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Economic Slowdown Hits Panama's Agriculture, Manufacturing, Construction

by LADB Staff

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The current economic slowdown has stirred renewed criticism of the government's handling of the economy. Construction and manufacturing are in the doldrums and agriculture, according to some critics of economic policy, is facing disaster. The final June 1996 report on the Panamanian economy compiled by the UN's Economic Commission for Latin America and the Caribbean (ECLAC) shows that economic growth was only 1.9% of GDP for 1995. Some economists predict that growth this year will be no more than 1%. Among the weak spots in the economy last year and continuing into the first months of 1996 are agriculture, construction, and the export of manufactured goods.

Manuel Gonzalez Ruiz, president of the builders association (Camara Panamena de la Construccion, CAPAC), said in June that the industry was showing signs of a slowdown. "We want to call this to the attention of the government so that it will take steps to prevent it from becoming a crisis," he said. The key to energizing the stagnant construction industry is more investment, but investment has been discouraged by government fiscal policies, said Gonzalez. During the first four months of 1996, investment in construction increased by only 1.51% over the previous year. The total investment in that period was US\$75.9 million as compared with US\$74.8 million in 1995.

However, little of the increase actually produced a corresponding increase in construction because most of it was absorbed by higher costs for materials and labor. Another concern in the industry is the closure of US military bases prior to the canal's reversion to Panamanian control in the year 2000. The closures could flood the housing market with units formerly occupied by US military personnel who will be leaving the Canal Zone. "We don't know what is going to happen to all those apartments," Gonzalez said. He called on the government to encourage mixed private and public investment in the construction of low-income housing to stimulate the industry and solve the housing shortage.

As part of its policy to liberalize trade, the government has rapidly been removing protection and support for agriculture. Last year, the government reduced its support of preferential interest rates for agriculture. Also, as part of its ongoing negotiations to acquire admission to the World Trade Organization, Panama has negotiated tariff reductions with various trade partners to open the economy up to global competition. Finally, in what has been the last straw for many agricultural producers, Planning and Political Economy Minister Guillermo Chapman signed an agreement last December with the World Bank to reduce tariffs on 40 agricultural commodities. The agreement was part of the negotiation over a US\$200 million World Bank credit.

Under the executive decrees ordering the reductions, the tariff on imported onions dropped from 80% to 45%, on potatoes from 100% to 80%, and on poultry from 90% to 60%. A few rates were increased, such as those for corn from 40% to 70% and sorghum from 40% to 50%, while beans remained at 80%. Farmers have protested the decrees arguing that the agricultural sector is not

prepared to withstand competition from imports, especially from countries that still maintain agricultural subsidies. In David, in the western province of Chiriqui, about 1,000 producers staged a protest march in May against the decrees and against President Ernesto Perez Balladares's economic policies in general. Agricultural leaders have accused the government of agreeing with international creditors on the abandonment of much of the Panamanian agricultural sector. Alejandro Posse Martin, a legislator representing the province, said that none of the US\$200 million credit that Chapman exchanged for the tariff reductions will benefit the producers of Chiriqui, noting that the Ministry of Agricultural Development allocated no government funds for investment in agriculture for 1996. "This shows that the agricultural sector should not expect anything from the international loans," he said.

Chapman, however, said that the changes in tariff schedules will not have any negative effects on national production and will lower the cost of food items in the basic consumer basket. The changes also will permit the country to join the great international trading blocs, he said. Manufacturers have joined other sectors in complaining about government economic policies. The first quarter showed a 21% drop in exports of manufactured goods over the same period in 1995. The value of these exports was US\$8.8 million. But at the same time, the quantity of exports increased by 18%, from 10.3 metric tons to 12.2 MT. According to an analysis by economist Rogelio Alvarado, the export figures suggest that manufacturers are being hurt by the economic contraction in the domestic market and are looking abroad to make up the difference in sales.

Central America continues to be Panama's biggest foreign market, but the trend toward trade opening in the region has greatly increased competition. The result is that Panamanian manufacturers are exporting more goods but at lower prices. The major manufactured products for export are food, beverages, clothing, and chemicals. The manufacturing sector in general has lowered its output by 6% to 25% in the first quarter. The decline has been led by the clothing industry according to Juan Francisco Kiener, president of the industrialists association Sindicato de Industriales de Panama (SIP). The downturn in the clothing sector was particularly noticeable in the poor sales of school uniforms. Kiener attributed the slowdown to the general contraction, which, in turn, is due to the 1995 tax increases on business and reductions in government subsidies and incentives for production. While no factories have closed, Kiener said that several have merged and laid off employees in the process. [Sources: Inforpress Centroamericana (Guatemala), 05/09/96; Evolucion Economica Durante 1995, Economic Commission for Latin America and the Caribbean (ECLAC), 06/03/96; La Prensa de Panama, 05/06/96, 05/13/96, 05/15/96, 05/22/96, 05/23/96, 05/24/96, 06/03/96; La Estrella de Panama, 05/12/96, 06/14/96]

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