PANAMA COUNTRY TEAM

PLAN FOR IMPLEMENTING THE

CARIBBEAN BASIN INITIATIVE

July 16, 1982

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I. INTRODUCTION

The Caribbean Basin Initiative (CBI) provides a number of opportunities to Panamanian business the most important of which is preferential access to U.S. markets. This CBI Implementation Plan is designed to assist the Panamanian private sector to:

1. Respond to these preferential markets.
2. Develop industrial and agricultural capacity to serve other export markets.

Fundamental to the stategies and activities which will constitute the U.S. assistance inputs is the assumption that the private sector, if permitted to operate within a favorable national policy, legal and administrative framework, will respond to the opportunities provided by the CBI. The rapidity and effectiveness of that response, however, will be conditioned by the technological, informational, and resource gaps which now impede production for export markets. The U.S. program will provide support to those governmental and private sector entities which are addressing the various constraints to successful export efforts.

The timing and nature of such support will necessarily be contingent upon Panamanian perceptions of the constraints and the actions of both the Government and private sectors to remove them. Issues are emerging from a continuing private sector/governmental dialogue, institutions are being established, activities planned, analytic processes initiated and measures to remedy production and marketing problems are being developed.

The Country Team has maintained close contact with governmental and private sector entities, and to the degree appropriate, has increasingly supported and participated in the evolution of the Panamanian response to the CBI The strategy and substance of the CBI Implementation Plan has been derived from announced Panamanian initiatives and is designed to strengthen and support those initiatives.

The apparent confluence of governmental and private sector interests is fully consistent with the U.S. country program objectives. The extension of social and economic benefits through efficient private enterprise has been anticipated by the AID employment generation program, and other project elements of the AID's country strategy. The CBI provides an additional tool for the release of private sector energies and substantial employment creation throughout the entire social spectrum.

This implementation plan will build on existing program and institutional resources and will be conditioned by the capabilities and limitations of those resources. The Panamanian program will be successful only if it can elicit appropriate response from the business community. To this end U.S. strategies and actions will help the Government of Panama and the private sector develop program elements and resources that are practical, timely and readily accessible.

II. ASSESSMENT OF THE CURRENT SITUATION

The assessment of Panamanian socio-economic, political and institutional factors which follow highlight the domestic constraints and domestic assets which bear upon the private sector's ability to respond to the CBI and directly relate to the U.S. strategy and action program.

A. The Environment

1. Political Factors

Since 1968 the Panamanian Government has been characterized by an amalgam of populist ideological forces. During its early phase the Torrijos Government supported and organized poor farmers, competed with established private agricultural producers and discouraged production through price controls. In urban policies, there was complex legislation emphasizing Government regulation and the exiling of some businessmen. In recent years, however, fiscal policies have been more pragmatic; production, rather than distribution, has begun to be emphasized and the private sector's role has become increasingly recognized. The facts of economic life have turned the nation's attention to domestic finance, national economic growth and investment--there is an acceleration of interest in the stimulation of business and investment. For example, the U.S. and Panama are presently negotiating a bilateral investment treaty, the first of its kind in the region. Private sector leaders have expressed their pleasure at this turn of events.

The Government of Panama remains generally committed to the continuation of the "revolutionary process" which emphasizes redistribution of national wealth and resources. It seeks to enlist the energies and resources of the private sector in extending that process.

While some Government leaders do not share fully the private sector's pragmatic views, most Panamanian leaders are aware of the need to have a strong private sector supporting their efforts to redistribute the nation's wealth. They appear to recognize the need for an expanding tax base from which to finance various Government programs. There have been significant indications that restraints, either real or imagined, are being removed from the private sector. There are also indications that top GOP officials understand that the revolutionary process cannot be expected to continue without the support and assistance of a vital private sector to complement and finance the work of the public sector.

The Cabinet changes announced in April indicate that the GOP is continuing to turn toward a more balanced approach in its relationship with the private sector, and offer the prospect that the GOP will favor private enterprise even more in the coming years. In addition, the National Guard continues to exercise a strong voice within the nation's political process, and its new Commander, Gen. Paredes, has advocated a strong private sector in the nation's economy.

The CBI has apparently quickened the Governments' interest in accommodating the private sector and has led to a more focused dialogue between them. The Office of the Vice President has assumed the responsibility for directing the efforts of the Government in respect to the CBI and it will clearly continue to receive serious attention at all levels of Government.

2. <u>The Economy</u>

a. <u>Unbalanced Economic Structure</u>

Since the end of World War II, the economy of Panama has undergone a process of structural alteration which has produced a significant shift in the relative importance of the sectors of the economy. While the economy was traditionally based on agriculture, primarily for subsistence serving the needs of a small population, and the industrial manufacturing sector was virtually non-existent, in the last two decades the tertiary sector (services, commerce, transportation and public administration) has greatly increased its share of GDP. In this period the expansion of the agricultural and industrial sectors was limited by the dimensions of the domestic market. However, the establishment of a strong international banking center and of an international free trade zone in Colon; the growth of trade utilizing the Canal and the massive investments made by the Government in the country's infrastructure (hospitals, schools, roads, elecricity and sewage) have transformed Panama into an economy characterized by the prevalence of a tertiary sector with strong international links. The rapid growth of the tertiary sector has not been matched by a parallel expansion of the agricultural and industrial sectors. Efforts to modernize agricultrual production have mainly been directed towards export crops, while yields of crops for domestic consumption have remained relatively stable. Despite a severe recession in the 1970's, which has prompted the beginning of a process of modernization, industry is still basically limited by the dimensions of the domestic market and based on substitution of imports rather than on export growth.

The following Table 1 sets forth the relative percentage contributions of the primary, secondary and tertiary sectors of the economy in 1950, 1960, 1970 and 1980.

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TABLE 1

SECTORS' CONTRIBUTIONS TO GDP

(Percentages)

	1950	1960	1970	1980
Primary Sector (1)	29	23	28	14
Secondary Sector (2)	13	21	23	19
Tertiary Sector (3)	58	56	59	67
	100	100	100	100

NOTES:

(1) Agriculture, fishing and mining

(2) Industry and construction

(3) Services, commerce, transportation, public administration

Source: Comptroller General, Directorate of Statistics and Census

When examined from the perspective of current sector contribution to GDP and employment, the agriculture, services, commerce, and manufacturing sectors account for over 50% of GDP and 70% of employment, with the agriculture and service sectors each employing about 30% of the labor force. The details are shown in the accompanying table.

TABLE 2

SECTOR CONTRIBUTION TO GDP AND EMPLOYMENT, BY ORDER OF MAGNITUDE

Sector	% of 1980 GDP	Sector	% of 1979 Employment 1/
1. Commerce	14.0	1. Agriculture	29.4
2. Services	13.7	2. Services	27.4
3. Agriculture	13.7	3. Commerce	13.5
4. Manufacturing	13.7	4. Manufacturing	10.1
5. Transport	11.6	5. Construction	5.9
6. Finance	7.8	6. Transport	5.4
7. Construction	5.2	7. Finance	3.7
Total	79.7		95.4

1/ Latest available data. Relative positions would not have changed substantially over one year.

Of more interest than the static situation depicted in Table 2 and complementing the changes discussed in Table 1 by primary, secondary, and tertiary categories is the dynamic picture shown in Table 3 of the dramatic shift in the sectors stimulating growth over the thirty year span between 1950 and 1980.

TABLE 3

LEADING SECTOR CONTRIBUTION TO GDP GROWTH BY ORDER OF MAGNITUDE 1/

	Sector	% of GDP Growth 1950-60		Sector	% of GDP Growth Employment 1/
1.	Manufacturing	19.8	1.	Transport	20.7
2.	Services	15.5	2.	Finance	14.2
3.	Commerce	14.7	3.	Services	14.2
4.	Agriculture	13.5	4.	Commerce	12.4
5.	Construction	7.9	5.	Manufacturing	7.2
6.	Transport	5.9	6.	Agriculture	6.8
7.	Finance	3.7	7.	Construction	2.4
	Total	81.0		Total	77.9

1/ See footnote Table 2.

Of the total change occuring in GDP over the 1970-80 period, manufacturing accounted for only 7.2% and agriculture for only 6.8% of GDP, a significant drop from 19.8 and 13.5 percentages of the 1950-60 period. The relatively rapid growth of the transport sector during the 1970-79 period is due principally to the large increase in its storage subsector which reflects the growth in the Free Zone activities. In like manner, the financial sector's rapid rise reflects growth in a particular sub-sector, in this case the banking sector which has received, tremendous stimulus by the GOP since the early 1970s.

In summary, over the past decade the importance of the manufacturing sector as an engine of growth has waned as easy import substitution opportunities have disappeared and as more emphasis has been given to the other sectors, especially finance and transport.

Table 4 also reveals the employment generating effects of each sector over the 1970-79 period, providing a dramatic visual illustration of the service sectors importance in the Panamanian economy over the last ten years.

TABLE 4

SECTOR CONTRIBUTION TO EMPLOYMENT GROWTH DURING 1970-1979 PERIOD 1/

	Sector	% of Empoyment Growth 1970-1979
1.	Services	52.0
2.	Transport	13.2
3.	Manufacturing	11.7
4.	Finance	11.3
5.	Commerce	10.1
6.	Construction	7.8
7.	Electricity	2.8
8.	Mining	0.2
9.	Agriculture	3.6
10.	Canal Area	5.3
	Total	100.0

b. Recent Peformance and Near-Term Prospects

After three years of relatively high growth, economic activity slowed in 1981. In large measure the slow down was due to the effects of world-wide recession, particularly in the hard-hit economies of neighboring Latin American countries, and the resultant decrease in demand for Panamanian exports of goods and services. In addition, the construction boom that Panama has experienced since 1978 finally slowed as a consequence of sustained high interest rates and reduced demand for luxury apartment housing and commercial office space. Current trends indicate slightly lower real growth in 1982, probably less than two percent. High unemployment and low agricultural productivity continue to be serious problems. Panama's success as an international banking center nevertheless continues to grow, with 130 banking entities currently licensed in Panama. The sectors of the economy which advanced in relative importance in 1981 were commerce, banking and other finance, various services, and transportation and communications. The "productive sectors" of agriculture, manufacturing, and construction declined in relative importance.

c. Investment

Total real investment started to fall in 1973 at the beginning of a recession which lasted until 1978. In 1975-76, public sector investment was expanded to compensate for declining private investment. Then in 1978 and 1979, public investment dropped as the private sector recovered. By 1980, total gross investment in real terms had just barely reached the same level as in 1972. By 1981, private investment began to drop again as a new recession took hold. High interest rates and reduced profits are important factors currently inhibiting new investment.

New domestic investment was 23.3% of GDP in 1980, the last year for which data are available. The share of total investment accounted for by the private sector declined in 1980 from 65.2% to 57.2%.

