a 1978 Años 1975 a 1979 y el año 1982; encuestas de hogares.

(R) Revised: By the Government of Panama

TABLE 8
LABOR FORCE DATA, 1970-1979 (ALTERNATIVE ESTIMATES)[a]

(thousand of persons)

Year	Population 15 Years Old +	Economically Active Population[b]	Labor Force Participation Rate (%)[b]	Employment[a]	Unemploment[b]	Unemployment Rate (%)[b]	Official Unemployment Rate (%)
1970	762.7	457.6	60	434.3	23.3	5.0	7.1
1971	786.8	472.0	60	441.3	30.7	7.0	7.6
1972	811.7	487.0	60	455.4	42.4	6.0	6.8
1973	835.8	501.5	60	464.1	37.4	7.0	7.0
1974	869.5	521.7	60	487.4	34.3	7.0	5.8
1975	896.1	537.7	60	461.2	76.5	14.0	6.4
1976	917.9	550.7	60	471.6	79.1	14.0	6.7
1977	950.5	570.3	60	470.5	99.8	17.0	8.7
1978	973.7	584.2	60	499.2	85.0	14.5 c	8.1
1979	1,002.9	601.7	60	527.0	74.7	12.4 c	8.8
1982	1,140.6	684.4	60	561.1	123.3	18.0	8.4

[a]Source: Panama en Cifras, años 1975-1979 y año 1982: Encuestas de hogares, Dirección de Estadística y Censo, Contraloría General de la República.

b : A constant 60% labor force participation rate has been used.

c : The governments "Plan de Urgencia" initiated in 1978 and abandoned in 1980 created an estimated 17,000 jobs in the public sector.

2.24 Index of Industrial Production

Table 9 illustrates the weighed index of the industrial production (Physical volume) in Panama from 1973-82. Over the entire period, global industrial production grows slowly but steadily at an average annual rate of 2.0% with two short recession periods in 1975-76 and 1981-82 respectively.

The most important growth sector is food products, beverages and tobacco, with an average annual growth rate in 1973-82 of 4.1% and a 40% share in 1971 total industrial value added. This sector, primarily geared to the domestic market, and increasing its production through import substitution, will be discussed more detail under point 3.26

Petroleum products and derivates is another important, but stagnant, industrial subsector; in 1971 it represented 17.1% of total industrial value added, and has an annual average growth rate of 0.2%. The total production is assumed by one industrial plant: "Refinería Panamá, S.A." a Texaco subsidiary in the Bahía las Minas sea-port.

The second fastes growing industrial subsector; is the textile and garment sector, with an average growthrate of 2.4%. This sector is primarily geared to export operations through the Colon Free Zone. While 1981 and 1982 show the first signs of declining output in this sector, it is from 1983 on that the textile and garment industry gets severly affected by the depressed Latin American outlet markets.

TABLE 9 : INDEX OF INDUSTRIAL PRODUCTION 1973-82 (PHYSICAL VOLUME)

	Coefficient of Ponderation based on 1971 value added	WEIGHED INDEX 1971 = 100										Average annual growth rate 1973-82 (percentage)
		1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	
TOTAL	100.0	109.6	109.1	105.0	106.4	110.2	116.0	128.9	132.8	127.3	130.3	2.0
Food products, beverages and tobacco	40.0	44.9	46.0	47.8	50.8	52.7	56.2	63.6	63.9	62.4	63.9	4.1
Textile, garment and leather	8.8	10.0	9.8	9.3	10.6	10.2	11.5	12.6	12.8	12.6	12.1	2.4
Wood industries, including furniture	5.5	4.7	5.2	3.8	3.8	3.8	3.9	4.6	4.7	4.5	4.6	0.5
Paper and Paper products	9.3	9.2	8.0	6.9	7.8	8.2	9.4	9.9	10.7	9.8	10.3	1.8
Chemical Products and derivates	17.1	19.0	18.8	21.5	18.3	18.8	18.5	18.9	19.2	18.3	18.8	0.2
Non metallic mineral products with exception of petroleum products	8.8	10.9	10.0	7.9	6.9	6.7	6.8	8.4	9.7	9.2	9.5	-0.7
Metallurgical industries	2.0	1.8	1.6	0.8	1.1	1.3	1.4	1.8	2.5	2.1	2.1	1.6
Production of metal products machines and equipment	8.0	8.7	9.3	6.5	6.6	8.0	7.8	8.5	8.9	7.9	8.5	0.8
Other manufacturing industries	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.4	0.5	0.4	1.9

Source: Controller General

2.25 Prices and Wages

Panama never had a problem of persistent, internally generated inflation. Given the openness of the Panamanian economy, the absence of control over the money supply and the use of the US dollar as legal tender, it is not surprising that the trend in the Panamanian price levels is close to that of the USA. Table 10 illustrates how the trends in wholesale prices of both countries are closer together that the ones in consumer prices; here the Panamanian price control system caused a slower movement than in the USA. However, the unfreezing in 1979 and 1980 of various items, especially food, formerly under rigid control, contributed to an acceleration in the Panamanian index, and should lead to a closer movement of the Panamanian and US consumer price indices.

Table 10: COMPARISON OF PANAMANIAN VERSUS USA PRICE MOVEMENTS (1975 = 100)

	Wholesale		Consumer		Wages: Hourly (MFG)	
	USA	Panama	USA	Panama	USA	Panama
1975	100.0	100.0	100.0	100.0	100.0	100.0
1976	104.6	107.8	105.8	104.0	108.1	105.4
1977	111.0	115.5	112.7	108.7	117.6	110.3
1978	119.7	121.8	121.2	113.3	127.7	113.7
1979	134.7	138.8	134.9	122.3	138.7	122.6
1980	153.6	160.2	153.1	139.2	150.5	133.6
1981	167.5	176.2	169.0	149.3	165.3	n.a.

Sources: Office of the Controller General, and International Financial Statistics.

Table 11 contains consumer price indices in Panama City and illustrates the moderate rate of inflation traditionally facing the Panamanian consumers. Whereas in 1980 wholesale prices rose by 15.3% and the consumer price index by 13.8%, in 1981 the increases dropped to 10% and 7.3% and slowed further down in 1982 to 8.2% and 4.2% respectively. In 1983, general inflation rate has been estimated at 2%.

TABLE 11 : SELECTED CONSUMER PRICE INDICES IN PANAMA CITY
(1976 - 1982)

INDEX 1975 = 100

YEAR	TOTAL	PORCENTUAL CHANGE	FOOD PROCUTS BEVERAGES	HOUSING	CLOTHING	MISCELLANEOUS 1/
1976	104		101.4	105.5	103.3	105.5
1977	108.7	4.5	104.4	113.7	108.5	109.7
1978	113.3	4.2	110.9	121.2	112.0	110.7
1979	122.3	7.9	122.2	125.0	118.2	121.8
1980	139.2	13.8	137.6	135.4	130.5	145.6
1981	149.4	7.3	150.2	141.9	137.5	156.7
1982	155.7	4.2	159.1	148.8	144.4	160.0

1_/ Includes: medical care and pharmaceutical products, personal and lesure articles, radios reading materials, education, tobacco and transportation.
Source: Controller General

Table 12 illustrates whole sale price indices for selected sectors of the Panamanian economy. The 30% index increase in 1974 reflects the tripling of petroleum price that same year. The Internal terms of trade, defined as the ratio between agricultural and industrial wholesale price indices, reflect the steadily deteriorating agricultural versus industrial price movements.

Table 12: SELECTED WHOLE.SALE PRICE INDICES, 1970 - 1982

(1961 = 100)

	Wholesale	Procentual Change	Agricultural	Industry	Imports	Internal Terms of Trade 1/
1970	112.0		119.2	106.9	115.3	111.5
1971	118.1	5.4	124.5	112.9	121.6	110.3
1972	128.1	8.4	129.5	126.3	129.8	102.5
1973	141.6	10.5	141.3	139.0	144.9	101.7
1974	184.4	30.2	174.9	185.8	186.6	94.1
1975	210.3	14.0	210.4	210.5	210.0	100.0
1976	226.7	7.8	223.8	231.4	222.2	96.7
1977	243.0	7.2	235.1	245.7	243.0	95.7
1978	256.1	5.3	254.8	256.3	256.3	99.4
1979	292.0	14.0	291.9	305.5	275.4	95.5
1980	336.8	15.3	328.1	360.3	311.5	91.1
1981	370.5	10.0	350.5	390.9	353.9	89.7
1982	401.2	8.2	384.9	428.5	374.4	89.7

1_/ Ratio between agricultural and industrial wholesale price indices.

Source: General Controller and IBRD

TABLE 13 : MEAN MONTHLY WAGES IN THE PRIVATE AND PUBLIC SECTOR, AND IN THE CANAL AREA; 1975 - 1982
(US DOLLARS)

YEAR	TOTAL	PRIVATE SECTOR			PUBLIC SECTOR				
		TOTAL	PRIVATE ENTERPRISE	BANANA PLANTATION AREA- BOCAS DEL TORO AND CHIRIQUI	TOTAL	CENTRAL GOVERNMENT	AUTONOMOUS AND SEMI-AUTONOMOUS INSTITUTIONS	MUNICIPALITIES	CANAL ARE.
1975	264	241	246	187	248	239	273	182	590
1976	277	262	269	197	251	242	276	183	607
1977	293	280	285	207	258	247	288	187	661
1978	312	288	294	223	267	251	302	189	788
1979	332	306	309	257	297	290	316	200	821
1980	364	336	337	335	326	317	349	215	1,036
1981	384	356	356	361	342	327	373	219	1,057
1982	408	374	376	340	358	330	406	223	1,271

Source: Controller General

Table 10 illustrated also how Panamanian wage movements have tended to lag hebind those of the US, in spite of the incluence of US wage levels paid in the Canal area. This is probably due to the more rapid growth of the Panamanian labor force and the lower influence of trade unions. Furthermore, since the entry into force of the Panama Canal treaties in 1979, new Panamanian employees in Canal operations are paid at Panamanian rates, resulting in a reduced upward pull of the Canal area on the country's wage structure.

Table 13 demonstrates, however, how far the average wages in the Canal Area are still beyond the reach of those in the Panamanian public and private sector. Another interesting detail in this table is the decreasing average monthly wage level in 1982 in the Banana plantation areas of Chiriquí and Bocas del Toro, as a direct result of prolonged strikes.

Not surprisingly, the influence of the Canal area wage levels and specific Panamanian labor policies[1/] situate the Panamanian average wage rates far above those in most competing Central American and Caribbean locations. In 1978, the Panamanian minimum wage, averaging US$ 1.00 per hour, was double that of the Dominican Republic, Colombia, El Salvador and Jamaica, and triple that of Haiti (Table 14).

Table 14: COMPARATIVE AVERAGE MINIMUM WAGES IN SELECTED CARIBBEAN AND CENTRAL AMERICAN COUNTRIES
1978

(US$ per hour)

Panama	0.98
Barbados	0.90
Colombia	0.45
Dominican Republic	0.50
El Salvador	0.51
Haiti	0.30
Honduras	0.27
Jamaica	0.51
Nicaragua	0.50

Source: ILO - Determination of Manpower Cost in Panama 1980 (prelim)

1/ Panamanian labor policies prescribe wage based social insurance and other benefits which increase the average cost of labor by more than 28% over the nominal wage (see table 15).

Table 15 illustrates the social provisions and fringe-benefits, prescribed by the Panamanian labourcode, which increase the average cost of labor by more than 28% over the nominal wagelevel. As we will discuss below, this relatively high wage structure, will be one of the major challenges to the government, committed to an export oriented development strategy; increased productivity in all economic sectors will become the "Leit motiv" in the eighties.

Table 15: DIRECT SOCIAL BENEFIT COSTS FOR PANAMIAN WORKERS

Type /a	Percent of Basic Wage
Basic wage	1.0000
Thirteenth month	.0833
Social Insurance /b	.1025
Educational Insurance	.0125
Professional Risk Ins.	.0259
Indemnifications	.0577
TOTAL	1.2819

/a In case of construction, add unemployment insurance of .0600 and increase professional risk insurance to .0567.

/b Including 1.5% to take effect during 1982.

