

RPTB1

TRADE AND INVESTMENT PROMOTION PLANNING SYSTEM

90/91 TRADE AND ECONOMIC OVERVIEW

Mission: SAN JOSE

Country: PANAMA

In spite of American economic sanctions against Panama which began in June 1987 and continue to date (October 1989), Canadian exports remain steady at around \$30 million annually.

In 1988 the GDP dropped by 21 percent and in 1989 another decline of 5-10% is expected. Construction, commercial banking and tourism have been particularly affected. Capital flight continues albeit at a reduced pace from 1988. With revenues down drastically, Panama has fallen behind on external debt payments. International institutions and many bilateral export credit agencies including the ECD are not lending to Panama.

PROSPECTS FOR CANADIAN EXPORTERS

Panama has traditionally been a good market for Canadian products. Panama's economy has to some extent adjusted to the new circumstances, and a gradual return to more normal private sector economic activity now seems underway. In addition, importers appear willing to consider new sources of supply. Canadian products, similar to those of Panama's traditional American suppliers, are particularly welcome. Accordingly, the next year or two should offer opportunities for Canadian suppliers to establish in that market. Opportunities exist for agricultural inputs, foodstuffs, construction materials, autoparts and consumer goods. Few large capital projects will be undertaken and we do not expect much in the way of IFI loan activity.

In addition to an attractive domestic market, Panama offers the advantages of the Colon Free Zone (CFZ), the second largest free trade area in the world, which serves as depot and distribution centre for hundreds of manufacturers selling into South and Central America. Operating largely independently of the Panamanian economy as an import/re-export operation, the CFZ appears to have been only minimally affected by Panama's economic difficulties. Problems initially encountered in finding banks willing to finance working capital and issue letters of credit, appear largely resolved. CFZ trade contracted marginally in 1988 but will increase in 1989. Accordingly, the CFZ will remain an important option for Canadian exporters interested in the South and Central American markets.

Although relatively small, the Panamanian market is quite easy for Canadian exporters. Canadian firms currently selling in the USA should consider adding Panama and other Central American markets to their itinerary. Should the political situation be resolved, the country would experience a period of rapid growth recovery.