Much of the private investment was not in industry and agriculture but was in financial and other services, commerce, and real estate speculation. In 1980, 57.2% of new investment was in housing and other construction, 12% was in transportation and communications equipment, and only 30.5% was in machinery.

Although credit grew in 1981, the largest rate of expansion was in credit to the public sector, followed by commerce (trade). The lowest rate of growth was in construction loans. Agricultural loans showed good growth, better than in 1980, but loans to industry increased at a slower rate than the previous year. Credit outstanding to agriculture constituted only 6.5% of the total in 1981, and loans to industry comprised only 9.0% of the total.

In the years 1975-78, net foreign investment usually was negative, but in 1979 it turned positive, in the amount of some $49.7 million, according to GOP figures. The bulk of the foreign investment is in the fields of industry, commerce, and agriculture. A much higher proportion of foreign investment is in industry than is locally generated investment. U.S. cumulative investment in Panama was about $1.8 billion in 1980, according to Department of Commerce data ($2.2 billion if investment in offshore firms registered in Panama is counted). This puts Panama in third place, behind only Brazil and Mexico, in U.S. investment in Latin America, remembering that a large proportion is in financial institutions.

d. Investment Climate and Incentives

The climate for foreign investment in Panama is very positive. Government attitudes and incentives encourage foreign investment, especially in sectors which will provide significant employment opportunities for Panamanian workers. Use of the U.S. dollar and the absence of mechanisms for controlling financial transactions guarantee unrestricted foreign exchange flows. This is one of Panama's most important assets in attracting foreign investment. In addition, Panama makes virtually no legal or practical distinction between foreign and domestic private investment. There are no restrictions on foreign ownership of industry, only retailing and certain professions are limited to Panamanian nationals. A number of tax and other incentives are available for foreign investors in such areas as the Colon Free Zone, Financial, Tourist and Industrial Sectors.

In the Colon Free Zone, businesses are entitled to very favorable tax treatment on their external operations, including a maximum graduated income tax of 8-1/2%. In addition, they receive liberal tax credits, based on employment levels, and a 95% income tax rebate during five years for new firms meeting certain investment requirements. Firms are exempted from other types of taxation, except real estate taxes.

In the financial sector, banks are exempted from income tax on international operations. Special provisions safeguard privacy of banking records. In 1976, following its success in promoting the banking industry, Panama established special laws designed to promote growth of a reinsurance center. The law exempts profits from reinsurance on foreign risks from income taxes and local insurance taxes.

In the tourist sector, legislation enacted in 1972 provides broad incentives for investment in tourist facilities, including exemption from import duties on materials and furnishings and exemption from income, property and other taxes. Despite these incentives, the tourist industry in Panama remains relatively undeveloped compared to other Caribbean nations which offer similar advantages of climate and proximity to the United States.

In the Industrial Sector, Panama has promoted manufacturing production through special incentives for many years. The most important incentives offered include: exemption during a contract period from import duties on equipment and raw materials; exemption from income taxes on reinvested profits exceeding 20% of net taxable income; and special provisions for loss carry-over and depreciation. Panamanian law also provides special tax incentives for manufactured and other exports, including total tax exemption based on a system of tax credit certificates.

In addition to the above incentives, in 1979 Panama established a special incentive program for promotion of "light assembly industries". The program is designed for companies which will export their entire production of finished products It is anticipated that such companies will import most of the required components for their assembly operations. The program is administered by the Ministry of Planning and Economic Policy and provides substantial assistance to prospective investors, including completing legal and technical requirements and recruiting labor force.

The United States and Panama are nearing accord on a Bilateral Investment Treaty (BIT) that will formalize rights and guarantees of investors in each of the two countries. The agreement, as currently structured, will cover key areas of interest to existing and potential investors such as national treatment; compensation in case of expropriation; indemnification for war damage; transfer of capital, profits, and funds; and settlement of disputes between parties and between indivivuals and firms and parties. The agreement, when realized, will not only reinforce the position of existing U.S. investors in the already favorable Panamanian climate for foreign investment, but also serve as an additional motivation for new investment. At the same time as the U.S.-Panamanian BIT nears fruition, Panama has initiated a BIT with Great Britain, and is actively working with the Federal Republic of Germany and Japan on similar agreements.

e. Export Sector

As of 1979, a survey of manufacturing establishments in Panama with five or more workers listed 628 such establishments. Total employment in those establishments was 29,547 and the payroll was $110.9 million. Sales value was estimated at $1.2 billion and local value added was $379.8 million. In 1981, manufacturing accounted for 12.9% of the GDP and employed about 10% of the work force. Industry in Panama is mainly oriented toward the domestic market and is concentrated in Panama City, Colon, and the province of Chiriqui. At least half of the output is accounted for by products related to agriculture. By value, the largest industries are in food processing and beverages, followed by metal fabrication, non-metallic minerals such as cement and other construction materials, clothing and shoes, paper and paper products, petroleum products, various chemicals such as soap. detergent and alcohol, printing, and wood furniture.

Between 1960 and 1970, the average annual growth rate of industrial output was 9.0% in real terms. The growth rate fell off in the 1970's, experiencing a steep decline in the recession period of 1974-76, then a resumption of growth in 1977. Industry grew 5.5% in real terms in 1979, 4.0% in 1980, but fell 2.3% in 1981. The drop in 1981 was partly due to the effect of the temporary suspension of oil refinery production that year because of a glut in the world fuel oil market. The rest of the manufacturing sector registered a real growth of 2.8%, versus growth of 6.0% (not including the refinery) in 1980. The drop-off in the rate of growth of manufacturing activity in the last year or so is due primarily to reduced demand for several important export products and to reduced demand for construction materials.

The most rapid growth in recent years has taken place in food processing and beverages (both alcoholic and carbonated) and in clothing. Paper and paper products production has also expanded. Nevertheless, by 1979, output had only regained the level already achieved in 1970. Among the more serious problems industry faces are a small domestic market, strong international competition, and small production units. Outside of agricultural and fishing products such as bananas, sugar, shrimp, coffee and meat, Panama has very few other significant exports. The largest manufactured export is clothing, which has shown sustained expansion in the last several years, growing from a value of $8.6 million in 1978 to $14.0 million in 1981, and moving into fifth place in 1981 among Panama's exports. Other important processed or manufactured exports include petroleum products (mostly fuel oil residual to the refining process), condensed milk, fish meal, fish oil, banana puree, rum, paper products such as cartons, leather products, canned seafood, mayonnaise, mustard, and tomato products.

Other than beef and repairs to vessels and aircraft, there are few identified production services (non-GSP, non-duty free, non-textile) that could benefit from a one-way free trade zone as proposed under the CBI. No locally manufactured export of this type to the United States exceeded $50,000 in 1980.

f. Potential for Expansion of Non-Traditional Exports

Probably the most important opportunity for Panama is the establishment of more light assembly industries, such as those under a "Maquila" program. Panama's Maquila Program has been in existence for several years, but has produced only modest success. The program provides for a wide range of tax and other incentives in order to stimulate labor intensive industries. It allows businesses which establish production operations to be exempt from certain import duties and taxes, provided that the products are sold out of Panama. To date about a half dozen firms have been established under the program, the largest of which is a factory making women's undergarments. Panama has many advantages in comparison with other countries in the region, such as absence of exchange and repatriation risk and relative political stability. One interesting possibility is the development of a Far East-Panama-United States investment and trade triangle, with the establishment of assembly industries in Panama by Far Eastern firms for export to the United States. This could be an important supplement to investment attracted from Europe and the United States and could be expected to grow in the future as several countries in the Far East develop higher technology products and encounter increased labor costs.

Panama could also seek to take advantage of opportunities presented when products from various countries lose GSP eligibility due to exceeding competitive need limitations.

Further expansion of agro-industry and food processing for export has good potential. Besides agricultural products, seafood processing could be expanded significantly and efforts are underway to attract more investment in this area. Frozen and processed meat, fruit and vegetable products not now exported, and spices and condiments have good potential.

Another comparative advantage for Panama is its geographic location and huge volume of ship traffic through the canal. Expansion of ship and aircraft repair facilities serving international customers, such as the drydock and repair yard now being expanded under the management of a French firm, and other marine services offer special possibilities.

The major factors tending to restrict further development of export industries probably are labor laws and attitudes, governmental pricing and subsidy policies, governmental bureaucracy, and possibly, disadvantageous freight rates. The labor practices are most frequently cited by visiting businessmen as reason for not locating manufacturing activities in Panama. Labor costs may be higher than a few countries in the Caribbean Basin, but probably not much out of line with most of the others. Panama's minimum wage for unskilled labor is 75 cents an hour in metropolitan areas and 65 cents in the interior. A major disincentive is a perceived lack of consistency and fairness in application of GOP labor laws and regulations and difficulty in using the appeal process. This situation has improved recently, however, with new leadership in the Ministry of Labor and increased governmental efforts to improve its relations with the private sector. Price control policies are becoming more flexible , and in any event, these controls do not apply to exported products. The establishment of a one-stop investment promotion center (National Investment Center) should help in overcoming any bureaucratic obstacles presented to foreign investors. If this agency also is willing to extend assistance to enterprises already established in Panama the result could be a sharp reduction in complaints about difficulties in dealing with the bureaucracy. Apparently conference freight rates are somewhat high for shipments to and from Panama and the United States, especially in comparison with some competitor nations. Conversations with local shipping agents indicate that the rates are highly negotiable and that an exporter should be able to obtain an attractive rate on request if he plans to ship in quantity.

g. Government's Role in the Economy

Water, power, and telecommunication services are state-owned, along with some financial services (the Banco Nacional, a savings and mortgage bank, and agricultural and industrial development banks). Also state-owned are the railroad, port facilities, the national airline, a bus transport company (although most public transportation remains private), some tourist facilities, the National Casinos and Race Track, and the Colon Free Zone.

The Government owns two industrial operations, the La Victoria Sugar Corporation and the Bayano State Cement Enterprise, and operates Citricos de Chiriqui, a large juice concentrating plant and citrus growing operation. In the agricultural field, the Government distribute grains (except wheat) and some vegetables through the Agricultural Marketing Institute. It also owns a flour mill, a meat processing plant, banana planations and has been involved in the formation of collective farms and cooperatives.

The Government's current policy is not to expand any further than necessary into areas that are traditionally thought of as belonging to the private sector, although it continues to enter into partnerships with private foreign investors for the development of large projects, such as the Trans-Panama Oil Pipeline and the proposed Cerro Colorado Copper Mine.

The GOP has indicated that it would like to sell or otherwise dispose of some of its less profitable enterprises, such as the Contadora Island Hotel, an oil palm plantation project, and the National Machinery Corp. It already has closed its Pacific Banana operation. Others such as the large La Victoria Sugar Corporation are important employers and cannot be phased out in the short term, although current policy is to examine various alternatives and, if possible, to move in that direction.

h. Longer Term Prospects

In view of the limited domestic market the development of export industries, such as light assembly, manufacturing and agro-industry is receiving much attention. GOP policies are developing in directions appropriate to achieving this objective. New incentives for investments in both industry and agriculture have high priority, such as concessional finance to small and medium businessmen and farmers, and establishment of industrial zones. A major effort to attract more foreign investment is being prepared. In agricultural policy, there is a movement away from the priority accorded in past years to collectives toward provision of credits, re-establishment of agricultural extension services, and promotion of improved technology.