Source: ILO - Determination of the cost of manpower in Panama 1980 (prelim.), and MIPPE.

2.26 Money and Credit

Panama's special dollarstandard and its completely free monetary system, limit seriously the extent to which the government can influence interest rates and financial markets. There is a complete absence of foreign exchange controls and in view of the non-existence of a national money emission institute, virtually the only instrument for economic policy , is the government fiscal policy.

World Bank estimates of money supply and credit give the following picture:

TABLE 16: MONEY AND CREDIT 1977 - 1981

	1977	1978	1979	1980	1981
	(Million B/. outstanding, end period)				
Money and Quasi Money	792.2	944.9	1,162.4	1,454.4	1,718.2
Bank Credit to Public Sector,Net	315.1	167.3	257.7	265.1	390.1
Bank Credit to Private Sector	1,369.5	1,537.3	1,839.4	2,215.8	2,617.9
	(percentage or index numbers)				
Money and Quasi Money as % of GDP	36.5	38.4	40.9	42.9	44.6
Percentage changes in:					
Bank Credit to Public Sector	0.6	-46.9	54.0	2.9	47.2
Bank Credit to Private Sector	7.8	12.2	19.7	20.5	18.1

2.27 Public Sector operations

As mentioned above (point 2.1) Panama's fiscal policy during the mid seventies was expansionary. Until 1976 this policy took the form of increased capital expenditures to acquire and expand the public utilities, to undertake commercial ventures (e.g. in sugar, cement and tourism) and to improve transport and other infrastructure to support private sector expansion. Between 1970 and 1976 public sector investment grew at the rate of 18.7 percent yearly in constant terms and declined at almost the same rate during the next three years. This rapid increase in public investment was unmatched by public sector savings, with the result that the public sector deficit went from 4.6 percent of GDP in 1970 to 18.6 percent in 1976 and the public external debt rose from 18.5 percent of GDP to 54.9 percent during the same period.

In a shift in policy in December 1976, it was decided that the private sector had to be induced to play, a greater role in the recovery of the economy and in generating jobs, if further growth of the already large debt burden was to be avoided. Public sector investment was considerably reduced in 1977 and special tax incentives to employment were given to the private sector. However, the private sector response was inadequate to offset the contraction in the public sector. Facing rising unemployment in the period of uncertainty just prior to the signing of the new Panama Canal Treaties, the Government introduced a special employment program at the end of 1977. This program under which at its peak, nearly 20,000 persons received B/ 100.00 per month continued until the end of February 1980 (see also point 2.23, employment) and drained in 1978 and 1979 considerable amounts of public sector revenues. Overall public sector savings were also adversely affected by the operational losses of a number of government enterprises; La Victoria Sugar Corporation reported average losses of B/ 30 million to B/ 40 million per year, the Bayano Cement about B/ 5 million per year and the Tourism Institute nearly B/ 4 million (see table 21).

It was not until 1980-81, however, that the public sector deficit was reduced to about 6% of GDP as a result of economic recovery (interalia, the 1980 increase in sugar prices (+118%) which had cut La Victoria losses by a half), but also as a result of lower public investment, increased Canal revenues 1/, the elimination of the special employment programme, and a generally more prudent fiscal policy.

In 1982, however, the financial situation of the public sector worsened again considerably because of a general expansion in total public expenditures 2/, in the face of stagnating revenues which were caused by the fall in general economic activity 3/; the Public sector's overall deficit amounted again to 10.9% of GDP in 1982 4/. Negotiations with the IMF in 1983 involved the commitment, from the part of the Panamanian Government, to keep the overall public sector deficit within 6% of GDP (or below an estimated 260 million limit), and to further stimulate a decreasing public sector participation in the national economy. It is in this light that the government is divesting itself of some losing enterprises 5/ and is in the process of re-assesing its regulatory mechanisms.

1/ From 1980 on and as a direct result of the 1979 Canal treaties the former Canal Zone was included within Panama's tax-iurisdiction; this contributed to a substantial increase in the 1980 non-tax revenues of the Goverment.

2/ Public expenditures in 1982, were heavily marked by two large scale public investment projects; the trans-isthmian oil pipeline (40% of the installations are owned by the Panamanian Goverment)and the La Fortuna hydroelectric project (see table 17); public capital expenditures jumped from 5.5% of GDP in 1981 to 13.1% in 1982). Both projects however promise high rates of return for future years.

3/ In 1982 Sugar prices have fallen by a half in Panama's main export markets, and no strong upward trend is expected in the near future. A depressed construction sector keeps the operations of Cemento Bayano below break-even point and a general slowdown in economic activities diminished sharply the growth rate of indirect tax revenues.

4/ Inter-American Development Bank estimate.

5 e.g. the Felipillo sugar mill has been closed recently, and the Marriot Hotel complex has been sold to a Japanese private interest group.

Central Government revenues and expenditures, in percentage of GDP, are illustrated in table 17 based on data of the Inter-American Development Bank which coincide closely with IBRD estimates.

TABLE 17: CENTRAL GOVERNMENT REVENUES AND EXPENDITURES AS % OF GDP

	1979	1980	1981	1982
Current Reverses	16,8	22,4	21,5	24.8
Current Expenditures	19.5	22.0	22.8	23.0
Current Savings	-2.7	0.5	-1.3	1.8
Capital Expenditures	6.4	6.1	5.5	13.1
Deficit or surplus	-9.1	-5.7	-6.8	-11.3

Source: Inter American Development Bank.

Detailed Central Government operations, according to ECLA estimates, and based on official figures, are given in table 18. An interesting feature illustrated by table 18 is the fact that from 1980 on the direct taxes are surpassing the indirect taxes in importance, and represent currently 54% of all tax revenues; this evolution illustrates the further redistributive effort, made by the Panamanian Government.

TABLE 18: CENTRAL GOVERNMENT OPERATIONS 1979 - 1982

	(millions of balboas)				(growth rates)			
	1979	1980	1981	1982	1979	1980	1981	1982
(1) CURRENT REVENUE	490	696	784	848	23.4	42.0	12.6	8.2
TAX REVENUE	406	504	583	615	24.1	24.1	24.1	5.5
DIRECT TAXES	194	258	317	332	35.0	33.0	22.9	4.7
INDIRECT TAXES	212	246	266	283	15.8	16.0	8.1	6.4
TAXES ON FOREIGN TRADE	(80)	(91)	(98)	(106)	17.6	13.7	7.7	8.2
TAXES ON DOMESTIC TRANSACTIONS	(132)	(155)	(168)	(177)	4.5	17.4	8.3	5.3
NON TAX REVENUE 1/	80	178	194	214	14.3	122.5	9.0	10.3
OTHER CURRENT REVENUE	4	14	7	19	-	250.5	-50.0	171.4
(2) CURRENT EXPENDITURES	612	766	876	931	31.9	25.2	14.4	6.3
WAGES AND SALARIES	264	297	298	318	17.3	12.5	0.3	6.7
OTHER CURRENT EXPENDITURES	348	469	578	613	45.6	34.8	23.2	6.1
(3) CURRENT ACCOUNT SURPLUS OR DEFICIT (1-2)	-122	-70	-92	-83				
(4) CAPITAL EXPENDITURES	321	299	317	348	74.4	-6.9	6.0	9.8
FIXED CAPITAL FORMATION AND TRANSFERS TO REST OF CONSOLIDATED PUBLIC SECTOR	263	214	220	221	124.8	-18.6	2.8	0.5
DEBT AMORTIZATION	58	85	97	127	-13.4	46.6	14.1	30.9
(5) TOTAL EXPENDITURES (2+4)	933	1 065	1 193	1 279	44.2	14.1	12.0	7.2
(6) OVERALL CENTRAL GOVERNMENT, SURPLUS OR DEFICIT (1-5)	-443	-369	-409	-431	86.6	-16.7	10.8	5.4
INTERNAL FINANCING	138	178	108	41	22.0	29.0	-39.3	-62.0
NATIONAL BANK	52	71	82	41	7.3	36.5	15.5	-50.0
EXTERNAL FINANCING	305	191	301	390	121.0	-37.4	57.6	29.6

1/ Non-tax revenue is composed by two major components; (1) revenue from the Panama Canal transit operations and (2) from the utilities of Government enterprises. The former Component and the Torrijos-Carter Treaties in 1979 explain the 122.5% increase in non tax revenues for 1980.

Source: ECLA: Notas para el Estudio Económico de América Latina, Panamá, 20 de mayo de 1983, on the basis of official figure

The Central Government operations are complemented by those of the social security fund, the Decentralized Agencies[1/] and the public enterprises [2/] : Tables 19, 20 and 21 respectively.

TABLE 19: OPERATIONS OF THE SOCIAL SECURITY FUND
1977 - 1982
(millions of balboas)

	1977	1978	1979	1980	1981	1982
Current Revenue :	138.9	151.7	181.9	219.1	269.5	321.8
Current Expenditures :	133.6	155.6	170.3	197.0	238.6	271.4
Current Operating Surplus or deficit :	5.3	-3.9	11.6	22.1	30.9	50.4
Net Central Government Transfers :	9.9	15.4	20.0	16.6	35.1	40.1
Current Account Surplus or Deficit :	15.2	11.5	31.6	38.7	66.0	90.5
Capital expenditures :	17.6	18.6	9.0	23.7	63.1	62.2
Overall surplus or deficit :	-2.4	-7.1	22.6	15.0	2.9	28.3

Source: General Comptroller

While the official figures seem to give evidence of a continuoussurplus on the current operations of the social security fund, its heavy Capital expenditures require increasingly net Central Government transfers in order to maintain an overall balance. Since 1979, apparently, the social security fund has succeeded in building up yearly overall surplusses. The management of the social security fund, however, is presently under quite some controversy, and will be subjected to an in depth-study for, its posterior re-structuration.

1/ The decentralized agencies include the University of Panama, the Human Dvelopment Institute (IFARHU), the Agricultural Marketing Institute(IMA) the National Finance Corporation (COFINA) and the National Mortage Bank (BHN).

2/ The State enterprises include the Hydraulic and Electricity Institute (IRHE), the National Telecommunications Institute (INTEL), the National Water and Sewerage Institute(IDAAN) the La Victoria Sugar Corporation, the Colon Free Zone, the Civil Aviation Authority (DAC), the Tourism Institute, the Bayano Cement Plant and the Port Authority.

TABLE 20: OPERATIONS OF THE DECENTRALIZED AGENCIES
(millions of balboas)
1977-1982

	1977	1978	1979	1980	1981	1982
Operation revenue	17.8	34.7	43.2	54.5	61.8	76.3
Operating expenditures	43.7	58.8	76.1	83.9	93.4	110.9
Operating surplus or deficit	-25.9	-24.1	-32.9	-29.4	-31.6	-34.6
Net Central Government Transfers	21.0	26.8	27.1	26.3	27.7	25.0
Current account surplus or deficit	-4.9	2.7	-5.8	-3.1	-3.9	-9.6
Net Capital transfers from Government and Social Security Fund	22.1	22.1	23.4	38.2	50.5	67.2
Capital Expenditures	62.1	67.0	44.2	50.6	62.6	103.4
Overall surplus or deficit	-45.0	-42.2	-26.6	-15.5	-16.0	-45.8

TABLE 21: OPERATIONS OF THE STATE ENTERPRISES
(1977-1982)
(millions of balboas)

	1977	1978	1979	1980	1981	1982
Operating revenue	159.1	183.7	234.9	361.9	424.2	473.4
Operating expenditures	151.3	186.7	238.9	318.4	354.6	399.6
Operating surplus or deficit	7.8	-3.0	-3.9	43.5	69.6	7[illegible]
Net Central Government transfers	-0.2	3.6	7.5	10.3	4.1	-12.0
Current account surplus or deficit	7.6	0.6	3.6	53.8	73.7	61.8
Capital transfers	35.4	56.8	98.5	84.3	42.7	40.6
Capital expenditure	175.1	187.6	142.6	111.8	124.3	146.6
Overall surplus or deficit	-132.1	-130.2	-40.5	26.3	-7.9	-44.2

In spite of substantial Government transfers (current and Capital transfers) to the decentralized agencies (table 20) and to the state enterprises (table 21), both sectors give evidence of continuous and heavy overall deficits, which are to be financed by external and internal borrowing. (See point 2.28, External Public Debt). The only notable exception occurred in 1980, and then only for the state enterprises, when higher sugar prices reduced operating losses of the La Victoria Corporation and when higher sugar prices reduced operations losses of the La Victoria Corporation and when exceptionally high cement sales lifted the La Bayano state enterprise out of the red figures.

Table 22 summarizes the operationsof the entire consolidated public sector, and illustrates the global public sector deficit; it can be clearly noticed how, as we have demonstrated higher, after a substantial improvement in the financial situation of the public sector in 1980 and 1981, the global public sector deficit has increased again in 1982.

TABLE 22: SUMMARY ACCOUNTS OF THE NON-FINANCIAL PUBLIC SECTOR 1977 - 1982

(millions of balboas)

	1977	1978	1979	1980	1981	1982
Revenue of Consolidated Public Sector 1/ :	537.1	595.0	708.2	1,032.6	1,185.0	1,360.5
Expenditure of Consolidated Public Sector :	807.7	960.7	1,054.2	1,215.1	1,419.7	1,615.5
Overall deficit of Consolidated Public Sector :	-270.6	-365.7	-346.0	-182.5	-234.7	-255.0
Overall surplus or deficit of Non Consolidated public sector:	1.3	0.7	20.2	-1.6	18.3	--
Overall Public Sector Deficit:	-269.3	-365.0	-325.8	-184.1	-216.4	-255.0
External Financing:	293.7	467.3	191.3	227.6	70.2	n.a.
National Bank :	-32.5	100.7	139.9	-40.5	131.1	n.a.
Other 2/ :	8.1	-1.6	-5.4	-3.0	15.1	n.a.

1/ Central Government, Social Security Fund, decentralized agencies and State Enterprises.

2/ Includes bonds placed locally

Source: IBRD

2.28 External Public Debt

The above mentioned performance of the public sector operations, is closely reflected in Panama's external public debt situation[1/]

TABLE 23: PANAMA'S PUBLIC EXTERNAL DEBT
(1970-1982)
(millions of US$)

	1970	1975	1976	1977	1978	1979	1980	1981	1982
Outstanding at December 31st									
Amount Disbursed (US$mn)	194	774	1,101	1,345	1,898	2,090	2,277	2,333	2,733
Percent of GDP (%)	18.5	40.0	54.9	62.0	77.2	73.6	67.2	60.2	63.8

Source: World Bank

The table above shows that Panama's public external debt rose dramatically in the 1970's; in 1980, the total disbursed public debt reached a value 11 times higher than in 1970, rising from 18.5% to 63.8% of GDP. This debt has become a matter of great concern, and the Government has made its reduction a major policy goal. The reduction in the public sector deficit in 1980 (see point 2.27), entailed a slowdown in the growth of the debt, which continued throughout 1981. In 1982, however, a rising deficit made the growth rate of the external debt resume its previous pace, increasing 16% in 1982, compared to the average growth of 6% in 1980-81. At December 31, 1982, the external public debt disbursed amounted to about US$ 2.7 billion (64% of GDP) and the total contracteddebt to US$ 3.3 billion (80% of GDP). Of the debt disbursed, 75% came from private sources, principally international banks, and the remainder from international agencies and governments.

1/ Indeed and as mentioned before, due to the fact that Panama does not have a money emission institute, the Public sector deficit, i.e. the public expenditures that do not have a counterpart in fiscal revenues, have to be financed though external credit; as such, the targets set for the public external debt/GDP "ratio, will determine the annual overall deficit that can be tolerated, and hence also the level of public sector investment.

Due to the substantial increase of the external debt in 1982, the Panamanian Government has been forced in 1983 to adopt further budget cuts and austerity measures; this was also stipulated by the IMF, before reaching an agreement, on 27 June 1983, involving 295 million Special Drawing Rights.

In addition to the concern provoked by the size of the debt, there is the one associated with the debt service burden, further exacerbated by continously growing interest rates.

TABLE 24: DEBT SERVICE PAYMENTS (1979-1982
(Millions of US$ and Percentages)

	1979	1980	1981	1982
Service on the debt (interest and amortization)	388	465	492	595
Service of the debt as a percentage of exports of goods and non-factor services	34.6	31.2	31.2	36.6

Source: Inter-American Development Bank

Interest payments on the public external debt during the 1980-82 period, representing only about 50% of the total debt service, were equivalent to approximately 7.5% of GDP, which represents a significant leakage of Panamanian National savings. Public sector interest payments on the external debt used 30% of current revenues in 1981 compared to 4% in 1970. The increasing burden of these interest payments on the Goverment leave little scope for employment programmes or other macroeconomic objetives to be pursued by the public sector, even if these were otherwise desirable. In December 1982, and in order to Centralize the Control of Public expenditure and external indebtedness, the Government established an executive committee headed by the Minister of Planning and Economic Policy, and made it responsible for supervising and approving all loan applications made by state institutions, that earlier had enjoyed a certain independence. For this purpose, the Directorate of Public Credit was established in the Ministry of Planning and charged with monitoring the financial position of public institutions and evaluating and supervising all types of financing.

2.3 FOREIGN TRADE DATA

2.31 Value of Exports of Major Commodities

Table 25 illustrates how Panama has known a steadily increasing export performance throughout the seventies, with the exception of the 1976-77 recession years; after these, exports resumed their growth pace, to reach an absolute peak value in 1980, the year when international sugar prices increased by 120%.1/

After 1980, however, export earnings give evidence of a renewed downward trend, primarily because ot generalized economic recession, particularly in the Latin American Region, and because of other factors such as the decline in the international sugar-prices, strikes in the banana sector and a decrease in sales of oil derivatives for bunkering vessels using the Canal.

Other interesting features which can be derived from Table 25 is the emergence of the garment and meat products sectors as increasingly important components of Panama's export package, while fishmeal and oils are on the decline. The main part however is still taken by petroleum products2/, Bananas and shrimps, which contribute respectively 22%, 21.3% and 17.1% to the total Export Value.

The Economic Council for Latin America (ECLA) in its yearly report, points also to a further deterioration in 1982 and 1983 of the Panamanian terms of trade, an evolution which has been experienced by the majority of the non-petroleum exporting Latin American countries. (see table 26)

Table 26: Panamanian Export and Import price indexes- 1975-83
(1970 = 100)

	1975	1977	1979	1981
Export/Import price ratio	111	82	75	69
Purchasing power of Exports	118	92	89	65

Source : ECLA: Economic Study of Latin America, 1983.

1/ The average current dollar price for a pound of crude sugar, is characterized by strong fluctuations; 1970-80: US$.128, 1981: US$.169, 1982 US$.084 and 1983: US$.085.

2/ It has to be noted however that "petroleum products" consist entirely of Venezuelan crude, which is refined and processed at Refinería Panamá partly for the domestic market,and partly for re-exportation.

TABLE 25: EXPORT OF MAJOR COMMODITIES (F.O.B.)

(millions of balboas)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Petroleum Products	21.5	24.3	86.3	128.2	66.3	68.2	60.1	72.3	81.7	58.4	70.1
Bananas	64.7	63.8	49.5	59.5	61.7	66.4	71.9	65.6	61.5	69.1	65.9
Shrimps	14.6	16.7	15.1	19.0	33.5	29.9	30.2	44.9	43.6	42.6	52.8
Sugar	5.9	8.7	27.5	49.4	26.4	21.8	20.3	26.1	65.8	51.0	23.7
Fish meal and oils	1.7	4.3	2.9	2.8	8.1	14.9	5.7	9.2	14.8	5.6	1.8
Coffee	2.5	2.0	2.1	2.2	3.3	5.4	8.9	9.9	10.4	13.6	12.1
Meat and Meat Products	.7	.9	1.2	1.1	1.2	1.4	.4	1.5	3.1	5.0	9.4
Garment	0.1	1.1	2.1	3.1	4.1	6.1	8.6	8.6	10.4	13.9	17.3
Other	10.0	13.9	18.4	15.7	24.3	31.4	40.8	57.6	64.8	62.3	65.5
TOTAL	121.1	135.2	204.3	280.2	228.1	244.6	246.8	294.7	353.3	316.8	309.3
GROWTH RATE TOTAL EXPORT VALUE (PERCENTAGE)	-----	11.6	51.1	37.1	-18.6	7.2	.9	19.4	19.9	-10.3	-2.4

Source: Controller General, Panama en Cifras, November 1983.

Other include: Condensated and evaporated milk, canned sardines, fruit extracts, syrops and edible molasses, cacao, ru tobacco, leather skins and hides, card board and card board boxes, etc.

2.32 Value of Imports of Major Commodities

Table 27 illustrates the value of imports of the major commodities, and reflects clearly the recession period of 1976-77, the posterior recovery, and the recent stagnating trend in import value, induced by a declining growth rate of the domestic demand.

It can be noticed that, over the entire period, the share of imported fuels and lubricants in total import value has decreased steadily, from 34.5% in 1976 to 28.4% in 1982; this continuoustrend can be accredited to a sustained Government effort to substitute hydroelectric for thermo-electric energy generation, in order to diminish Panama's dependency from imported petroleum. The recently terminated Bayano projett (150 megawatt) and the Estrella-Los Valles project (90 megawatt) allowed Panama until now to fullfill approximately 60% of its National energy requirements with hydroelectric power generation. The impending start of operations at the La Fortuna project (300 megawatt), is expected to bring the share of hydroelectric power generation to 90% a 95% of the total energy requirements, and to save the country an additional US$ 84 million per year on petroleum imports.

Machinery and transport equipment, on the other hand, is the item which shows the strongest increase in 1982 for the second consecutive year; this increase is related with the purchase of equipment and piping for the construction of the interoceanic pipeline, which was inaugurated in January 1983. As such 1983 and future global import figures are expected to show a further stagnating or decreasing trend, partly reinforced by a decreasingdomestic consumer demand. (see the 1982 decrease in imports of manufactured products).

The peculiar situation of Panama and its Colon Free Trade Zone, active in imports and re-exportation, is illustrated by Table 28.

As can be read from table 28, the Colon Free Zone activities have shown a thriving growth throughout the seventies which, however, slowed down substantially in 1981, and turned into a decrease, for the first time in the history of the Free Zone, in 1982. As explained higher, this decline is primarily due to the deep economic recesssion, prevalent allover the Latin American Region, where Venezuela, Colombia, Mexico and the Central American Common Market used to be the major outlets for Colon based offshore businesses The sharp decline in the Free Zone activities has been accentuated in 1983, with a reported decrease of 24%. Several traders in the Free Zone inform that the Panamanian domestic market constitutes presently one of their major outlets, and that this situation is primarily due to the strong devaluation of the majority of the Latin American currencies and to their consequently dwindling purchasing power.