An agricultural incentives law now under consideration aims to promote investment in this sector through tax incentives and other measures. There is also consideration of revising the system of import quotas in favor of a rationalized tariff system.

In general, a shift of emphasis to the private sector is evident. This has been confirmed in recent policy statements by Government officials and by the recent round of Cabinet changes. Some changes in the price control system are being attempted although there are no plans to abolish price controls altogether. Milk price increases recently announced evidently are part of this new flexibility.

Panama is in a good position to take advantage of the opportunities offered by the CBI through its geographic location, good port facilities and other infrastructure, its monetary system and absence of exchange or convertibility risk with respect to the U.S. dollar, its banking center, the Colon Free Zone, its pool of educated manpower, and its attractive political and social climate.

Financial management should continue to be conservative over the next few years. Continued high interest rates and a drop in anticipated tax revenues due to the economic downturn probably will force even greater budgetary austerity. The GOP has engaged a consortium of financial advisors and is heeding their advice, along with that of the IMF.

3. Labor

Of a total workforce of about 550,000 more than 20% are employed by Government. Agriculture and industry, the sectors on which the CBI is expected to have most impact employ only 29% and 10%

respectively. The industrial labor force numbering only about 53,000 counts only about 34,000 of its members as permanent employees. The trained industrial labor pool is thus small and will undoubtedly constitute a bottleneck in industrial expansion. Such expansion is expected to be the main absorber of the unemployed who now are estimated by USAID to number close to 100,000.

While such a national rate of unemployment is in itself cause for concern, large pockets of higher unemployment dot the urban areas. In Colon, for example, unemployment may be as high as 25%-35% of the workforce. In 1979-80, an AID survey in four low-income neighborhoods in Panama City and Colon found unemployment rates among low-income families of almost 40%. Unemployment, at 24% for this survey sample as a whole, rose to 39% for individuals from families with per capita incomes of $500 or less. For women and young people unemployment rates were 45% and 65%.

Although policies and programs to reverse growing unemployment are now beginning to take shape, the workforce is growing, nowhere more so than in the metropolitan area surrounding the canal. As a result of a declining birth rate, from over 3% in the late sixties to an estimated 2.2% in 1980, the labor pool is growing faster than the non-working population (under 15 and over 64). Therefore, whereas the labor pool was 53% of the population in 1970, by the year 2000 it will be in the 63-67% range. The economically active population (which is about 60% of the labor pool) is forecast to double in the 25 year period, from 537,000 in 1975 to 1.1 million in 2000.

The metropolitan area will soon comprise half the nation's population -- and no abatement in urban migration is expected. According to the latest, probably understated, official data, some 58% of the total national economically active population is located in the Metropolitan Area.

Three factors presently work to keep unemployment high; the first is the impact in Panama of the 1975-77 recession, caused in part by worldwide dislocation due to sharp increases in OPEC's oil exports, but also by a drop in domestic investment resulting from unfavorable reaction to a series of Government policies (e.g., price controls, labor code, exiling of business leaders) and leftist rhetoric. Not until 1979 did the economy reattain 1974 employment levels, while the EAP steadily increased. The second factor, already mentioned, is population growth and growth of the labor pool. The third factor, is the relative capital-intensivity of the economy and the policies which govern it, which translates into fewer jobs per dollar invested.

Using alternative assumptions about the GNP growth rate, it appears that if unemployment is to be held at reasonable levels, the economy must average an annual GNP growth rate in excess of 8%. At a growth rate of 6%-8% GNP the nation could absorb sufficient labor only by increasing its labor-intensity. Failure to achieve growth rates under conditions noted above could bring about unemployment rates ranging from 10%-29.5% over the 20 year period from 1980 to 2000. The 3.6% GNP growth rate experienced in 1981 and the lower rate predicted for 1982 fall far short of meeting the employment requirement.

Information concerning the supply of skilled labor is not readily available, however, it is generally assumed that skilled workers are in short supply.

Labor productivity is another area in which reliable statistics are not available. The Panamanian work force is, however, considered to be as productive as the work force in other Central American countries. As shown by the recent record production levels of the Panama Canal Commission, the Panamanian worker is responsive to incentives. Informal comparisons of a Panamanian plant with a nearly identical plant in Costa Rica show slightly higher per worker output in Panama.

Although only 15% of the workers are unionized, unions are politically influential. Unions have concentrated their organizing efforts in the transport and service sectors of the economy, but with strong support also in the banana plantations. Some important sectors, such as banking and the Colon Free Zone, are not well organized.

Minimum wage rates are established by the Government, and differ on the basis of type of industry and geographic location. While this gives the Government a strong role in the wage setting procedure, collective bargaining plays its own important role in certain industries. The present minimum wage in the Panama City/Colon area is $0.75 per hour. In the rural area it is $0.65 per hour. In July the minimum may be increased to $0.95 per hour. Most industries tend to pay slightly higher hourly wages than the minimum for unskilled workers.

Fringe benefits, many of which are legal requirements of the Labor Code, add approximately 40 to 45% to the average wage costs.

Little information is available on work conditions and the industrialization climate, especially on a sector by sector basis. Compliance with the standards of protection offered to the workers by the Labor Code is generally considered better by foreign-owned industries than by locally owned companies, perhaps because of stricter regulation by the GOP of these standards in foreign-owned enterprises.

4. Finance

The financial sector is well developed in Panama. As in many developing countries, there may be a shortage of venture capital and long-term credits, as well as credits available to the small business sector. On balance, however, financing is not a constraint to the expansion of exports.

a. Financial Services Sector

The International Financial Center was legally established by Cabinet Decree No. 238 of July 2, 1970. This decree reformed the banking system and created the National Banking Commission to regulate the system.

The financial sector in Panama has been the most dynamic and rapidly growing sector in the economy. During 1981 it grew 22.1% and constituted about 9.2% of the total Gross Domestic Product (GDP). The number of banks licensed to do business in Panama increased to 130 and the total assets of all the banks rose to over $46.3 billion by the end of 1981.

Panama does not have a stock market and bonds are used in a relatively limited manner. Financial intermediation is done within the offshore banking system, directly on a bank to bank basis.

Of the 130 banks in Panama, 65 have general licenses which permits them to do business both inside and outside of the country. About 30 of these participate actively in the local market while the rest do it in a limited fashion.

Prior to 1981, local loans had to be partially financed from external deposits in the banking system because of limits in the availability of funds. During the first quarter of 1981, a new phenomenon took place and local deposits were sufficient to cover entirely local loans. By December 31, 1981, Panama has resources valued at $46.3 billion of which $3.146 billion are placed in local loans while $3.201 billion are local deposits. This trend reflects the continued economic and political stability which has occurred after the signing of the Panama Canal Treaties, and investor preference for high yielding time deposits over riskier investments.

As the largest volume of domestic loans are made for trade and commerce, the commercial banking sector is accustomed and structured to handling short term working capital loans. Government financial institutions are the principal source of medium and long term funding, in particular to small and medium enterprises.

b. Agricultural Credit

In the agricultural sector, one problem has been difficulty in obtaining medium and long term funds . The short term commercial credit extended to the agricultural sector comes from a limited number of private banks (Bank of America, Chase Manhattan Bank, Banco Fiduciario and Banco de Colombia), which lend on a commercial scale, primarily for production, processing and marketing of such products as sugar, rice, coffee and beef. Medium and long term credit is supplied almost exclusively by the official agricultural development bank, Banco de Desarrollo Agropecuario (BDA) and the Banco Nacional de Panama (BNP). In the period 1976-80, total bank credit to the agricultural sector increased at an average annual rate of 4.9% (nominal rate). In addition, commercial bank credit to the agricultural sector grew at an average annual rate of 1.3% from 1976-80, which represents a negative rate of growth in real terms.

In 1974, USAID/Panama granted a loan for $8.1 million (Project 525-T-041), which consisted in the establishment and operation of a cooperative revolving fund with the BDA to provide credit for three established federations of cooperatives in Panama.

In 1982, the Interamerican Development Bank (IDB) provided a $29.5 million loan to the BDA oriented toward meeting credit requirements for agricultural and livestock producers.

In 1977 the BNP, received a World Bank loan for $8.0 million, in order to continue the livestock development program that began in 1973. In 1979, the World Bank approved an Agricultural Credit Program amounting to $19.0 million for coffee, cocoa, oil palm and banana, which included a special component for irrigation and draining.

The National Banking Commission is presently interested in establishing a private agricultural bank to channel funds from the different banks who themselves do not have the administrative capacity and expertise to manage a program due to the specialization required in this activity.

c. Industrial Credit

The commercial banks in Panama generally prefer short-term trade credits, and are normally reluctant to provide longer term financing for fixed assets, although some of the banks do provide medium term (3 to 5 years) credits for their largest and most reliable customers. Most of the loans granted by the banking system for industrial purposes have consisted of short term credit for working capital, or to finance purchase of raw material and other inputs required by companies for production. Industrial term lending is basically undertaken by two GOP-owned institutions, the Banca Industrial window in the BNP and the Corporacion Financiera Nacional (COFINA).

The IDB has collaborated with the GOP since 1964 through 5 loans granted to the BNP to help develop Panama's private industrial sector. In the period 1977-79, the BNP approved 123 industrial loans for a total of $9.6 million and in the first half of 1980, BNP's industrial lending increased sharply to $8.2 million for 24 projects.

COFINA has recently received a $20.0 million loan from IDB and with these resources it will primarily finance fixed assets, leaving working capital finance to the commercial banks. COFINA will concentrate on the financing of manufacturing industries.

COFINA was created as an autonomous Government owned financial development company in December 1975, to promote and finance productive industrial enterprises in accordance with the Government's national development plan and to encourage increased commercial bank financing of industry through cofinancing. Almost all of its projects have been in the private sector and its gross approval of loans and equity investment totalled 35.9 million in 1981.

IDB has estimated that over the 1981-83 period, total industrial investment in Panama, excluding large projects may be about $165 million, of which $20.0 million will be covered by the BNP, $60.0 million by retained earnings and equity contribution, leaving uncovered demand for funds of $85 million, to be provided by the commercial banks and COFINA.

The private sector has an Industrial Development Institution (DISA) which was created for the purpose of channeling medium and long term resources to private enterprises. DISA was established in 1963 by a group of Panama's leading industrialists and businessmen who raised $1.0 million in capital and received a $5.1 million soft rate term loan from AID. Active at the outset, DISA soon applied for and received additional funding in 1966 with the drawdown of a second loan for $4.0 million from AID.