TABLE 27: IMPORTS OF MAJOR COMMODITIES (VALUE F.O.B.) 1/
(millions of balboas)

	1976	1977	1978	1979	1980	1981	1982
Food Products	54.04	58.33	61.11	77.06	96.69	98.35	101.53
Beverages and Tobacco	5.04	4.29	5.58	6.95	7.55	8.73	8.78
Raw Materials	3.46	4.10	4.85	7.07	8.35	9.21	8.31
Fuels and lubricants	269.33	268.18	219.17	319.43	414.83	415.41	399.18
Oils and Fats	10.82	10.90	8.34	14.99	18.54	13.26	13.79
Chemical Products	70.54	79.29	87.64	113.41	131.11	140.51	141.49
Manufactured Products	195.78	202.57	268.67	308.80	350.65	384.89	376.32
Machinery and Transport Equipment	170.50	147.86	188.82	214.66	258.71	319.77	355.55
Other	.22	.37	.67	.54	2.44	1.68	2.45
TOTAL	779.73	775.91	844.85	1,062.91	1,288.89	1,391.82	1,407.41
Growth rate total import value (percentage)	----	-1.5	8.9	25.8	21.3	7.9	1.1

1/ Direct imports for local consumption; i.e. excluding import for re-export transactions of the Colon Free Zone

TABLE 28: IMPORTS AND RE-EXPORTS IN THE COLON FREE ZONE (VALUE FOB) 1975 - 1982
(millions of balboas)

		1975	1976	1977	1978	1979	1980	1981	1982
Chemical Products	M 1/	93.1	101.4	118.0	134.9	154.4	201.2	198.1	186.3
	RE 2/	147.7	146.1	164.7	196.9	221.3	270.0	290.9	268.2
Manufactured Products	M	204.7	293.8	395.3	576.7	720.9	247.0	1,201.8	1,076.9
	RE	256.7	342.1	487.5	682.9	818.5	1,103.2	1,368.8	1,325.7
Machinery and Transport Equipment	M	87.9	131.2	213.4	281.9	327.2	498.1	523.6	334.9
	RE	100.6	118.9	188.2	252.6	379.2	562.9	588.3	430.5
Other Products and transactions	M	-----	.3	16.2	29.4	44.4	51.9	3.7	2.7
	RE	-----	.5	4.5	6.8	6.1	9.1	.3	.8
TOTAL	M	385.7	526.7	742.9	1,022.9	1,246.9	1,698.2	1,927.2	1,600.8
	RE	505.0	607.6	844.9	1,139.2	1,425.1	1,945.2	2,248.3	2,025.2
ANNUAL GROWTH RATE (PERCENTAGE)	M	-----	36.5	41.1	37.7	21.9	36.2	13.5	-16.9
	RE	-----	20.3	39.1	34.8	25.1	36.5	15.6	-10.1

Source: Controller General ; Panama en Cifras and own calculations

1/ M = Imports

2/ RE = Re-exports

2.33 BALANCE OF PAYMENTS AND FOREIGN EXCHANGE RESERVES

Panama has traditionally always had a deficit in its current account Balance. Table 29 illustrates how throughout the decade of the sixties and the seventies, the positive net earnings of Panama's international services economy, have never off-set the traditionally negative trade balance. Hence Panama's current account deficit has increased steadily until reaching US$ 313.2 in 1979, or 12% of GDP.

In 1982, however, the statistics department at the General Controller's Office, has adopted the IMF standards and recommendations for the preparation of the Balance of Payments. The conceptual changes 1/ which have thereby been introduced, do not permit a strict comparability of the balance sheets from 1980 on, with former series.

1/ The major changes, with regard to former procedures for the Balance of payments preparation, involve (1) the transactions of the enterprises established in the Colon Free Zone, and (2) the offshore transactions of Panama's International Banking Center; (these conceptual changes explain also the divergence between the Balance of payments - data in table 30 , and those of World Bank and other sources, published in 1982 or early 1983).

- The Colon Free Zone is considered as a segregated area within the territory of the Republic of Panama, and the enterprises that are operating in the Free Zone are thus considered "resident-enterprises". Hence, their Commercial transactions with the rest of the world (imports and re-exports) are included under the item trade balance , while the transactions between the Colon Free Zone and the Panamanian Domestic market are excluded.

- The item "Freight and Insurance" does also contain the receipts received from non-residents for the services offered through the trans-isthmian oil pipeline; from 1983 on this item is playing a major role in Panama's current account system, contributing reportedly more than US$ 200 million per year.

- The Panamanian Banking system is composed of Banks with a General and banks with an international licence; while the former are allowed to have transactions with Panamanian residents as well as with non-residents, the latter are only permitted to engage in international operations. As such they are "resident" enterprises that offer services as "financial intermediaries" in offshore transactions. Hence, their international Capital movements are registered under the item "Investment income" of the Current Account Balance.

TABLE 29: BALANCE OF PAYMENTS - CURRENT ACCOUNTS SELECTED YEARS
(millions of balboas)

	1960	1965	1970	1975	1976	1977	1978	1979
Trade Balance	-69.2	-99.5	-20.7	-491.0	-513.8	-497.1	-558.9	-761.5
Exports 1/	38.8	92.6	130.3	330.9	270.6	287.0	294.8	334.1
Imports 1/		192.1	331.0	821.9	784.4	784.1	853.7	1,095.6
Services (Net)	40.9	67.7	132.9	326.9	310.6	344.5	350.9	431.2
Transfers (Net) (Private and Government)	.8	4.1	3.9	-5.0	-3.9	-2.4	-2.1	17.1
Current Account Balance	-27.5	-27.7	-63.9	-169.1	-207.1	-155.0	210.1	313.2

1/Include non-monetary gold
Source: World Bank

Table 30 illustrates the balance of payments results of Panama for the years 1980-1982, in accordance with the IMF standards[1/]. According to these estimates, the situation of Current Account Balance has improved dramatically during the first yearsof the eighties; the deficit of US$ 311 million in 1980 accounts for 9% of the 1980 GDP, while 1981 reportedly concluded with a surplus of US$ 63 million. These positive figures have to be situated against the 1980 boom in the Colon Free Zone activities (36% increase above the 1979 activity level), and the thriving growth of the offshore activities of Panama's international Banking sector, especially in 1981, both of which are now duly registered in the current account balance. Other explanatory factors are the high world price of sugar in 1980, the recovery of exports of petroleum derivates and the increase in the volume of traffic passing through the Panama Canal. In 1982 a renewed current account deficit of US$ 197 million (5% of GDP) reflects the depressed world price for sugar, severely affecting Panama's export revenues, and the severe decline in the Colon Free Zone activities (-14% compared to the 1981 level).

The 1983 figures are not yet published, but the statisticians of the General Comptroller's Office expect a new, unprecedented current account surplus in the order of US$ 120 million; this surplus,according to the Panamanian statisticians, is to be accredited primarily to the international earnings of the trans-isthmian oil pipeline, which started operations in January 1983 and is reportedly performing high above the level of expectations. 1983, however, meant also dwindling domestic export performances and a further rapid decline of the Colon Free Zone operations. At the same time, however, imports for domestic use diminished, because of restrictions on public expenditure and declining domestic demand, as well as the imports of the Free Zone, where traders have to cope with full merchandise stocks and depressed outlet markets.

1/ IMF Manual on Balance of Payments, Fourth edition.

TABLE 30 : INTERNATIONAL TRANSACTIONS OF THE REPUBLIC OF PANAMA - BALANCE OF PAYMENTS
1980 - 1982
(millions of Balboas)

		1980			1981			1982		
		CREDIT	DEBIT	BALANCE	CREDIT	DEBIT	BALANCE	CREDIT	DEBIT	BALANCE
	I CURRENT ACCOUNT	7,808.8	8,119.[illegible]	-311.0	10,018.4	9,955.3	63.1	9,150.9	9,347.7	-196.8
A.	GOODS, SERVICES AND RENT	7,736.4	8,0[illegible]	-325.3	9,932.5	9,900.5	31.9	9,051.9	9,283.8	-231.9
	1.- Trade Balance	2,317.7	2,994.5	-676.8	2,567.4	3,319.8	-752.4	2,412.1	3,042.6	-630.5
	2.- Freight and Insurance	33.6	423.7	-390.1	38.4	466.0	-427.6	90.8	414.9	-324.1
	3.- Other Transport	529.0	56.6	472.5	556.3		62.0	531.7	63.7	468.0
	4.- Travel	171.1	56.0	115.1	174.9	65.4	109.5	173.8	80.6	93.1
	5.- Investment Income	4,362.3	4,418.6	-56.3	6,231.0	5,868.1	362.9	5,468.1	5,569.1	-100.9
	6.- Other Goods, services and rent	322.5	112.3	210.2	364.4	119.1	245.2	375.3	112.9	262.4
B.	TRANSFERS (NET)	72.4	58.1	14.3	85.9	54.7	31.2	98.9	63.8	35.1
	1.- Private	1.6	53.9	-52.3	2.2	49.8	-47.6	2.5	57.5	-54.9
	2.- Government	70.7	4.1	66.6	83.7	4.9	78.8	96.4	6.3	90.0
	II CAPITAL ACCOUNT	6,526.7	6,878.7	-351.9	9,308.1	9,126.5	181.6	5,566.3	5,474.9	91.3
A.	CAPITAL, WITHOUT RESERVES	6,489.7	6,830.4	-340.7	9,204.1	9,095.8	108.3	5,540.2	5,464.2	76.0
	1.- Direct Investment	-46.5	-------	-46.5	.4	-------	.4	277.4	-------	277.4
	2.- Port folio Investment	25.0	910.4	-885.4	207.9	4.9	203.0	400.2	1,387.	261.5
	3.- Other Capital	6,511.2	5,919.9	591.3	8,995.8	9,090.9	-95.1	4,862.6	5,325.5	-462.9
	Long Term Capital	441.9	228.0	213.9	662.5	298.9	363.6	1,145.4	298.2	847.2
	Short Term Capital	6,069.3	5,691.9	377.4	8,333.3	8,792.0	-458.7	3,717.2	5,027.3	-1,310.1
B.	RESERVES	36.9	48.2	-11.3	104.0	30.7	73.3	26.0	10.7	15.3
	1.- Monetary Gold	-------	-------	------	-------	-------	------	------	-------	-------
	2.- Special Drawing Rights	10.0	.4	9.6	5.8	2.3	3.5	------	1.0	1.0
	3.- Reserve position with IMF	------	7.1	-7.1	10.3	.3	10.0	------	------	-------
	4.- Foreign Exchange	25.9	22.3	3.6	------	11.0	-11.0	21.1	------	21.1
	5.- Other Assets	-------	--------	------	------	-------	-------	------	-------	-------
	6.- Use of Credit with IMF	1.0	18.4	-17.4	87.9	17.0	70.0	4.9	9.7	-4.8
	Errors and Omissions:			662.9			-244.7			105.5

Source: Controller General; Panamá en Cifras, November 1983

In the capital account, the surge in net direct investment during the last three year is note worthy; from a negative balance of US$ 46.5 million in 1980, up to US$ 4 million in 1981 and US$ 277.4 million in 1982. The latter substantial net inflow of investment Capital is directly related with the construction of the trans-isthmian oil pipeline, terminated in December 1982, and with the peak activity level in the construction of the La Fortuna Hydro-electric power project. As mentioned higher (point 2.28) both large scale investment projects have contributed substantially to the higher public external indebtedness of Panama in 1982.

INDUSTRIAL SECTOR PROFILE

3.0 INDUSTRIAL SECTOR PROFILE

3.1 INDUSTRIAL POLICIES AND REGULATIONS

The Panamanian Development Strategy has emphasized the use of investment incentives, in order to encourage manufacturing and export activities. These incentives are granted through individual contracts between the Government and the individual investor, who presents his request, together with a technical and financial feasibility analysis to the Minister of Commerce and Industries. The Contract with the Government (Contrato con la Nación) specifies the agreement of the Company, on the amount of Capital to be invested, the use of local materials, (although no specific local-content requirements are in effect) and job preferences to be given to Panamanian nationals. The Company must also agree to abide by the decisions of the Price Control Office, should its products become subject to price controls.

Once the Contract has been approved, the following benefits are applicable to manufacturing industries, active in the transformation of raw materials or in the production of semi-finished products (decree law No. 403 of 1970, amended by decree law No. 179 in 1971).

- Production for export:
  - Complete import tax exemption for raw materials (including fuel), other inputs, equipment and spare parts used in the production process.
  - Complete tax exemption in export activities and on income derived there-of.
  - Complete tax exemption on Capital, other assets and on value added.

- Production for domestic market:

  - Complete import tax exemption for raw materials, inputs, equipment, and spare parts used in the production process.

  - Complete income tax exemption on earnings which are re-invested in the expansion of the existing production capacity or in new production processes.

These incentives, geared to the promotion of manufacturing industry in general, but specifically to stimulation of export oriented manufacturing activities, were complemented by a special "regional incentive" package; the latter was aimed at the decentralization of industrial activities and at bringing economic development to the interior provinces.

Under this regional incentive package, the industrial plants, which are established in the districts of Santiago, David, Chitré, Renacimiento, Las Tablas, Los Santos, Aguadulce, Natá, Penonomé, or in the Province of Colón, regardless of the final destination of their products, will be granted the following incentives: total exemption from taxes on profits resulting from the sale of products during the first five years of operation and exemption from 50% of such taxes for the next three years, in addition to total exemption, for the duration of the contract with the Government, from property taxes on land and buildings.