DISA's principal market tool is to make medium and long term loans at special fixed rates; in addition, they are able to participate in equity. Unfortunately, it scarcely operates, principally because Decree No. 62 of February 1971 set an industrial development loan interest ceiling at 9% for DISA.

d. Trade Finance

Most of the credits approved locally are directed to commerce and a large portion of these goes to firms established in the Colon Free Zone. As can be observed in the following chart, 38% of the internal credit balance is utilized by the commerce sector.

Balance of Internal Credit Outstanding by Activity

December 31, 1981

(In millions of dollars)

Public Institutions	$ 572
Financial Enterprises	77
Agriculture	89
Livestock	104
Fishing	11
Commerce	1,196
Industry	283
Housing	512
Other Construction	147
Personal Consumption	150
TOTAL	$3,141

Source: Comision Bancaria Nacional

(1) Trade Flows

(a) Exports

Historically the U.S. has been the recipient of nearly 50% of Panama's exports. The figure rises to 65% if the exports to the Canal Area are included. The neighboring five Central American countries, with Costa Rica and Nicaragua the most important, receive 13%, while the rest of the Caribbean Basin including Mexico account for just 5%. The South American countries led by Venezuela, Colombia and Ecuador receive an even lower 3%. Outside of the Americas, except for a few exports to Saudi Arabia, Japan and Siria (less than 1% of exports), the remaining 13% of Panamanian exports are shipped to Europe. Africa and Oceania account for less than .01%

As with most developing countries, Panama depends upon a small number of basically primary products for export. Twelve products provide 84% of all export revenues. Within the group of twelve, the four products bananas, shrimp, sugar and petroleum products provide 72% of the export revenue. Coffee, clothes fish meal, canned milk, lobster, fish oil and rum supply the additional 12%. These four products account for 63% of the export revenues received from all other countries.

The first four products mentioned above provide Panama with 87% of the export revenues received from the U.S. For all other countries the figure is 63%.

(b) Imports

On the import side, the U.S. again dominates, providing Panama with about 33% of its imports. Asia follows at 28% with Saudi Arabia oil accounting for most of the expenditure.

Presumably this will be changing as the San Jose oil agreement with Mexico and Venezuela goes into full effect. As in the Saudi Arabian case, Panama's oil imports from Venezuela place South America in third place with 14% of the imports. The five Central American countries supply just 5% of Panama's imports while the remaining countries of the Caribbean Basin provide 11%. All of Europe supplies just 8%, and Africa and Oceanic together supply less than 1%.

e. Export Financing

At the regional level, the Banco Latino de Exportaciones (BLADEX) which is a multinational consortium bank, provides pre-export and export financing on a short and medium term basis. BLADEX was legally constituted in September 1977 and commenced operation in January 1979. As of June 1982, BLADEX had $1.1 million outstanding in short and medium term credits or loans in Panama. BLADEX is willing to increase its exposure in Panama through its sharedholder banks, but is dependent upon feasible export projects. BLADEX does not provide financing to industries in the Colon Free Trade Zone and thus is somewhat constrained by the limited number of export industries currently operating in Panama.

B. Public and Private Institutions

1. GOP Policies and Institutions

Since 1976 the GOP has given intermittent attention to measures designed to stimulate investment in the private sector, primarily through fiscal incentives to attract light industry. Among the incentives are complete exemptions from: import duties, mandatory contributions, taxes on machinery, equipment and spare parts used in the assembly process; import duty exemption on all raw materials or semi-finished components used in the assembly process; total income tax exemptions, including any capital gains or income generated by exports. One of the principal aims of the fiscal incentive package is to make the Republic a processing as well as a distribution center. To further stimulate the location of light assembly in Panama, the Government grants "in bond" licenses for assembly plants anywhere in the Republic so that these can be located near available labor pools outside urban areas.

The light assembly program (Maquila Program), which started in the first quarter of 1979, had seven companies with signed contracts by the end of June 1980, for a total investment of $24.4 million and the creation of 1,612 jobs. Negotiations with twelve foreign firms are currently taking place.

As an encouragement to export industry, GOP regulations provide for granting negotiable tax credit certificates valued at up to 20% of the value added in the production process. The regulations have recently been amended so that these certificates are now fully negotiable nine months after their date of issue. Legal and administrative measures have been approved to promote the export of meat, sugar and other products.

The response by the private sector to the incentives of the 1976-80 period has been less than might have been expected due to the antagonism that developed between the private and the Government sectors in the early 1970s over the latter's incursion into private sector activities (e.g., nationalization of the utility companies, and financing of state cement and sugar industries) and the promulgation of a very pro-labor Labor Code. Eliminating the suspicions and doubts, which inevitably arose as a result of these incursions, has been a slow and difficult process for the GOP. Since 1981, however, there have been unmistakable signs that the Government and the private sector are moving toward a workable relationship: the Labor Code has been favorably amended and both sectors have begun a series of dialogues that augur well for rapprochement.

Not in recent memory has a Panamanian Government taken such an active role in presenting and explaining its new budget, and future investment and development plans to the nation as it did with the 1982 budget. Newspapers carried a series of articles explaining the plans, costs and benefits. And, underscoring the importance the GOP places in gaining acceptance and cooperation among the many elements of society, high Government officials, with the Vice-President taking the lead, took the message directly to leading financial, industrial, business and labor groups, many of whom have been openly skeptical of Government intentions in the past.

While it is unlikely that the GOP will ever consider totally eliminating price controls and interest rate subsidies, there is an apparent commitment to improve these policies. The GOP is keenly aware of the problems that price controls can create and have created in Panama. Yet, it also recognizes that a small economy like Panama tends to contain monopolies and oligopolies which require some regulation.

Several plans for establishing a new pricing policy are circulating within the GOP.

The GOP has recently intensified its interest in export industrial development. It is reviewing the capabilities and limitations of the existing institutions and programs which bear upon the export sector; and is seeking to establish new institutions and coordinating mechanisms to improve public sector performance. In pursuing these interests it is continuing to consult with private sector representatives and with international organizations. Recent Government initiatives include the following:

- Agricultural Policy Development: Several initiatives are being undertaken or being designed. Principal among them is the upgrading of MIDA's planning division capability to analyze the impact of pricing and other policies.
- Issuance of MIDA's Basic Lines of Action, in which concern for the entire food system and the institutions that service it is manifested. This is an important change from past programs which tended to focus on food production problems in isolation.
- Issuance of a Draft Agricultural Incentive Law which recognizes the need to make the sector responsive to market forces and private investment.
- Creation of a Small Scale Enterprise Extension Service. The BNP is initiating technical extension services for small-medium businesses to strengthen their technical, financial and sales and management procedures.

Employment and Industrial Policy Review and Development: Through a BID-financed industrial sector study, industrial policies will be examined to assess changes needed to attract more investment. Price and interest rate policy analyses will be key elements of the study; through the Policy Analysis and Research Systems (PARS) unit, a series of economic policies studies relating to investment and employment will be defined in order to provide recommended solutions to the Executive and Legislative Branch of existing constraints.

Institutional modifications also appear on the Government agenda. As a result of a GOP funded feasibility study, a proposal has been advanced for the establishment of a National Investment Council (NIC) which would provide a "one stop" service to private investors governed by a board consisting of Government and private sector representatives; it would have research and policy formulation functions and offer a continual formal channel for governmental/private sector interchange. A budget, reportedly, has been approved for the agency, and it awaits the appointment of a chairman before beginning to function. It has not yet been decided whether the NIC will be an operational or coordinating body. The functions which it may control are at this time dispersed throughout several agencies.

An export promotion function is carried out in the Ministry of Commerce and Industry (MICI), in a department which also has a foreign investor search function. Although the division has overseas representatives in Zurich, Tokyo, Miami, Los Angeles and Washington, these are generally non-professional. The Agency is basically passive, in that it responds to inquiries generated by a UN funded network and the International Trade Center in Switzerland. It publishes the substance of these inquiries in a weekly paper which is distributed to the industrial community. Companies which invest under the provision of laws administered by this department may receive export bond payments.

The Maquila Program also has export industry promotion functions. It provides special incentives, such as exemption from certain aspects of the Labor Code, a "one stop" investor assistance, service assistance in acquiring access to finance and in compliance with export formalities. Firms investing in Panama under the provisions of the 'Maquila Law" are not eligible for participation in the export bond program. This ineligibility has limited the attractiveness of the Maquila Program to investors, but the organization has provided excellent and rapid service to foreign firms who have used its facilities and is well regarded by those firms.

The export promotion and investment promotion activities of MICI and Maquila are underfunded and understaffed. Their absorbtion into the NIC has been proposed, but counter proposals have also been advanced which call for the absorption of Maquila by MICI and coordination of MICI by the NIC. Consideration is being given to strengthening both Maquila and the MICI Export Promotion Department so that they will be effective instruments in any event.

The recently established Policy Analysis and Research Unit (PARS) within the Ministry of and Commerce Industry is also being considered for integration into the NIC. The analysis and research undertaking planned by the PARS have since the CBI been increasingly focused on those areas of inquiry which may bear upon Panamanian ability to export competitively.

COFINA plans to establish a discount window for export loans made by commercial banks. A local consultant is preparing a project paper which will provide the basis for a loan request to IDB for funding of the window.

2. Private Sector Organizations and Activities

Panama's Private Sector Organizations (PSO's) are grouped in a relatively sophisticated network which effectively represents the full spectrum of business interests. Prior to 1968, these organizations worked closely with GOP institutions towards the improvement of business conditions related to their specific activities. Membership was limited mainly to the larger better capitalized companies that could afford to belong. High Government officials were on the whole drawn from these groups and the upper stata of professionals, thereby providing a natural and continuous link between the two sectors.

With the establishment of the Revolutionary Government and the subsequent proscription of political parties, cooperation faded. GOP institutions were reorganized to reflect the aim of the Revolution to effect socio-economic development through direct Government participation in all sectors. To open the way for this new system, legislation was enacted from 1969-1974, which substantively restricted market forces and business practices. Oppressive price controls were put on everything from beef to lumber. Rents on residential and commercial properties were frozen and existing contracts had to be modified to agree with new laws and regulations. A complex and productivity-limiting Labor Code was enacted into law. This tended to exacerbate labor unrest and, in some cases, contributed to collapse of previously profitable companies.

These legal and fiscal uncertainties forced the business sector to look to the PSO's for leadership and help, in moderating the Government's position. The 1973-74 construction slump and record high interest rates intensified tensions. PSO membership increased rapidly and attendance was high.

The Camara de Comercio, Sindicato de Industriales (SIP) Asociacion Panameña de Ejecutivos de Empresa (APEDE) and Camara Panameña de la Construccion (CAPAC) became meeting places where businessmen could exchange information and devise unified responses to the evolving policies of Government.

The PSO's united under the Consejo Nacional de la Empresa Privada (CONEP) which became the frontline bargaining representative for business on major issues, while the individual PSO's represented the more specific interests of their memberships.