Apart from the aforementioned fiscal incentives, industrial firms receive assistance in a number of other fields:

- Accelerated depreciation of installations and production equipment.

- Special financial assistance (semi-autonomous development banks such as COFINA), credit insurance and export subsidies.

- Vocational training programmes.

- Installed industrial estates (David, Chitré, Colón).

- Special credit for feasibility studies.

- Promotional credit and technical assistance for small scale industries.

- Tariff and quota protection against foreign products which compete with the national produce. Protection measures are decided on a case to case basis, and have to fullfill certain requisites in terms of domestic market supply.

In addition to above mentioned incentives, awarded to all corporations engaged in manufacturing industries, a special legislation passed in January 1979 (Decree Law 5) which grants additional benefits to Corporations in the assembly industry; these incentives allow the employer to engage in temporary labour contracts, permitting him to adjust the number of employees in accordance with the needs of the production process, without having to comply with the high severance pay requirements stipulated by the current labour code; (the latter is often cited as one of the major pro-labor biases of the Panamanian labour code and a major disincentive for labor expansion). These special incentives for assembly industries are also referred to as the "Maquila" program. (see also page 22).

As an encouragement to export industries, the Government of Panama provides for granting negotiable tax credit certificates, known by their spanish acronym CAT's, to firms engaged in non-traditional exports[1/], whose National Value Added is at least 20%. For firms outside the metropolitan area, the content requirement is reduced to 10%.

Exporters fulfilling the requirements, receive CAT's in an amount equal to 20% of the national value added of their exports.

CAT's may be issued to bearer or in the name of the beneficiary, are fully negotiable nine months after the date of issue, and are valid for four years. They may be used to pay all national direct taxes and

---

1/ Non traditional exports are considered to be all exports which are not listed in Decree Law 108 (1974) on the CAT's.

import duties. CAT's are exempted from all taxes.

While in 1975 only three enterprises had been granted CAT's for a total amount of US$210,000 representing total export earnings of approximately US$1 million, in 1982, 63 firms have made use of CAT's for a total amount of US$7 million; their export activities under the CAT regime, generated an estimated US$53 million in export earnings.

3.2 MAJOR INDUSTRIAL PROJECTS AND PROGRAMMES BY INDUSTRIAL SECTOR

The Panamanian industrial sector has known a period of dynamic growth under the import substitution strategy in the decade of the sixties; average annual growth of the industrial sector amounted to 10.9% versus 7.8% for the entire economy, so that the global industrial product passed from 13.8% of the total GDP in 1960 to 17.2% in 1970.

Table 31 represents the sectorial composition of the Panamanian industrial sector for some selected years. We can read from table 31 how the sub-sector of the light industries represents by far the major part of total industrial output, albeit that its relative contribution diminished from 70% in 1960 to 56.0% in 1970; this decline in relative importance benefitted above all the intermediate industries, where the sub-sectors of "Petroleum derivatives", "non-metallic minerals" (cement production) and "paper and paper products", scored notable relative growth figures. The sub-sector of intermediary industries as a whole increased its share in industrial output from 14.8% in 1960 to 22% in 1970.

TABLE 31: COMPOSITION OF INDUSTRIAL SECTOR IN SELECTED YEARS 1960-1965-1970-1975-1980-1981

(Percentage)

	1960	1965	1970	1975	1979	1980	1981
Global Industrial Sector	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Light industries	70.0	70.0	56.0	62.3	53.7	53.7	56.2
intermediate industries	14.8	20.0	22.0	18.7	27.7	26.7	22.4
metal industries	8.0	9.0	11.0	10.9	9.3	9.9	11.2
other manufactures	11.1	11.0	11.0	8.0	9.3	9.7	10.2
Light industries	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Food products	44.2	49.0	49.4	55.7	45.0	46.0	46.0
Beverages	21.9	22.0	21.2	19.7	30.0	29.4	30.0
Tobacco	6.8	5.5	4.6	3.7	4.4	4.1	4.0
Garment and shoes	14.1	11.0	10.4	8.2	9.5	9.7	9.6
Wood products	4.1	4.0	3.0	2.1	3.[illegible]	3.0	3.0
Furniture	7.0	7.8	10.7	9.9	6.3	6.4	6.2
leather and hides	1.5	0.8	0.5	0.6	1.9	1.2	1.4
Intermediate industries	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Chemical products	23.4	16.8	10.2	18.6	14.5	14.7	18.4
Non-Metallic minerals	0.6	39 7	38.9	48.3	28.7	31.1	36.7
Rubber	2.5	10.0	9.7	1.5	1.5	2.7	1.6
Paper and paper products	9.8	19.0	20.9	29.0	16.3	13.5	22.4
Petroleum derivatives	-	23.0	29.0	2.4	39.0	33.8	20.8

Source: General Comptroller and Arthur D. Little International, Inc.

To the contrary of the booming sixties, the industrial sector in the decade of the seventies, has been characterized by stagnation and by a declining contribution to total GDP; industrial output grew from 1970 to 1980 at an average annual rate of 2.36% versus 4.8% for the entire economy, and diminished its contribution to total GDP from 17.2% in 1970 to 15.[illegible] in 1975 and, finally, 10.4% in 1980 (see also table 5 page 39).

Moreover, the stagnation appears to have spread over all industrial sub-sectors; table 6 indicates that with the exception of the sub-sectors food products, beverages, and tobacco, and to a lesser extent textiles and garment, none of the other industrial branches has known real growth in the seventies. Table 6 also illustrates how stagnation in the industrial sector has continued during the first years of the eighties, with declining total production volumes in 1981 (-2.3%) as reportedly also in 1983 (-2.2%).

Capital formation in the industrial sector shows a somehow more dynamic situation than industrial output does; in current prices, gross capital formation reached US$333.7 million in the five year period 1975-1979, compared with US$168 million between 1970 and 1974 and US$79.3 million between 1965-1969 (Table 32). A closer observation, however, indicates that 71% of the Gross Capital Formation for the 1975-79 period took place in the food production sector, and that the lion's share there-in is taken by public investment expenditures in only four sugar refineries. This trend renders the Panamanian food products sector by far the most capital intensive sector of all national industrial activities.

TABLE 32: GROSS CAPITAL FORMATION IN INDUSTRIAL SECTOR
PER FIVE YEARS PERIODS
(million Balboas)

	1965-69	1970-74	1975-79
Industrial Sector	79.3	168.8	333.7
Light Industries	50.3	87.2	284.0
Intermediate Industries	16.0	51.0	30.8
Metal Industries	4.6	6.2	6.1
Other Manufactures	8.3	24.1	12.7
Light Industries	50.3	87.2	284.0
Food Products	25.5	60.0	236.0
Beverages	8.9	14.2	17.8
Tobacco	1.6	1.8	8.8
Garment and shoes	10.8	5.9	13.5
Wood products	1.7	2.4	4.3
Furniture	1.0	2.0	1.2
Leather and Hides	0.4	0.7	2.1

...continued following page

Table 32: (Cont.)

Intermediate Industries	16.0	51.0	30.8
Chemical products	2.1	2.7	10.6
Non-metallic minerals	9.9	39.0	11.2
Rubber	--	--	0.8
Paper and paper products	4.0	3.2	1.8
Petroleum derivatives	--	5.9	6.3

Source: General Comptroller and Arthur D. Little International Inc.

Table 33 illustrates the size and the structure of the Panamanian industrial sector in 1979 based on the economic census of the same year; of the 633 industrial enterprises which in 1979 were registered to have 5 employees or more[1/], 615 provided relevant information, out of which the following picture can be formed; small scale industrial enterprises (5-30 workers) represent 59% of the total number of enterprises, employ 17% of all industrial workers and produce 10% of total industrial output. Big industry, (100 workers or more) represents only 13% of the total number of enterprises, employs 51% of the industrial labour force and produces 65% of global industrial output. Overall productivity, measured as Value added per worker, is on the average higher in the large and medium scale industrial plants than in the small scale production units. The ratio value added/output value, however, is on the average more favourable for the small and medium scale industries.

1/ The total number of registered industrial enterprises augmented from 518 in 1965 to 647 in 1975, to dimish afterwards down to 633 in 1979 (source: General Comptroller). It is, however, estimated that Panama counts with 1,102 industrial enterprises of 5 workers or more, so that manufacturing production is being under-estimated in the official statistics. It is furthermore very probable that the majority of the firms that did not respond to the census do belong to the category of small scale industries. It is also estimated that there are 777 micro enterprises (less than 5 workers) active in the manufacturing sector. The Panamanian Planning Ministry (MIPPE) estimated that the micro industrial segment absorbs up to 37% of total industrial employment.

TABLE 33 : STRUCTURE OF PANAMANIAN INDUSTRIAL SECTOR, 1979

	Informing Enterprises Number	%	Personnel Employed Number	%	Value of output B/.000	%	Value added B/.000	%	VA/output	VA/w[illegible] B/.000
Small scale industry										
5-9	123	20	842	3	21,956	2	7,963	2	0.362	9.45
10-19	146	24	2,027	7	45,043	3	15,922	4	0.353	7.85
20-29	88	14	2,247	7	58,712	5	21,051	6	0.358	9.37
SUBTOTAL	357	58	5,116	17	125,718	10	44,936	12	0.357	8.78
Medium scale industry										
30-49	85	14	3,217	11	105,233	8	36,846	10	0.350	11.45
50-99	94	15	6,281	21	213,875	17	74,440	20	0.348	11.85
SUBTOTAL	179	29	9,498	32	319,108	25	111,286	30	0.349	11.72
Large scale industry										
100-199	53	9	7,398	25	209,572	16	82,250	22	0.392	11.12
200-and more	26	4	7,947	26	621,069	49	135,985	36	0.219	17.11
SUBTOTAL	79	13	15,334	51	830,641	65	218,235	58	0.263	14.23
TOTAL	615	100	29,948	100	1,275.467	100	374,457	100	0.293	12.50

Source: General Comptroller, Economic Census, 1979 [illegible] Industrial [illegible]

[illegible]

[illegible]

Engineering industries [illegible] in the location of [illegible] industries [illegible] national industrial [illegible] and [illegible], with light and [illegible] concentration of light [illegible] provinces.

The heavy machinery [illegible] national [illegible] and transport equipment, [illegible]

[illegible] industrial [illegible] (34 [illegible]) [illegible] the [illegible]

[illegible] investment [illegible] the engineering [illegible].

[illegible] Inter-American [illegible]

TABLE 34: VALUE ADDED AT 1970 MARKET PRICES
ENGINEERING INDUSTRIES
1981 - 1983
(Million Balboas)

	1981	1982	Variation (%)	1983	Variation (%)
Production of non-electric machinery	0.5	0.5	(---)	0.5	(---)
Production of electric machinery accesories and spare parts	1.8	1.8	(---)	2.0	(11.1)
Production of transport materials and equipment	2.2	2.1	(-4.5)	1.5	(---)
TOTAL	4.5	2.4	(-2.2)	4.0	(-9.1)
Contribution to total industrial value added (%)	2.5	2.4	-----	2.3	-----

Source: General Comptroller

3.2.2 Metallurgical Industry

Overall figures indicate a slowing down of Value added in the metallurgical industry and a slowly but steadily diminishing share in the global industrial product. The 12.2% increase in the production of metal production in 1982 can be associated with the rising construction activity that same year (+24%), primarily thanks to the peak activity level in the transisthmian oil pipeline - and La Fortuna dam project. Quite in line with the expectations, the metallurgical industry saw its activity level falling down (-4.5%) in 1983.

Acero Panama, S. A. is the only steel mill in Panama, where steel products and profiles are produced for the domestic market, on an unefficiently small production-scale. Hence, the production unit can only be kept operational, thanks to a relatively high level of effective protection from directly competing imported products. Orders, however, are reportedly dwindling at the present moment, primarily linked with the sluggish activity level in the construction sector.

The limited scope of the domestic market, and the complete dependency of imported inputs (there is no iron-ore in Panamá), make also this sector a very improbable candidate to impel renewed economic growth in the Panamanian economy. The Caribbean Basin Initiative (CBI) however could offer some new perspectives for this as well as for other industrial sectors ; an interview with the management of Acero Panama, S.A. revealed that preliminary contacts are being established with a Brasilian Steel Consortium; the interest of the Brasilians is to set up a joint venture production line in Panamá, which, with a 30% Panamanian share, could comply with the CBI stipulations, and hence qualify for duty free access to the US domestic market. This joint operation, however, which could bring a considerable amount of foreign investment to Panama, is still at a very preliminary stage.

TABLE 35: VALUE ADDED AT 1970 MARKET PRICES METALLURGICAL INDUSTRIES - 1981-83

	1981	1982	(Variation) (%)	1983	(Variation) (%)
Basic metal and steel industries	0.8	0.8	(----)	0.5	(-37.5)
Basic non-ferro metal industries	0.4	0.4	(----)	0.4	(-----)
Production of metal products, with the exception of machinery	4.9	5.5	(12.2)	5.5	(-----)
Total	[illegible]	6.7	([illegible])	[illegible]	(-4.5)
Contribution to total industrial value added (%)	[illegible]	[illegible]	------	[illegible]	-------

Source: General Comptroller

3.2.3 Construction and Building Material

This sector, as illustrated in table 36, follows closely the activity level of the construction sector itself, which is characterized by substantial annual growth all over the decade of the seventies, and a declining trend from 1981 on. [illegible] activities is related with the saturation, finally reached after one decade of thriving construction, in office space, and luxury apartments for Panama's international business and banking sector. [illegible] is an exception with a surprising increase of 26 [illegible] in construction, which has to be accredited entirely to the transisthmian pipeline - and the La Fortuna dam project.

TABLE 36: VALUE ADDED AT 1970 MARKET PRICES

CONSTRUCTION AND BUILDING MATERIALS

(Million Balboas)

	1981	1982	Variation (%)	1983	Variation (%)
Non metal mineral products (mainly cement)	[illegible]	[illegible]	(3.6)	9.6	(-15.8)
Glass and glass products	[illegible]	[illegible]	[illegible]	1.9	(5.6)
TOTAL	[illegible]	[illegible]	(4.8)	11.5	(-12.9)
Share in total industrial value added (%)	[illegible]	[illegible]	-------	6.5	-------
Construction activities	[illegible]	[illegible]	[illegible]	114.8	(-27.8)

Source: General Comptroller

3.2.4 Chemicals, Paper and Pharmaceutical Industry

The paper and paper products sector has been characterized by relative stability in output level throughout the seventies. Production is primarily oriented for domestic use, but also for packing purposes in the Colon Free Zone. Table 37 indicates growth figures for this sector, which at once reinforce its share within total industrial value added.

The chemicals sector gives evidence of a similarly stable production pattern, and in the course of these last years, of increasing relative importance within the industrial sector.

Panamá's annual industrial production statistics do not include a separate category for "pharmaceutical products". In the 1979 Industrial Census however, a total number of 6 firms declared to be engaged in the production of pharmaceutical products; together they employed 275 workers and produced for a total value of US$6.8 million per year. The bulk of the supply of pharmaceutical for domestic use, however, is imported, amounting to an estimated total of US$30.5 million per year. In this light, a recent industrial sector study indicates the pharmaceutical industry as one of the sectors which offer favourable perspectives for industrial growth in Panama[1/].

TABLE 37: VALUE ADDED AT 1970 MARKET PRICES
CHEMICALS, PAPER AND PHARMACEUTICAL INDUSTRY

(Million Balboas)

	1981	1982	Variation (%)	1983	Variation (%)
Paper and Paper/products	7.1	7.2	(1.4)	7.9	(9.7)
Printing, editorial and related activities	3.9	4.3	(10.3)	5.1	(18.6)
SUB-TOTAL	11.0	11.5	(4.5)	1.3	(13.0)
Share in total industrial output (%)	6.2	6.4	------	7.4	-------
Chemical products for industrial use	2.8	3.1	(10.7)	3.4	(9.7)
Other chemical products	9.5	9.5	------	10.6	(11.6)
SUB-TOTAL	12.3	12.6	(2.4)	14.0	(11.1)
Share in total industrial value added (%)	7.0	7.0	------	7.9	------

Source: General Comptroller

1/ Estudio Integral del Sector Industrial de Panamá, TomoI, La Estrategia de Desarrollo Industrial, p.65, Arthur D. Little International, Inc.

3.25 Fertilizer, Pesticides and Petrochemical Industry

Fertilizer and pesticides are two other industrial categories which are not individually mentioned in Panama's annual industrial production statistics but are accounted for under the general heading "chemical products for industry". (See table 37).

In the 1979 industrial census, however, 6 firms declared to be engaged in "production of basic chemical products for industry, fertilizer and pesticides"; they employed 170 workers and had a gross annual production valued at US$ 10.9 million. Import statistics reveal annual average imports of fertilizer and pesticides for a total estimated amount of US$ 14.3 million and US$ 20.2 million respectively. Hence also in this sector there appear to be perspectives for further industrial development through import substitution.

The Panamanian petrochemical industry is dominated by one large scale plant, Refinería Panamá, S.A., at Bahía las Minas, in Colon province. This refinery processes Venezuelan crude for the domestic market (an estimated 60% of total output) and for re-exportation; indeed petroleum derivatives figure among Panama's major export items, closely followed by bananas and shrimps (see table 25).1/

Panama counts with an estimated 16 firms producing plastic products (1979 census); they employ 275 workers and their gross annual output was valued at US$ 6.8 million.

1/ it is obvious however that ,since crude oil must be imported, the banana exports generate a higher national value added, and contribute more substantially to the country's economy.

TABLE 38 VALUE ADDED AT 1970 MARKET PRICES PETROCHEMICAL INDUSTRY

(million balboas)

	1981	1982	Variation (%)	1983	Variation (%)
Petroleum refinery and derivates 1/	4.9	5.5	(12.2)	4.9	(-10.9)
Plastic Products	4.6	4.9	(6.5)	5.3	(8.2)
TOTAL	9.5	10.4	(9.5)	10.2	(-1.9)
Share in total industrial Value added (percentage)	5.4	5.8	----	5.8	-----

1/As Refinería Panama, S.A. is a subsidiary of TEXACO, value added is almost entirely based on salaries paid to Panamanian employees, and on indirect taxes.

Source: General Comptroller

3.26 LIGHT INDUSTRY: AGRO-INDUSTRIES AND TEXTILES

Clearly, the food and beverages sector represents the bulk of the Panamanian industrial output. The 1979 Industrial Census revealed that this sector employed 35% of the total Panamanian industrial labour force, while its share in total industrial value added amounted to 42.6%. Both figures give also some indication about the relative Capital intensity and productivity in this sector. In 1983, the contribution of the food and beverages sector to total industrial value added has been estimated at 52%. (See table 39)

TABLE 39: VALUE ADDED AT 1970 MARKET PRICES
Light industries; agroindustries

(million balboas)

	1981	1982	Variation (%)	1983	Variation (%)
Foodproducts (including fodder)	60.4	61.9	(2.5)	63.0	(1.8)
Beverages	22.1	23.2	(5.0)	22.7	(-2.2)
Tobacco	6.4	6.1	(-4.7)	5.9	(-3.3)
TOTAL	88.9	91.2	(2.6)	91.6	(0.4)
Share in total industrial Value added (percentage)	50.4	50.5	-----	52.0	----

Source: Comptroller General

Table 40 gives a more detailed illustration of the structural composition of the Panamanian Agro-industrial sector in 1979, where beverages, sugar refinery and tobacco products take the largest share in total agroindustrial Value Added (26.9%, 21.2% and 14.8% respectively). The same sugar refineries and beverages, but also bakery products, meat preparation and milk products are the major employment creators.

Particularly note worthy are also the high above average "value added per worker"-ratios that are scored in sugar refineries, but specially in the beverages and tobacco processing branches, giving evidence of highly productive and capital intensive production procedures.

TABLE 40 : STRUCTURAL COMPOSITION OF THE AGROINDUSTRIAL SECTOR 1979

(thousand balboas)

	Number of Firms	Output Value (B/.000)	Value Added (B/.000)	Personnel Employed	Value Added per worker B/.000
1.- Abatoirs and meat preparation	16	48,502	4,693	1,120	4.2
2.- Milk products	14	53,430	5,983	1,113	5.3
3.- Canned fruits and vegetables	7	6,768	1,077	260	4.1
4.- Flours and other mill-products	41	56,119	3,937	881	4.5
5.- Fodder for animals	13	19,062	1,242	236	5.2
6.- Bakery products	137	34,128	7,803	1,953	4.0
7.- Sugar refineries	6	70,450	19,244	1,801	10.7
8.- Cacao, chocolate and confectionary	5	5,378	825	131	6.3
9.- Edible oils and fats	4	28,962	2,793	412	6.8
10.- Beverages	29	77,281	24,410	1,067	22.9
11.- Other alimentary products	38	34,895	5,258	947	5.5
12.- Tobacco products	2	25,936	13,453	457	29.4
TOTAL	312	460,885	90,718	10,378	8.7

Source: Industrial Census, General Comptroller

With respect to the future growth potential of the Panamanian agro-industrial sector, it should be kept in mind that agro-industries forms part of an integrated system of "Agro-Business", which includes agricultural production and supplies, and at other end of the chain, an adequate distribution and commercialization infrastructure.

- In spite of the relative importance of the Food processing sector in Panama, its basis, the agricultural production, is not capable of providing raw materials with the required quantity, quality and price1/. As a result, a large part of the raw materials for Panama's agro-industries are imported and the major limitation for further agro-industrial development consists in the inadequate domestic agricultural production. Moreover, a dramatic improvement herein, cannot be expected within the next few years.

- With the exception of the "traditional" export products (bananas, sugar, coffee) Panama does not have an adequate marketing storage, and distribution infrastructure for major export operations of agro-industrial products.

Another, frequently mentioned impediment for the further development of the agro-industrial sector, is the present price regulation policy, which was set up in an attempt to stimulate the agricultural prod., through a system of guaranteed prices, and to provide the products at a "just" price to the Panamanian consumers.

1/ In a special report on the agricultural sector of Panama, the InterAmerican Development Bank concludes that the main problems affecting the growth potential of the sector are:
- the "technological gap" in production methods and techniques
- the low level of development of the agricultural extension services.
- the governmental policy of price support and subsidies for a large number of agricultural products.
- the scarcity and sub-utilization of available land

- Panama has reportedly the lowest agricultural production figures of the entire Central American region.

The present reality, however, gives a different picture:

1.- The Panamanian consumer pays on the average higher prices for the agricultural products, than the ones prevailing on the international markets;

2.- This price support system has not produced the expected incentive for increased agricultural production and productivity, but has kept quite to the contrary, marginal production units in operation ;

3.- The current domestic price structure for agricultural products, makes export operations for Panamanian firms particularly difficult; e.g. refined sugar, an intermediate product that is used in a wide range of agroindustrial processes has a domestic price more than double the international market price....

On the medium and long term however, and assuming that the adequate agricultural policy shifts are made, there are still ample perspectives for agroindustrial development in Panama, through import substitution as well as through export development; in 1981 Panama still imported finished agro-industrial products for an estimated total amount of US$ 58.2 million, while at the present moment the Caribbean Bassin initiative (CBI) is offering perspectives of opening the US market for a wide range of agroindustrial products.

Another potentially interesting field is the one of the non-alimentary agroproducts such as spices, fragrances, ornamental plants and flowers, medicinal plants and herbs, which are at the present moment, practically unexplored in Panama.

Table 41 gives figures for the other important light industrial sector in the Panamanian economy, the textiles sector.