As friction declined and businessmen learned to work within the new framework attendance at meetings dropped but membership continued to grow as new investments began slowly to be made. At the same time prominent businessmen and professionals went into Government service and worked to improve the business environment.

Today, the PSO's are surprisingly active and positive organizations led by a new generation of managers and proprietors tempered by a decade of interaction with their Government and by the problem of worldwide inflation.

Following the legalization of the political parties in 1979, and a series of Government actions intended to accomodate the private sector, the Government has taken steps to intensify the dialogue with the private sector, through their representative organizations.

The Vice Presidency has invited PSOs to review the Government's Investment Plans for 1982-86; the Ministers of Agriculture, and Commerce and Industry held a day-long conference, attended by the President, to explain to the private sector 1982 plans of the public sector agriculture agencies. The President of the Republic has met with the Inter-American Council of Commerce and Production (CICYP) to discuss economic development and collaboration; high Government officials (Ministers, Ambassadors and heads of autonomous institutions) have participated in the Annual Conference for Business Executives, explaining their programs and projects. Moreover, a program is under development to stimulate and coordinate private investment through the creation of the National Investment Council, which will include PSO representation. In fact, the Private Sector Organizations now have such an active role in GOP policy making, that it is important to know and understand their particular areas of interest. A short background on each PSO follows in Annex 1.

C. <u>Resources</u>

1. <u>USAID Programs</u>

Ongoing projects are supporting the development of industrial sites, the analysis of employment and investment policies, the better coordination of manpower information systems and the improvement of the administrative and human resource capabilities of key institutions within the Ministry of Commerce and Industry that have the responsibility for carrying out CBI related activities. Proposed activities for FY 83 and FY 84 will improve private and public sector investment and export promotion programs as well as the skills of the workforce. (For more details see Annex 2.)

2. Other Programs and Resources

For information concerning activities in Panama of the U.S. Department of Commerce, OPIC, Ex-Im Bank, etc., see Annex 2.)

III. STRATEGY AND ACTION PROGRAM

A. Introduction

Based on the assessment described above, a number of constraints to increased trade and investment have been identified. The principal constraints include: governmental regulations and controls which often have lead to subsidy pricing; governmental bureaucracy and red tape; weak institutional support for export businesses; labor laws which are very protective but also not always consistently and fairly applied; the relatively small pool of trained industrial labor; high shipping costs; and the commercial/services base of the Panamanian economy and the resultant inexperience of the Panamanian manufacturer in serving export markets.

These constraints appear to flow from two strategic considerations. The first, which as pointed out in the assessment section has been changing significantly over the last several years, is the residual effects of the Revolutionary Government's antagonism upon first taking power toward the private sector. The private sector was viewed as the elite of society trying to maintain an unacceptable status quo in opposition to broad-based social progress. Consequently, there are laws or elements of laws passed in the early days of the revolutionary process which continue to serve as irritants in the relations between the private sector and the Government and impediments to investment.

The second, which requires additional Mission research, is the import substitution strategy which Panama has been following through the late 1960's and 1970's. In order to stimulate a manufacturing industry in a small domestic market, new enterprises, usually those manufacturing previously imported products, were given protection from foreign competition through import prohibition or quotas and protection from domestic competition through formal assurance that competing firms would not be given similar incentives and protection. The result was the creation of dominant firms with an assured market. To protect the consumer it was then necessary to establish price controls. These firms furthermore have become confortable with their market and see no need to take the risk and effort to move into exports. This hypothesis and its full implications need to be confirmed and further analyzed. The Government is beginning to change elements of its import substitution strategy, namely its import protection policy. In addition, it has stated at the highest levels that it wishes to promote exports. However, it is unclear at the moment that the GOP has a coherent strategy.

Despite the constraints listed above, Panama has a series of positive advantages for increasing trade and investment directed at U.S. and other foreign markets. It is the only country in Central America that is successfully maintaining social peace. It has successfully managed its financial affairs at a time of falling export prices, rising import prices and a stagnating world economy. It has a relatively strong private sector; good basic social services; a strong banking and financial base; and good public service and transport infrastructure.

The strategy outlined in the next section of this document is designed to take advantage of these positive features and to encourage the Government and private sector to address the constraints.

While we laud the CBI and plan to take advantage of all its aspects, it does not represent new directions for the Mission. Rather, it provides complementary, incremental inputs and stimuli a major component of an on-going Mission program which is already attempting to stimulate investment/employment through various vehicles, one of which is increased exports to the U.S.

To more fully address and accelerate the achievement of CBI objectives within our own program will require additional funds. More SDA grant funds will be needed in FY's 83 and 84 to suppport analytical, technical assistance and promotional activities which do not lend themselves to loan financing. In addition, more grant and loan funding will be required in FY's 83 and 84 to finance two proposed shelf projects (For more details, see page 59, Financial Requirements.)

Concerning the impact of the CBI on Panama, the full magnitude is yet unknown. With almost 86% of Panama's exports to the U.S. entering without tariffs, the immediate impact of the Free Trade Area feature on traditional products normally taxed would be to increase income to exporters by only some $12 million annnually (1980 figures). Moreover, there is little that can be said quantitatively about the incremental impact of opening-up the number of non-traditional items that will be able to enter duty free into the U.S. and the reduction of the value-added percentage from 35% to 25%, other than to say that these changes should increase the probability of success of the CBI. In like manner, we can say only that the tax credit incentive should help attract additional investment to Panama and should give a boost to our own investment promotion project efforts.

Perhaps the most important, yet again unquantifiable, impact of the CBI for Panama will be the fruitful economic discussions and heightened interest and concern it has generated among the various interest groups both in the public and private sectors which our own on-going programs can use to accelerate the realization of Mission investment/employment goals. We must recognize, however, that the current world economic slow-down and Panama's predicted 0%-2% growth in real GDP this year and near zero growth next year may well off-set, in the short-run, any positive impact created by the CBI.

B. Program Goals

The ultimate goal is full utilization of Panama's resources reflected by an increase in GDP. As pointed out in the assessment section, a surge of economic growth in 1979-80 fueled by pent-up demand from a five-year recession has given way to declining growth rates in 1981 and 1982. The CDSS points out that Panama is looking for the growth leaders which will stimulate the economy through the 1980's. Export-based growth stimulated and underwritten by private investment would appear to be at this point the most feasible possibility.

The sub-goals which this strategy is supporting are increased domestic and foreign private investment in the agriculture and industry sectors; increased exports to the U.S. and other foreign markets; and increased employment. As pointed out in the CDSS, increased employment is of particular importance to the Government (and to the USG). Panama, over the next 5 years, faces a growing unemployment problem.

If Panama continues, as is expected by many analysts, to experience real GDP growth rates in the 2-4% range for the next few years, it is highly likely that average annual unemployment levels will reach as high as 25%. At a GDP growth rate of 4% and an unchanging employment/output coefficient, the Panamanian econony will fall about 10,000 jobs short each year in reaching a 10% unemployment rate of just the new job entrants; that is, without even considering the estimated 115,000 people currently constituting a Mission estimated unemployment rate of about 17% in 1982.

As additional analysis is carried out, attempts will be made to refine the sub-goals stated above. That is, the potential benefits from and impact of the CBI on Panama will be quantified so that the program can be modified if necessary and success of this strategy and action program can be measured.

C. Strategy Assumptions

The achievement of the above sub-goals will be accomplished by stimulating U.S. and other foreign investment in Panama, as well as domestic investment, aimed at the U.S. market opened up by the Caribbean Basin Initiative and eventually other foreign markets. In addition, Panama has a foreign market much closer to home whose potential needs to be reviewed - that provided by the U.S. Department of Defense commissary and exchange facilities and the large number of ships passing through the Canal.

The fields displaying the most potential at this time are light assembly industry (maquila program), agro-industry, and tourism. It should be noted that even if the CBI had not come along, the need for a new growth stimulus and the prevailing conditions in Panama are ripe for an export-based growth strategy.

Such a strategy must address the constraints listed above. Furthermore it must be a Government of Panama rather than a USG strategy. The USG can only help and encourage. Therefore, the strategy proposed below is a USG Country Team strategy aimed at encouraging the GOP and private sector to consider and develop an export-based strategy and take the actions necessary to begin to carry it out.

Any GOP strategy to maximize the opportunities provided by the Caribbean Basin Initiative must have three objectives and contemplate actions in three areas. The investment climate must be maintained and strengthened, including a commitment by Government, business and labor to export-based growth inherent in the CBI, and a general constructive working relationship between the Government and the private sector, resulting in decisions, actions and assurances to the foreign investor sufficiently attractive to induce positive decisions. Secondly, market links between Panamanian firms and U.S. markets must be established and export and investment promotion services organized and strengthened. Thirdly, the capacity of the private sector to compete internationally must be enhanced, including improved business practices for managers, improved skills for labor and access to technological advances. It may also mean filling gaps in the existing services infrastructure, i.e., export financing or venture capital, should that prove necessary.

In establishing and formulating the strategy certain assumptions should be understood.

- The CBI is enacted by the Congress in large measure as it was submitted by the President.
- The U.S. economy will strengthen, interest rates will decline and growth prospects improve.
- Panama's business climate will remain favorable; the economy will remain reasonably healthy and political stability will continue.
- The GOP will take the necessary actions at both a policy level and an institutional level to promote domestic and foreign investment directed at the export market.
- Achievement of the objectives depends primarily on decisions made by the Panamanian private sector. The actions of the Government with USG assistance can only provide the appropriate ambiance, instruments and processes which ideally will induce these decisions.

D. Strategy

The U.S. CBI assistance strategy will be directed to support achievement of the following objectives:

1. Maintenance and Improvement of a Favorable Investment Climate.

2. Creation of Market Linkages and Exporter/Investor Services.

3. Strengthening the International Competitive Advantage of the Private Sector.

1. <u>Maintenance and Improvement of a Favorable Investment Climate</u>

There are three aspects to maintaining a favorable investment climate for the CBI in Panama. There is a requirement to convince business, Government, and labor that the export-based growth inherent in the CBI is good for all three. There is a need to maintain a general constructive working relationship between the three sectors. Lastly, there is a requirement to provide the necessary assurances to the foreign investor which will elicit positive decisions.

The CBI has already achieved some success in that it has focused the attention of concerned elements of Panamanian society upon agriculture and industrial export potential with a degree of intensity hitherto absent. Panama has over the past two decades initiated programs to establish export-based agriculture and industry. The efforts have, for the most part, have been peripheral to other developmental activities which preoccupied the Government. The CBI has the potential to organize heretofore dispersed and uncoordinated elements of the public, the private and the labor sectors into a coherent national program.