TABLE 41 : VALUE ADDED AT 1970 MARKET PRICES
Light industries: textiles

(million balboas)

	1981	1982	Variation (%)	1983	Variation (%)
Textiles 1/	1.6	1.6	--------	1.6	-------
Garment Industries	15.2	15.4	(1.3)	10.9	(-29.2)
Leather (excep. shoes)	2.0	1.5	(-25.0)	1.3	(-13.3)
Shoes	3.1	3.0	(- 3.2)	3.0	-------
TOTAL	21.9	21.5	(-1.8)	16.8	(-21.9)
Share in total industrial value added (percentage)	12.4	11.9	------	9.5	

Soruce: General Comptroller

While the textiles branch remains at the same activity level, the other components of the subsector, give evidence of sharply decreasing production levels over the last two years. In the case of the garment industry, the plummeting 1983 figures are directly related with the virtual closure of the Venezuelan outletmarket through a strongly devaluated Bolivar currency and through other recently installed import regulations

Table 42 gives some value added fiqures for other manufacturing industry branches, all of which,in general are characterized by declining output levels.

1/ The textiles category contains primarily textile cloth for packing purposes, while the garment category refers to all kinds of clothing articles.

TABLE 42 : VALUE ADDED AT 1970 MARKET PRICES
Other manufacturing industries
(million balboas)

	1981	1982	Variation (%)	1983	Variation (%)
Woodindustries (except furniture)	2.1	2.3	(9.5)	2.0	(-13.0)
Furniture	3.9	3.7	(-5.1)	3.2	(-13.5)
SUBTOTAL	6.0	6.0	-------	5.2	(-13.3)
Share in total industrial value added (percentage)	3.4	3.3	------	2.9	--------
Rubber products	0.3	0.3	------	0.2	(-33.3)
Terracotta and porcelain objects	0.1	0.1	------	0.1	--------
Optical and scientific instruments	0.7	0.6	(-14.3)	0.6	-------
SUBTOTAL	1.1	1.0	(-9.1)	.9	(-10.0)
Share in total industrial value added (percentage)	0.6	0.5	-----	0.5	--------

Source: General Comptroller

3.27 Small Scale Industry

As illustrated higher (table 33), the small scale Industrial sector constitutes an important part of Panama's Industrial sector; 58% of all Panamanian industrial enterprises enter into the category of small scale industries (less than 30 workers), employ 17% of the total industrial labour force, and account for 12% of total industrial value added.

The problems of the Panamanian small scale industrial sector are in typical way the same as in many other developing countries; the lack of a specific small scale industrial policy inverts very often the incentives, created within the framework of a "general" industrial policy, into discriminative mechanisms against the small scale enterprises; e.g. tax free importation of raw materials and production equipment is definitely an incentive for medium or large scale industrial development, but does not reach the small scale entrepreneur who is mostly working with domestic inputs; the eventual imported inputs are then obtained in small amounts and at much higher price, from the network of intermediaries. Moreover, most small scale enterprises do simply not have the capacity nor the time, to comply with the many bureaucratic requirements, in order to qualify for fiscal incentives through a contract with the Government (Contrato con la Nación).

Another example is the labour code, which does not differentiate between large or small scale enterprises; this explains to some extent the high incidence of labour conflicts which are reportedly noted in small scale and less sofisticated enterprises.

Other problems are related with the difficulties to obtain credit;small scale entrepreneurs can often not comply with the guarantee requirements of commercial banks,and are compelled to address themselves to the more accessible informal sector, very often at exorbitant interest rates. The public credit programs for small scale enterprises are briefly discussed under point 3.3, but in general their time consuming and bureaucratic procedures for credit approval discourage the small scale entrepreneurs.

Small scale industrial development, however, remains one of the priorities of the Government. The Ministry of Commerce and Industries is presently carrying out a diagnostic study of the small scale industrial sector in Panama, which should lead to concrete policy recommendations. Government priority to the small scale businesses has to be situated against the present urgent need to create new employment; the average investment cost per job in the small scale business sector is estimated at US $3,500 1/, which is far below the average investment cost per job created for the Panamanian productive sector as a whole, estimated by the IDB at US $ 23,300 2/

1/ MICI estimates, based on the experience of the credit programme of their general Directorate for small scale industries.

2/ Estimated on the basis of a sample of IDB subprojects through the National Bank of Panama (BNP).

3.3 REVIEW OF NATIONAL INSTITUTIONS DEALING WITH INDUSTRY

The Panamanian Government has created a complete institutional infrastructure for the promotion of industrial development which, basically, can be divided into the following five categories: Financial Institutions, Training Institutes, Export Promotion, Investment Promotion and Assistance to Small Scale Industries.

3.31 Financial Institutions

In spite of the existence in Panama of an extensive and well endowed international Banking Center, the Panamanian statistics make it clear that the National Industrial Sector did not yet benefit, to this day, in proportion with the size of the locally present international capital and credit facilities.

At the end of 1981, it has been estimated that only 15% of the Global Credit Portfolio of the Panamanian Banking System (estimated at US$ 20,455 million)[1/] was destined to the internal market, including the credits for the Colon Free Zone. Moreover, within the domestic market, commercial credits show a notable prefence for short term operations with high guarantees; as such, in 1981, 37% of all credits are awarded to commercial ventures, 21% to the construction sector, 18% to the public sector, 15% to agriculture and only 9% to the manufacturing industry, which is equivalent to US $ 283 million. This internal credit structure did not change fundamentally over the last years.

As such he needs for national economic development in general, as well as the special requirements of longer term credit for the agricultural and manufacturing activities, have led the public sector to create a number of specialized financial entities:

- The National Bank of Panama (BNP)

Is the most important public financial Institute, which started a system of long term credit for private industrial activities.

1/ Interamerican Development Bank

TABLE 43: BALANCE OF CREDITS TO THE PANAMANIAN INDUSTRIAL SECTOR AT THE END OF EACH YEAR (1979 - 1981)

(million of US$)

	1979	1980	1981
Total Loans to industries	214	265	283
BNP Loans	28	29	31
% of total	13	11	11
Loans from other Banks	186	236	252
% of total	87	89	89

Source: National Banking Commission.

Although the relative share of the BNP in total loans to the industrial sector has slightly diminished (see table 43), this institution remains the main source for investments in fixed assets for manufacturing enterprises that have no access to the commercial credit system.1/

1/ In this respect the BNP administers, the so called: "Industrial Credit Programme" of the Interamerican Development Bank (Programa de Crédito Industrial BID/BNP), which finances fixed capital formation, (80% of the total-investment) with amortization period of 4 to 12 years (grace period of 3 to 6 years). Credits fluctuate between US $ 15,000 and US$ 60,000, whereby higher amounts require the specific approval of the IDB. In 1982, outstanding industrial credits of the BNP amounted to US$ 46.2 million, representing 11.7% of their total credit portfolio.

- Corporación Financiera Nacional (COFINA)

Is an autonomous development institution, established in 1976 with the main purpose to create and strengthen private, mixed or state-owned corporations engaged in high priority economic development projects, such as manufacturing, tourism, transportation, and the exploitation of natural resources.

COFINA's main function is to promote economic development by granting credit to corporations for the acquisition of fixed assets and working capital and for implementing feasibility studies. The institution is also authorized to issue guarantees for loans granted to corporations operating in Panama by other financial institutions. Furthermore, COFINA's charter provides authority to participate in the risk capital of firms if required by the owners or in projects promoted by other public sector institutions.

In contrast to other public financial entities, COFINA is also authorized to place in the market public issues of its own securities and those issued by other corporations. In order to develop this function, COFINA may support the secondary market for such securities.

The total credit portfolio of COFINA reaches US$ 51 million to a great extent financed by the World Bank, and by Commercial Bank Credit. At the present moment however, a large part of COFINAS' portfolio consists of credits in arrears, and the institution is in a process of structural re-organization and re-orientation.

3.32 Training Institutes

Training for the industrial sector is Panama is shared by private as well as public institutions;

1/ APEDE (Asociación Panameña de Ejecutivos de Empresas) is the main private organization engaged in training mainly at the higher and middle managerial level;

- CESA (Centro de Educación Superior Administrativo) has been established with UNIDO assistance, and has organized specialized seminars for middle management personnel in the field of accounting, commercialization, etc.....

- <u>Training for small scale entrepeneurs</u>, an APEDE/USAID programme, that offers training for firms with less than 10 workers and a turnover of maximum US$ US$ 120,000. Topics of the seminars are general management, accounting, commercialization, etc......

2/ <u>INAFORP</u> (Instituto Nacional de Formación Profesional) is the main governmental initiative in the field of industrial training, mainly geared to vocational training. At the request of firms, INAFORP organizes also in-plant training of workers in specific fields. INAFORP, formerly a dependency of the Ministry of Labour has recently been converted into an autonomous institution , with increased participation of the private sector. This organizational change is expected to improve the effectiveness of INAFORP's training programme.

3.33 <u>Export Promotion</u>

The General Directorate of Foreign Trade (DICOMEX) at the Ministry of Commerce and Industries(MICI) offers assistance to Panamanian enterprises engaged in export activities, in terms of information on markets, prices, tariffs, quotas and other customs regulations. DICOMEX has also carried out specific market studies for a group of selected products with the aim to orient the Panamanian industrialists. In some other cases, negotiations on a bilateral level have been undertaken (as has been the case with Costa Rica), in order to solve specific financing or customs problems. At this moment MICI is considering seriously the establishment of so-called "trading-companies" to contribute to the solution of the commercialization and financing problems which currently discourage Panamanian exporters.

The only financial incentive which is presently offered to the Panamanian Exporter is the CAT system (Certificado de Abono Tributario) which has been extensively discussed under point 3.1.

3.34 Investment Promotion

The fiscal and financial incentives for the promotion of industrial investments have also been discussed under point 3.1. More recently (August, 1982) the Government of Panama established a National Investment Council (NIC), specifically geared to the promotion among national and international investors, of feasible investment projects and joint ventures, and, to the promotion of Panama as a suitable location for international investments. The rather meager results of the fiscal incentive laws during the last decade, have led the Government to the belief that providing information on the comparative advantages of locating in Panama, and assisting the investors with the approval and execution of their investment plans, can be a more effective tool for attracting foreign investment than the liberal use of tax and other incentives. As such the NIC is conceived a "one-stop agency" (i.e. the investor can handle all official contacts through NIC) which covers the complete sequence of actions related with investment promotion, from the attraction of foreign investors and the identification of suitable investment opportunities to assistance during the execution and operation of the investment projects.

NIC orients its promotion actions specifically to the field of labour intensive manufacturing industries, geared to exports and to the field of Agroindustries, where a higher national "value added" can be achieved.

3.35 Assistance to Small Scale Industries

In 1979 MICI established the general Directorate for small scale enterprises (DGPE- Dirección General de la Pequeña Empresa) with the aim to assist small scale businesses in the financial as well as in the technical field. With funds partly form USAID and partly from the World Bank, the DGPE has concentrated on financing the long term capital needs of small businesses; the URBE/AID programme contributed with US $ 3.4 million for loans not higher than US$ 5,000 to small scale enterprises (commercial or industrial) in the interior of the country, while the World Bank Programme (US $ 1.7 million) is exclusively geared to small scale industrial enterprises. In 1982, the Directorate has made loans to 153 projects (60 of which industrial and 93 in the commerce and services sector), for a total amount of US$ 1.8 million, generating an estimated 542 jobs. Of those 153 projects, 89 were aimed at the expansion of existing small scale businesses, and 64 at the creation of new ones.

However, the high ration of "loans in arrears" in the credit portfolio of the DGPE, is presently forcing the Government to reconsider its development strategy for small scale businesses. A new credit formula is being designed which will involve the private banking sector as a risktaker, and transform the DGPE into a "second floor bank", responsible for the follow up of the credits and for the necesary technical assistance to the small scale entrepreneur.

3.4 FOREIGN LOANS FOR THE PANAMANIAN MANUFACTURING SECTOR

3.41 BIRF

- In November 1978, the World Bank approved a loan of US$ 15 million to the Republic of Panama in order to implement a global credit prgramme through the recently established COFINA (Corporación Financiera Nacional) These resources have been used by COFINA to finance fixed assets, permanent working capital and pre-investment studies for private and public sector projects, basically in the manufacturing and agro-industrial sector, but also in sub-sectors such as tourism.