To plan and carry out such a program requires participation of all three sectors and strong motives to do so. The potential for economic growth offered by the CBI with concomitant increase in the revenue base and employment generation has not been lost on the GOP. The potential for business expansion and profit can stimulate the private sector. The potential for jobs should encourage even greater cooperation on the part of organized labor. This coalescence of private and public purposes augurs well for increased cooperation between the sectors. Yet, at this point, the assent of each sector to cooperate with the other is notional. It will be necessary to convert notionality to reality.

Both foreign investors and domestic investors are influenced in their decisions by the general state of relations between the private sector and the Government. Beyond feeling that new enterprises financed by local or foreign capital is enthusiastically welcome, the businessman has to depend on the Government for action on many matters vital to the conduct of his business: import licenses, customs clearances, taxes and exonerations, prompt Government payment for services, etc.

In Panama there is a continual need to overcome the residual distrust between the Government and the private sector which is the legacy of the revolutionary process initiated in 1968. The business community needs to have its role in national life acknowledged by the Government and be provided a stable and predictable legal and administrative environment and given access to national resources including the labor pool. In practice, this requirement entails a cessation of anti-business rhetoric, public definition of the positive role of business, relief from various legislation, and an even handed administration of the laws affecting commerce and industry and supplementary enabling legislation to overcome certain constraints effecting export industry. On the other hand, the Government must be convinced that the activities of the private sector will be in harmony with national political and social objectives, and that the growth of the private sector will not create an imbalance in the political structure.

In addition to an ambiance of constructive working relations between the busines community and Government, the foreign investor needs additional assurances. These relate to nationalization, ability to repatriate profits and capital, freedom to utilize foreign managerial and technical personnel, etc. Panama has historically been very forthcoming in providing these assurances and generally seeing that these are reflected in its actions.

The Country Team can build on the existing momentum of the CBI by assisting the GOP, the private sector and the labor movement, to recognize the opportunities under the Caribbean Basin Initiative and the interaction which is necessary to exploit these opportunities. This needs to be done on two levels. Initially this is an informational task relating to the advantages of the CBI, its progress through the legislative process, information on USG programs available under the CBI, and steps the Government and the private sector should contemplate to take advantage of the CBI. This activity will be carried out primarily by dissemination of information and assistance to define and analyze the key requirements for effective organized participation.

On a deeper level, the Government needs to review its current industrial strategy and the role of exports in it, the incentive and tariff policies needed to carry out the strategy, and the organizational changes necessary. It is already clear that if the export and investment opportunities available under the CBI are to maximized, the public offices involved in export and investment promotion have to be organized to work together in coordinated fashion and take the necessary initiative. Beyond the informational role, the Country Team will encourage the Government to review its industrial strategy and to take the necessary actions for pursuing export policies. The IDB is financing a major study of the industrial sector leading to developing an industrial strategy for the 1980's. In addition, USAID has been working to establish a policy analysis unit (PARS) in the Ministry of Commerce to examine constraints in achieving increased investment, employment, production and rapid growth in different developing scenarios. The unit currently plans to conduct several major economic policy studies including tariff policy, price policy, labor policy and investor incentives, etc.

The Country Team will work to encourage cooperation between the Government and the private sector. This will be done not only in discussions on the need to work together but by encouraging both parties to identify impediments to increased investment and exports and develop mutually acceptable solutions. On the Government side, technical assistance and studies will be provided through the PARS unit to review existing policies and incentives, to clarify issues and make objective recommendations within a national policy framework.

On the private sector side, the business and agricultural community is organized into many formal associations and informal groups and some elements are not organized at all. The Country Team will encourage those organizations to work constructively with the Government to clarify the issues and to reach mutually satisfactory accommodation. USAID is currently supporting a private sector seminar bringing together business leaders and selected labor and Government leaders to discuss the role of the private sector and how it could respond constructively to the national Government's priorities. This activity could serve as a basis for the subsequent development of a private sector think-tank to define issues and develop positions. At the same time USAID will support pilot activities which get private sector organizations involved constructively in helping address the priority development problems facing the country as identified by the Government. One such program is the APEDE small business training program; and another possibility is a scholarship fund for needy students, etc.

The National Investment Council, if organized as originally conceived could be a most important forum for resolution of public/business, community/labor differences in the attainment of an improved climate. Its board of directors would bring together leading figures in all three sectors in a positive atmosphere.

Beyond a constructive ambiance, the foreign investor is interested in certain additional factors in order to facilitate his project decisions. Panama has long welcomed foreign investment and its laws and incentives favor the foreign investor. This will be further re-enforced by setting these out in a bilateral investment treaty currently under negotiation with the U.S. and other countries. In addition, settlement of several outstanding investment disputes will be encouraged. Lastly, support will be given to improve foreign investor services ideally under a one-stop investment center.

Specific Actions

The specific activities to be carried out will include:

- Information dissemination including speeches by the Ambassador and Country Team members; widespread circulation through ICA and other channels on legislative progress, policy changes and new programs; and promotion of informational visits by knowledgeable USG officials involved in developing CBI programs.
- Analysis and recommendations conducted by the PARS unit in MICI concerning governmental policies restrictive to private investment and export development.
- Support for private sector seminars attempting to define a constructive role for the private sector and support of the analytical capacity of the private sector to clarify issues affecting it and to develop positions.
- Support to business and trade associations, in particular SIP and APEX, to upgrade their research and analytical capacity on policy matters important to their membership.
- Signature of Bilateral Investment Treaty between the U.S. and Panama.

2. Creation of Market Linkages and Exporter/Investor Services

This element comprises two types of activities: the creation of market search mechanisms to identify new markets and investors and the strengthening and streamlining of exporter and investor services.

In regards to exports under the CBI, the preferential access to U.S. markets will be available; however it will be the task of Panamanian entities to identify specific segments of the U.S. market which Panama may competively supply. Because of a limited agricultural and industrial base and the service-oriented nature of the economy, the business community is not export-oriented. Therefore, it will be necessary to develop market information mechanisms in both the private and public sectors. A public marketing information mechanism servicing a broad spectrum of the business community would be required, as well as specialized market information organizations in the private sector.

The public agencies (Ministry of Commerce and the Agricultural Marketing Institute) charged with market identification and with providing services to exporters are characterized by weakness in concept, definition of function, technical know-how, personnel and operating budget. Furthermore, they need to be organized into an export promotion system designed to perform market search and provide export services. Institutional strengthening will be required before this function can be adequately performed.

Market search mechanisms in the public sector need to be complemented by private channels. Interested buyers and sellers often wish to maintain privacy during early contacts and negotiations. In addition, both formal and informal private channels are desirable. Formal channels, such as those provided by the Japanese and Korean integrated marketing corporations can serve as both information sources and as marketing channels for smaller Panamanian firms which cannot be expected to directly serve foreign markets. Informal channels through private sector organizational networks offer especially useful access routes.

U.S. market access and investment tax credits under the CBI also provide a stimulus for foreign investment and co-ventures. Assembly industry and light manufacturing for the U.S. market appears to be a significant growth leader for Panama in the decade of the 1980's. Such opportunity would attract not only U.S. but Japanese and European investment as well. An assembly industry program (Maquila Program) has been established in the Ministry of Planning. It is supported by a law favorable toward foreign investment and thus a promotional effort which both identifies potential high cost producers overseas and then facilititates their location in Panama is necessary. In addition, the desirability of promoting co-ventures with Panamanian firms needs to be explored. Co-ventures are appropriate means of transfering management talent and production technologies as well as establishing distribution links to the U.S. market.

The National Investment Council, if organized as originally conceived, would be the critical institution to take full advantage of the investment opportunities offered by the CBI. It would focus all the disparate entities involved in investment promotion. It would provide a clear signal that Panama is committed to foreign investment. It would provide a forum for resolution of Government/business/labor differences. It would be the most important channel for U.S. assistance.

The Country Team will encourage the Government to initiate an export awareness campaign through both public agencies and private associations. These promotional activities will entail more detailed knowledge of market opportunities and local capacity to satisfy export market requirements.

The Country Team will encourage and support efforts to strengthen the export promotion entities of the Government, primarily in MICI and IMA. USAID will consider technical assistance and training to create effective market search units and to strengthen exporter services. The Commerce Department and USDA will be called on to help in their areas of competency, i.e., training in U.S. import requirements and procedures, animal and plant health and sanitation regulations, etc.

The Country Team will also encourage the Government to strengthen its investment promotion entities, related principally to the Maquila Program and located in the Planning Ministry and the Ministry of Commerce. USAID has initiated a review of the program and will consider support in strengthening of this capacity. Ideally, the National Investment Council will be established.

USAID will encourage and support the formation of private sector marketing mechanisms, such as trading companies. Groups such as the Asociacion de Exportadores (APEX) will be provided with information and minor technical assistance. Private profit motive is expected to generate the resources necessary to organize and operate such corporations.

The Country Team will support the formation of informal market access channels by arranging linkups between Panamanian organizations and U.S. organizations and institutions. Trade and investment conferences (such as the recent Trade and Development Conference) will be encouraged and supported. The Economic Section will support annual Florida-Panama business opportunity conferences. USAID will support the Chamber of Commerce twinning program with Tulsa, Oklahoma. Peripheral assistance may be given for the purpose of establishing the communication linkups, but all operations established through such channels would be expected to be self-sufficient.

The Country Team will explore the feasibility of increased access to the nearest "foreign" market, that of the U.S. Department of Defense commissary and exchange facilities and that provided by the Panama Canal ship traffic

Specific Actions

Actions with both public agencies and private associations will be undertaken.

- An export promotion campaign will be initiated with DICOMEX or the NIC as it is established and with the Chamber of Commerce, SIP and APEX in order to create an awareness of the need to export and of export opportunities. An information newsletter describing export opportunities may be distributed.
- An export market identification and penetration effort aimed at finding new opportunities in the short term will be undertaken through contractual assistance. This effort will be conducted in collaboration with the public and private sectors and eventually managed by the local organizations. Contacts will be made with U.S. buyers and channels of distribution established.

- An investment promotion program will be initiated to identify potential investors, to arrange for visits to Panama or contact with domestic partners, and to facilitate the actual decision making process to invest. In this context, consultants will be engaged to identify products and product lines which are undergoing cost pressures in the U.S. and which could be produced competitively in Panama. The Maquila Program is especially suited to this action.
- The Twin Chamber Program now underway between the Panama Chamber of Commerce and the Tulsa Chamber will be supported in those areas where export buyers and investors might be identified. AID/W support of C/CAA in this regard is also important.
- The Country Team will request an OPIC Investment Mission in FY 83.
- The Country Team will improve and expand the role and function of the services offered by the Department of Commerce and Agriculture. Of particular significance is assistance which should be provided by USDA to improve animal health and plant quality standards so as to comply with U.S. regulations. The U.S. Department of Commerce (USDOC) also has an important contribution to make in so far as the local commercial officer is better equipped to assist exporters and potential investors and the USDOC in Washington is prepared, through its CBI Information Bank, to provide information laws and conditions in Panama.