- In 1981 the World Bank approved a second loan of US$ 20.0 million to COFINA, after having advised, and obtained, some changes in COFINA's credit policies and portfolio management, in view of the relatively high rate of loans in arrears and the low overall profitability of COFINA's ventures. (see also point 3.31)

- In 1982 the World Bank approved a Structural Adjustment loan (SAL) of US$ 67 million, with the objective:

  - to support a programme of specific policy changes and institutional reforms designed to achieve a more efficient use of resources and thereby contribute to a more sustainable balance of payments in the medium and long term, and to the maintenance of growth in the face of severe constraints, and to lay the basis for regaining future growth momentum; and

  - "act as a catalyst for the in-flow of other external capital to help ease the balance of payments situation".

The Structural Adjustment Loan is butressed by a technical assistance loan (TAL) for 5 million USDollars, which is geared to provide the new government, after the May 1984 elections, with a set of coherent overall policy options and recommendations on which to base its policy formulation during its early months in office. These options will be based on a series of studies financed by the TAL and carried out by sub-contracted consultancy firms;

- For the Industrial Sector, a study on the "effective protection" is being scheduled; the purpose of this study is to demonstrate how the high levels of protection granted to industry have caused distortions in the country's resource allocation, and have contributed to the development of some industries which are unable to compete in foreign markets. The study will support the relaxation of quantitative import controls as well as the rationalization and simplification of tariffs, and identify the likely effects of various alternatives on particular activities and industries.

- Related to the agro-industrial sector the TAL will finance studies on Panama's agricultural trade and price policies, and on Panama's agricultural institutions; both studies will constitute the basis for Panama's new agricultural policies, which will, in accordance with earlier World Bank recommendations, be geared to:

  - increased exports of agricultural products;
  - a reduction of price controls and producer subsidies;
  - increased productivity through a better transfer of technology and more effective applied research.

3.42 US/AID

In 1978, US/AID approved a loan to the Panamanian Government for the Development of Urban Services throughout the country (URBE Project) which included a credit line of US$ 3 million for loans to small scale enterprises, localized in the Central and Western provinces.[1/]

The credit line was first managed by the Ministry of Planning (MIPPE) but later transferred to the General Directorate for small scale enterprises (DGPE) at MICI. The loans under the URBE project give preference to labour intensive production methods and were approved under soft terms. (see also page 103)

-In 1981, US/AID approved a loan of US$ 5 million, which, together, with an additional Government contribution of US $ 5 million, constituted a creditline for small and medium scale enterprises in Panama; the Programme has been denominated "Planning and creation of employment" and has been managed through the National Bank of Panama. Credits are approved, with special emphasis on employment creation, to the manufacturing, commercial and services sector; it is generally accepted however that this programme has primarly benefited the medium scale enterprises at the expense of the small scale sector.

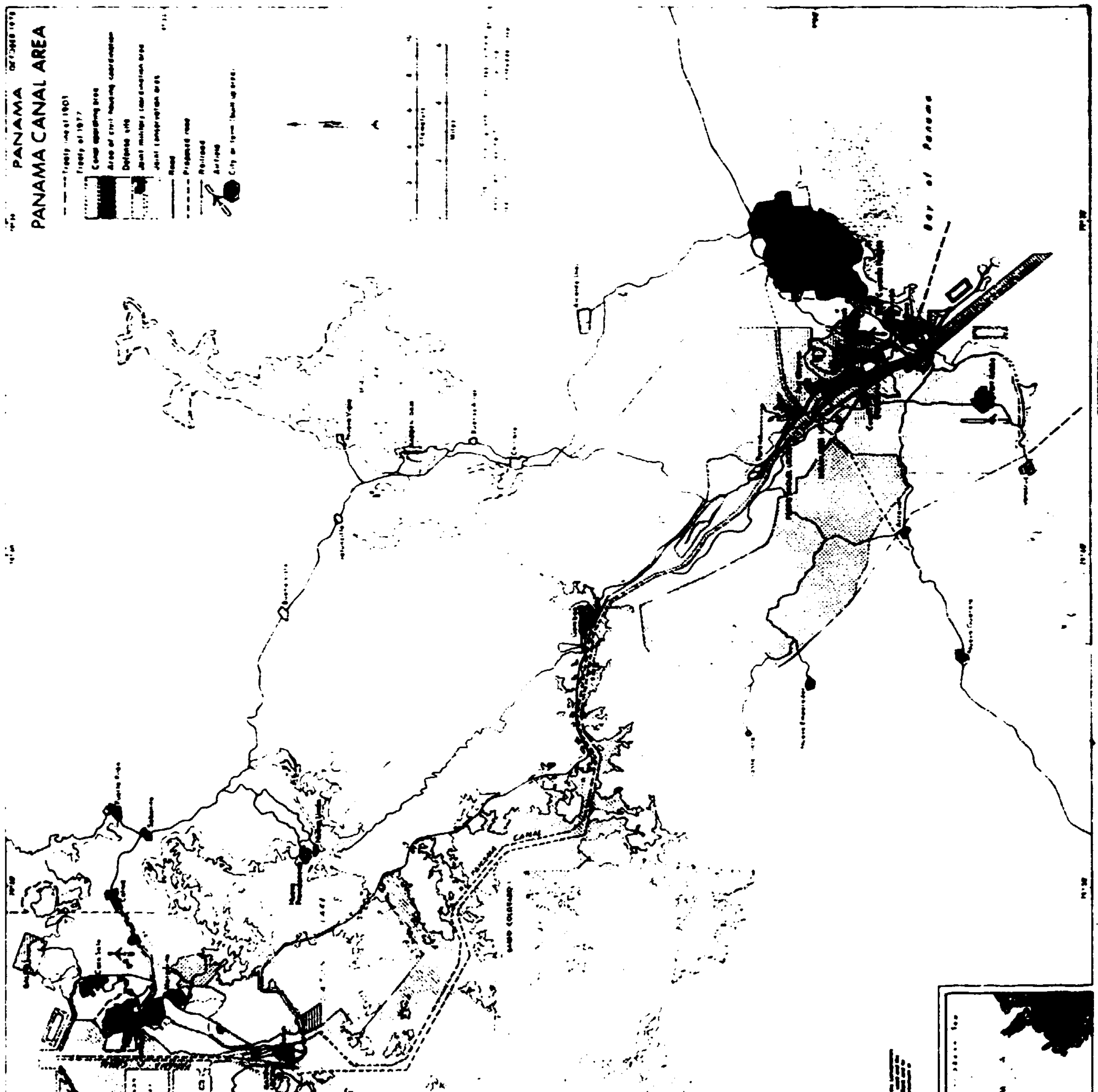
-At the present moment US/AID is negotiating a new loan agreement of US$ 7 million with the Government of Panama, geared to a special credit programme for small scale enterprises; the private banking sector will be involved in the credit decisions, while the General Directorate for Small Scale Enterprises (DGPE) of the Ministry of Commerce and Industries (MICI) will focus upon technical assistance for the small scale enterprises. (see also point 3.27 and 3.35 , page 97 and 103 respectively).

1/ The Development Poles, within the URBE projects include, Aguadulce, Penonomé, Los Santos, Las Tablas, Chitré, Santiago de Veraguas, David, Concepcion and Puerto Armuelles.

3.43 THE INTER AMERICAN DEVELOPMENT BANK

Since 1964 the IDB has approved 5 loans for a total amount of US$ 21 million for the financing of private sector industrial projects in Panama. These funds, complemented with US $ 14.4 million Government contributions, are being managed by the Executive Directorate for Industrial Dvelopment of the BNP. On 31 December 1982, 202 loans had been implemented for a total amount of US $34.4 million, which have contributed to the creation of 86 new industries, and to the expansion of 116 others. Together, these investments have created more than 2,900 new jobs.

ANNEX: THE PANAMA CANAL AND THE PANAMA CANAL TREATIES


PANAMA
PANAMA CANAL AREA
Caribbean Sea
Bay of Panama

4.0 MISCELLANEOUS : THE PANAMA CANAL AND THE PANAMA CANAL TREATIES

Background

On September 7, 1977, President Carter and the Panamanian head of Government, Brig. General Omar Torrijos signed two treaties dealing with the Panama Canal:

- A basic treaty govering the operation and defense of the Canal, extending through December 31, 1999, (The Canal Treaty) and;
- a treaty guaranteeing the permanent neutrality of the Canal (Treaty on the permanent neutrality and Operation of the Panama Canal).

These new treaties provided a basis for achieving a cooperative relationship between the United States and Panama in both operation and defense of the Panama Canal. They replace the U.S. Panama treaty of 1903 (The Hay-Bunau-Varilla Treaty) which governed canal operations since the waterway's construction, and subsequent treaties of 1936 and 1955, which modified some of its terms.

History of the Negotiations

For more than 75 years, Panamanian foreign policy has focussed on the Panama Canal. Panamanians were dissatisfied with the 1903 treaty from its inception. Under that treaty, the United States had total control of Canal operations and administered the Canal Zone, a 1,438 square kilometer area of Panamanian territory. In this area, Panama had titular authority, but the United States had all the rights, power and authority which it would have possessed had it been sovereign of the territory. This arrangement was always deeply resented in Panama, where the conclusion of a new treaty was a longstanding priority. In January 1964, Panamanian dissatisfaction came to ahead, when riots against the United States resulted in the deaths of more than 20 persons. This incident led both governments to appoint ambassadors with sufficient power to seek a prompt resolution of the conflict. Several rounds of negotiations were completed, and the resulting draft treaties rejected before, on 7 September 1977, President Carter and General Omar Torrijos signed the two treaties at a ceremony held at the headquarters of the Organization of American States in Washington D.C.

In accordance with the Panamanian constitution, the new treaties were approved in a plebiscite held on October 23, 1977. The U.S. senate consented to the ratification of the neutrality treaty on March 16, 1978, and the Panama Canal Treaty on April 18, 1978. The Treaties entered into force on October 1, 1979.

Treaty Provisions

- Canal Operations:

The United States is responsible for the operation of the Canal throughout the remainder of this century. In continues to have access to and the right to use land and water areas and facilities necessary for the operation and maintenance of the Canal during the basic treaty period.

A U.S. Government agency, the Panama Canal Commission, operates and maintains the Canal and replaces the former Panama Canal Company. Five North Americans and four Panamanians constitute the Panama Canal Commission Board. Until 1990, the Canal Administrator will be a US citizen and the deputy administrator, a Panamanian; the nationalities will reverse for the final decade of the Treaty period. At all levels, Panamanians will participate increasingly in the Canal's operation in preparation for Panama's assumption of Canal ownership and complete responsability for its operation at the end of the Century.

- Defense of the Canal.

The United States has primary responsability for the Canal's defense during the Panama Canal Treaty's term. Panama will participate increasingly in defense and, at the end of the century unless a new agreement is made, the U.S. military presence will cease.

- Economic factors:

During the treaty's term, Panama will receive the following payments from Canal revenues:

- An annual payment of 30 cents (to be adjusted periodically for inflation) per Panama Canal ton transiting the Canal (e.g. 1981 Canal traffic produced a US$ 57 million payment).
- A fixed annual annuity of $ 10 million.
- An annual contingency payment of up to US$ 10 million in the event that Canal operating revenues exceed commission expenditures and produce an unbudgetted surplus.

Additional revenues for Panama originate from Canal related activities, principally the ports of Cristobal and Balboa, the railroad and the retailing activities formerly handled by the Panama Canal Company. Total extra annual net revenues for Panama have been estimated in 1981 by US/AID study team at US$ 118 million. Panama Canal traffic since then, however, has slowed down (-15% mainly due to the trans-isthmian oil pipeline) so that current actual revenues are expected to be substantially lower.

On the other hand, major financial investments will be needed in order to maintain the existing infrastructure, not to mention the planned improvement and expansion programs in the Canal area. For example, emergency repairs to the Balboa and Cristobal ports and related facilities have to be made, and the railroad requires considerable up grading. At the present moment these costs appear to exceed the anticipated Canal revenues.......

Furthermore, the impact of the transition of the Canal facilities on Panamanian employment is expected to be minimal, since most of the change will reflect merely a change of employer The steady displacement of U.S. by Panamanian employees, called for in the treaties, is offset by the likelihood that a number of Panamanian positions will be lost by the elimination of Canal Organization retailing operations. These will be only partially recuperated by the presumed expansion of retail employment in Panama, to accomodate U.S. personal spending in the country.