3. Strengthening the Competitive Advantage of the Private Sector

Because of its import substitution antecedents, Panama's industrial structure is not export oriented. The productive capacity and competitiveness of the private sector will have to be enhanced in order to ensure that Panamanian firms will be able to compete. This would involve strengthening business management, technological efficiency, manpower skills and financial services.

Business administration skills will be needed by all levels of management for participation in both local and international markets and to provide a basis for survival and growth. Because of the recent growth of its regional financial center there is strong demand for business administration and banking skills which are going unmet, particularly from the National University.

More attention will now have to be given to technological advances to ensure maximum efficiency. Production assistance relating primarily to improved productivity will be required by medium and large sized firms. Small firms would require assistance in production techniques, cost and quality control, scheduling, inventory control, etc.

In regards to skilled manpower, all indications are that the supply of adequately trained workers is already in short supply in Panama. The maquila program in particular will require skilled labor. Subsequently, export firms will also add to the skilled manpower demand.

Furthemore, there is some indication that a gap exists in the financial services available for new investment. There are two state institutions which will develop new investment projects, take equity positions, and provide long term debt. Both institutions are criticized for inefficiency and bureaucratic procedures. There would appear to be a need for a private sector venture capital firm.

USAID will provide up to 5 scholarships from regional training funds annually to upgrade the Business Administration Faculty of the National University and the Universidad Tecnologica. The objective is over time to improve the current lack-luster Business Administration Faculty as well as maintain the quality of the Universidad's teaching staff.

The USAID will consider supporting a productivity center proposed by the SIP. The center will primarily function as a channel for technology advances developed elsewhere, to all levels of Panamanian industry. In addition, the USAID will introduce the IESC as a service resource at all levels of its program activities.

The USAID will consider a Workforce Development Program to provide skilled labor to industry.

The USAID will review the need for a private sectc venture capital firm in Panama.

Specific Actions

- AID will provide up to 5 scholarships to the Faculty of Business Administration of the National University and the Technological University to increase the supply of trained business personnel.

- Support in establishing a productivity center within SIP to stimulate technology and information transfer will be provided in FY's 83 and 84. In this regard the ongoing AID/w project with the National Technical Information Service (NTIS) should be extended and perhaps expanded so that the NTIS services could be better disseminated.
- Specialized business and/or production training to middle and small size industry will be contracted from the IESC. Greater participation for the IESC will be sought at the proposed productivity center and the Chamber of Commerce.
- AID will support a Workforce Development Program to remedy workforce deficiencies. The project will identify workforce needs based upon probable industrial development patterns and be followed by job-specific training through short courses, and in-plant training. This is presently a preliminary design stage.
- Increased OPIC, Ex-Im Bank, and FCIA investments, credits and insurance outstanding in Panama. The Economic Division will request these agencies to expand their operations over the next 12-18 months.

E. <u>Financial Requirements</u>

Based on the Country Team's Caribbean Basin Initiative Implementation Plan, total financial requirements for USAID/Panama will total $4,346,000 for FY 83 and $10,317,000 for FY 84 as reflected in Annex 4. Using resources as programmed in the FY 84 ABS which could be most directly tied to and supportive of CBI needs, we have estimated that

$4,046,000 and $5,717,000 will be available in FY's 83 and 84 respectively. Two important CBI activities could not be accommodated within the FY 83 CP and FY 84 planning levels for Panama. In addition, the funds for developing and supporting CBI activities in both years are far from sufficient as budgeted in the ABS.

Of the additional funding requirements which total $4,900,000 for FY's 83 and 84, 82% will finance the Industrial Export Development Bank while 10% would finance the Reverted Areas Planning Project, leaving 8% of the additional grant funds to support the cost of preliminary research, analysis, technical assistance and design of the activities to be undertaken. In short, additional grant funds totaling $500,000 will be needed to finance the Reverted Areas Planning Project for FY's 83 and 84, while $400,000 would be utilized for Special Development Activities.

PRIVATE SECTOR ORGANIZATIONS

A. Consejo Nacional de la Empresa Privada (CONEP) (The National Council of Private Enterprise)

The Consejo Nacional de la Empresa Privada was organized in 1964 as the political arm of the Private Sector. Its major objective is to promote and strengthen the free enterprise system in Panama. CONEP is organized as an institution of institutions, representing the major business and professional organizations in the country, which follow: (Insert List)

In 1965, AID assistance was provided to CONEP to survey the training needs of the Panamanian private sector to develop an appropriate solution in meeting its manpower requirements. The survey was carried out and as a result of CONEP's recommendation, a semi-autonomous training organization, the Instituto de Formacion y Aprovechamiento de los Recursos Humanos (IFARHU) was created to coordinate skills training effort.

Currently CONEP is active in formulating broad policy positions in representation of the private sector and consulting on both a formal and informal basis with the GOP.

B. Sindicato de Industriales de Panama (SIP)

(Industrialists Union of Panama)

The SIP was founded on August 10, 1945. Its objective is to promote social and economic development throught the advancement of industrial activity in general. SIP started out with 22 manufacturing firms and now has 278 members. One of its major activities has to do with its representation in joint Private/Public Sector Commissions which shape economic policy. Work is underway on improvement of such diverse legal systems as the Labor Code, Social Security Laws, Tariff Code, etc.

SIP has been very active in promoting an open dialogue between the public and private sector and has hosted a series of meetings at the highest level in the GOP. Early this year they sponsored a day-long conference attended by the President and his cabinet to discuss major issues affecting Government/Private Sector relations.

At present SIP is promoting the creation of a productivity center, and USAID/Panama, at their request, is providing technical assistance through the American Productivity Center, to help conceptualize such a project.

SIP also provides training courses for supervisory personnel of member companies.

C. Camara de Comercio, Industrias y Agricultura de Panama

(Panama City Chamber of Commerce)

The Camara de Comercio is the oldest business organization in Panama (founded in 1915), and is the principal representative of the merchandising and service companies in the Panama City area.

In recent years the Camara expanded its function as an institution to provide legal and commercial services, to represent the businessman's point of view before the GOP. This new responsibility has brought in young concerned businessmen interested in revitalizing the economic environment through private initiative.

At the present time the Camara has representatives in several joint (Public/Private Sector) commissions dealing with such areas as tariffs, customs duties and procedures, bilateral trade agreements and price policy. These representatives are supported by salaried Camara employees and volunteer work committees.

Also, as the largest Chamber of Commerce in the country, the Camara is providing resources to the National Federation of Chambers of Commerce in an effort to strengthen the organization and raise its effectiveness as an operating entity.

The Camara has recently "twinned" with U.S. Chambers in Spokane, Washington and Tulsa, Oklahoma, and projects underway include a scholarship program for graduate business studies in these cities. The candidates will be selected on a basis of individual need and financial support will be provided by the Camara and AID under a matching grant. And, as is usual, commercial and investment promotion programs are being organized.

The Panamanian Chamber of Commerce is enthusiastic about the CBI and is willing to lend its assistance in whatever way seems appropriate. It has already publicized the CBI among its membership and has indicated its desire to work with the Embassy, AID and other elements of the U. S. community to advance CBI objectives. The local U. S. business community is also eager to help. The American Chamber of Commerce of Panama has several ideas and already has contributed valuable assistance in lobbying through its Washington contacts for passage of the CBI legislation without major dilution. The AmCham has offered its assistance to the GOP in intensifying and making more effective promotion efforts in the United States. It plans to proceed with preparation of promotion materials that will be more effective with corporate decision-makers than those used to date and to use the resources of its membership to disseminate this information.

D. Asociacion Panameña de Ejecutivos de Empresas (APEDE) (Panama Business Executives Association)

The APEDE was founed in 1958, by a group of Panamanian businessmen meeting at the Centro de Desarrollo y Productividad Industrial (CDPI). The Centro was a Government institution conceived to introduce technological and management practices to existing Panamanian industries. During the 60's APEDE developed the Centro de Estudios Superiores de Administracion (CESA) which began offering courses in business administration and finance. CESA today is the principal non-profit institution offering management training in Panama.

In September of 1980, APEDE received a USAID Operational Program Grant to provide training, technical and management assistance to small entrepreneurs. To date the project has conducted an analysis of the management and training needs of small enterprises in all areas that it is operating in, conducted a one-year sequence of training courses with follow-up management assissance. APEDE has already reached over 120 entrepreneurs which extends beyond the 100 entrepreneurs which were originally slated to be assisted during the initial institutional building grant. In addition, APEDE once again ahead of schedule has begun directly linking their services with credit programs for small enterprises under the Banco Nacional de Panama and Ministerio de Comercio e Industrias programs receiving financial assistance from AID and BID.

In April of this year, APEDE hosted a two-day Government/Private Sector conference in investment stimulation and policy alternatives, which did a lot to establish personal contact between individuals and to identify common goals.

E. Camara Panameña de la Construccion (CAPAC) (Panama Construction Chamber)

The Camara Panameña de la Construccion (CAPAC) was organized in 1961 as a private organization which grouped builders, suppliers and professionals in the construction industry for the purpose of promoting, developing and protecting the sector's activity. Its membership is large and active.

As the representative organization for one of the most important sectors in the Panama economy, the CAPAC has been very active in the formulation of Government fiscal and legal policy related to new residential construction.

Moreover, CAPAC works closely with the Sociedad Panameña de Ingenieros y Arquitectos (Panama Society of Engineers and Architects) SPIA, in preparing data for use by different Government agencies in the setting of standards for building codes and regulations, and for planning large infrastructure projects.

Since Panama does not have craft unions to oversee and administer the training and licensing of skilled workers, the CAPAC, together with the construction workers union, has established basic skill categories in each specialty. CAPAC carries out training programs and seminars for laborers aimed at improvement of manual and supervisory capability.

The CAPAC also publishes a monthly newsletter containing up-to-date statistics on building activity, information on public tenders, and editorial comment on issues related to the construction industry.

F. Asociacion Nacional de Ganaderos (ANAGAN)
(National Cattlemen's Association)

The ANAGAN was founded in 1958, and presently incorporated about 3,000 members in the country. The association was established for the purpose of voicing the interest of the cattle sector and participates actively in a series of GOP commissions. The ANAGAN also promote activities which tend to keep informed the general public on the development of this sector. Recently, this institution has teamed up with the Camara de Comercio for the purpose of exploring the possibility of creating a Private Agrobank (Banco Agro-Ganadero de Produccion y Desarrollo).

G. Asociacion Bancaria de Panama (ABP)
(The Panama Banking Association)

Eighty percent (80%) of the banks established in Panama are members of the ABP. This organization's basic objective is to promote the interests of its affiliates in the Panamanian Banking System. The ABP represents its members in a series of GOP commissions where it has an opportunity to voice its opinions on matters pertaining to the development of the International Banking Center.

The ABP also hosts technical training courses for member bank employees and organizes an annual banking convention which attracts many domestic banks from Central and South America, as well as banks unrepresented in Panama from the industrialized countries.

H. Asociacion Panameña de Exportadores (APEX)
(Panamanian Exporters Association)

The APEX is an organization which was established in 1976 primarily by members of SIP to represent exporters. The association recently became active and, with the announcement of the CBI, steps have been taken to explore the possibilities of forming a Trading Company. APEX has requested USAID support to help finance a feasibility study on the subject.

I. Consejo Interamericano de Comercio y Producción (CICYP)
(Interamerican Council on Commerce and Productivity)

The CICYP is an Interamerican Federation established in 1941. Its local membership in Panama include about 40 key business people who have been former presidents of other business organizations. CICYP plays a low key role, promoting activities which encourage and increase private sector participation in economic policy analysis and programs in general. This organization will be sponsoring, with USAID/Panama support, a seminar for private sector leaders in July 1982. The participants will review the role of the private sector in the economic and social development of Panama and devise an action plan to strengthen that role.

J. Fundacion Panameña para el Desarrollo (FUDAPE)

(The Panamanian Foundation for Development)

The FUDAPE is a private volunteer organization which was created in August 1981 and is aimed at helping micro-enterprises through credits and technical assistance. FUDAPE is just in the process of organization and is working very closely with the Pan American Development Foundation (PADF) in its initial stages. Drawing upon PADF experience elsewhere this organization can be used to channel assistance to cottage industries and small contractors in an effective manner.

K. Small Scale Enterprise Organizations (SSEO)

Union Nacional de Pequeñas Industrias (UNPI)

(National Union of Small Industries)

Sindicato Nacional de Pequeñas Empresas (SINAPE

(National Union of Small Enterprises)

At present, there exist in Panama two established SSEO's, the Union Nacional de Pequeñas Industrias (UNPI) and the Sindicato Nacional de Pequeñas Empresas (SINAPE). UNPI was established in July 1979 and at that time was the only SSEO. In 1980, because of differences in opinion as to what UNPI should do for its members, a major portion of UNPI members split off and formed SINAPE.

UNPI and SINAPE are essentially voluntary organizations. They have Boards composed of members elected to office and have no paid staff members. It is difficult to distinguish between UNPI and SINAPE, since they have the following common objectives:

- Established a fund for financing SSE's
- Create a technical assistance service for members

- Create a legal department to serve members
- Promote changes in various laws which adversely affect SSE

Since they both have relatively small memberships, and are competing for recognition as the principal representative of small industry, they have been largely unsuccessful in getting the institutional support needed to move into a productive stage.

L. Compañeros de las Americas
(Panama-Delaware)

The Compañeros have recently initiated joint programs with their counterpart in the State of Delaware embodying a wide range of areas of cooperation.

- The Panama-Delaware group will exchange commercial information on a regular basis principally to stimulate investor interest in locating in Panama and in identifying markets for Panamanian exporters in Delaware.
- Under an arrangement between the University of Delaware and the University of Panama, a scholarship program has been formulated under which Panamanian students will study business administration in Delaware.
- The Compañeros have met with officials of the Port of Wilmington in order to develop communications with Panamanian businesses with potential to use the port for import or export.

RESOURCES - USAID AND OTHER PROGRAMS

A. USAID Programs

Many of the Mission's current and proposed projects will complement the industrial development and export promotion thrust of the Caribbean Basin Initiative (CBI). The URBE project has developed industrial sites in the urban areas of the interior for the purpose of stimulating small and medium scale industrial growth, particularly agro-industrial, outside the metropolitan corridor.

The Employment Planning and Generation (EPG) project in particular provides two elements which should enhance the probability of success of the CBI: a policy analysis and research (PARS) unit which should help the GOP focus on the impact of its various policies and lead to changes favorable to industrial and commercial development; and a manpower information system which should lead to a better matching of the supply and demand of skills needed by the economy.

The new projects under consideration by the Mission will add important elements to the CBI process. The Workforce Development project will attempt to rationalize the training provided by the economy with the demands from the new commercial/industrial investments expected as a result of CBI activities and normal Panamanian economic growth. Two projects, National Investment Council and Export Promotion, will provide technical assistance for developing an institution to provide sophisticated investment services.

To complement these initiatives, a project is being developed to help accelerate and rationalize the process of bringing the ex Canal area lands into productive use. Finally, in the area of agro-industry and future agricultural exports, three projects are being developed which should lead to more efficient and hopefully competitive agricultural products: Rural Cooperative Marketing, Agricultural Technology Transfer, and Agricultural Planning.

B. Other Programs and Resources

1. U.S. Department of Commerce

The new Commercial Attaché from the U.S. Department of Commerce has not arrived yet at post and for this reason it is difficult to commit the Department to specific actions in support of the CBI. However, they are expected to make their usual services available to U.S. investors and certainly will develop special activities to further CBI objectives.

2. Overseas Private Investment Corporation (OPIC)

OPIC currently offers political risk insurance for U.S. investors in approximately 100 developing countries. To expand insurance coverage available to elegible investors, OPIC is working with private sector insurers to establish informal consortia where appropriate, on a project by project basis. Mixed coverage of this kind is currently being discussed for major projects in the basin. The OPIC can also make direct loans for certain kinds of investments and has organized missions of U.S. business representatives to explore investment opportunities.

The full range of Overseas Private Investment Corporation (OPIC) programs is active in Panama. Currently, OPIC has in effect in Panama $52.9 million in political risk (expropriation); $48.8 million in war risk; and $19.1 million in inconvertability coverage in Panama. OPIC has also extended several loans in Panama, and there is potential for expansion of these activities in the country. OPIC's history of dealing with the private sector makes it particularly well suited to support new Caribbean Basin Initiative stimulated investment in Panama and other participating countries in the region.

3. <u>The Export - Import Bank (Ex-Im Bank) and FCIA</u>

Ex-Im Bank has been providing medium-term credit or credit guarantees through U.S. exporters and banks to borrowers in the Caribbean Basin who meet Ex-Im Bank's statutory standard of "reasonable assurance of repayment". This amounted to $365.5 million in FY 1981. In addition to an intensification of efforts in this field, Ex-Im Bank will expand its present protection by considering cover for short-term credits to indigenous commercial banks in creditworthy markets.

Ex-Im Bank exposure in Panama in all programs (loans, guarantees, insurance) totals $103 million: $69 million in short-and-medium-term, and $34 million in long-term coverage. While currently limited in its ability to handle very large projects in Panama, EXIM is open to new activity especially for smaller and medium size projects, which could mesh well with the scale of new investment foreseen under the Caribbean Basin Initiative.

4. Caribbean Central American Action (C/CAA)

The C/CAA is a Washington based, privately financed organization which is playing an active role in helping to shape the current climate of discussion and decision-making on U.S. private enterprise policy directions in the Caribbean Basin. C/CAA has been participating in an on-going dialogue with Administration, Congressional and Caribbean officials, as well as U.S. business leaders. By touching base with key players and presenting its own recommendations, C/CAA seeks to insure that Basin concerns and priorities, and the practical steps to meet them, are reflected as decisions emerge.

The C/CAA is presently requesting support from the Latin American and Caribbean (LAC) Bureau of AID to develop a program that would support the creation of a Caribbean databank and information system, establish a technical assistance clearinghouse and a basic support mechanism for the recently established U.S.A./Caribbean and U.S.A./Central America chamber twin network.

The C/CAA sponsored a Central American Regional Conference on Trade and Development which tock place in Panama during the month of May, with the participation of key people from the private and public sector of the Caribbean Basin Areas.

5. International Executive Service Corps (IESC)

IESC is a New York based non-profit corporation offering specialized consulting assistance to applicants worldwide. The IESC consultant pool consists of thousands of retired men and women who represent special talents available in the U.S.A. for short-term assignment overseas. It has provided technical assistance to numerous Panamanian enterprises and its resources are expected to be tapped in support of CBI related activities.

ADDITIONAL ANALYSES TO BE UNDERTAKEN

A. Labor Force:

With the assistance of a team from the Department of Labor, additional data collection and analyses will be initiated on Panama's labor force. In particular, a profile of the labor face will be profiled to highlight its principal characteristics, degree of inionization, wage rates and skill levels. Ultimately productivity levels should be assessed. Lastly, supply and demand should be forecast so that training requirements can be determined.

B. Incentive Programs:

Various programs to stimulate exports and labor intensive manufacturing are in effect. The costs and benefits of these programs, however, have not been thoroughly measured. The results of these programs will be analyzed with a view toward improving the employment and income benefits and making them more cost-effective.

C. Benefits of CBI:

In order to measure the potential, and subsequently the actual, impact of CBI on Panama and to asses markets opportunities, Panama's trade and investment levels will be analyzed. Trade and investment statistics will be updated, trends analyzed and forecasts projected, with and without CBI. Sensitivity analysis will be employed and a computer model developed so that a statistic analysis can be refined and made into a dynamic analysis over the next several years. Certain assuptions will obviously have to be made concerning consumption and investment patterns in the U.S.

The analysis should enable Government planners to better direct appropriate incentives and the business community to better target marketing strategies.

CARIBBEAN BASIN INITIATIVE IMPLEMENTION PLAN
USAID/PANAMA PROJECT SUPPORT FY 83-84
($000's)

PROJECT NUMBER	PROJECT NAME	FY 83 ON-GOING EXP	FY 83 NEW OBS	FY 84 ON-GOING EXP	FY 84 NEW OBS
	ON-GOING PROJECTS 1/	5002	521	977	901
525-0221	Employment Planning and Generation	455	50	370	360
525-0209	Development Admin.	203	269	407	341
525-0190	Program Dev. & Support	100	202	200	200
	PROPOSED PROJECTS 2/	1100	3525	4553	4816
525-0239	CBI-National Investment Council	200	425	660	600
525-0241	Export Promotion	0	0	75	100
525-0233	Private Enterprise Training	200	500	560	1100
525-0999	PVO's OPG's	0	0	208	316
525-0219	Workforce Development	500	2000	2170	2000
525-0231	Agricultural Policy Planning	200	600	880	700
PROPOSED PROJECTS ABOVE FY 1983 AND 1984 PLANNING LEVEL		0	100	1780	4400
525-0242	Reverted Areas Planning	0	100	330	400
525-0243	Industrial & Export Development Bank	0	0	1450	4000
ADDITIONAL PROJECT SUPPORT FUNDS 3/		100	200	200	200
525-0190	Program Dev. & Support/SDA	100	200	200	200
TOTAL USAID/PANAMA FINANCIAL NEEDS			4346		10317
TOTAL AMOUNT CONTEMPLATED ON FY 1984 ABS			4046		5717
ADDITIONAL FUNDING REQUIREMENTS			300		4600

1/ Refers to portion of the project which supports the CBI-Implementation Plan.

2/ Refers only to the proposed projects which supports the CBI-Implementtion Plan as reflected in USAID/Panama FY 1984 Annual Budget Submission.

3/ To effectively carry out the necessary analysis and research to support the projects, USAID/Panama will need additional PDS/SDA funds.