

DIRECTORATE OF INTELLIGENCE

PANAMA: THE IMPACT OF  
GROWING IMPORT SHORTAGES

12 May 1988

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Central Intelligence Agency



Washington, D. C. 20505

**DIRECTORATE OF INTELLIGENCE**  
**12 May 1988**

**PANAMA: THE IMPACT OF GROWING IMPORT SHORTAGES**

**Summary**

Depleted cash reserves have forced the regime to slash imports of consumer goods, raw materials, and machinery and equipment by more than half. Import cuts, in turn, are resulting in food and medicine shortages and could seriously damage productive capacity within the next few months. Industries most at risk are manufacturers, offshore assembly and wholesale operators, and public utility companies. Without relief, this year's bean, rice, and corn crops could be devastated by lack of imported seeds, fertilizers, insecticides, and agricultural equipment. If the crisis drags on, virtually all sectors of the economy could suffer serious and longlasting damage. [redacted]

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The regime is coping temporarily by rationing supplies to its supporters and exploring ways to circumvent US sanctions similar to those used by Cuba and Nicaragua. Some shortages of critical consumer supplies probably will be relieved by assistance from regime allies including Cuba and Libya. As financial problems put Panama's economy and its citizens in desperate straits, a growing number of merchants, bankers, and businessmen probably will turn to contraband, drug dealing, and other illicit activities to survive. [redacted]

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Despite the problems that the import crunch is causing, we believe Noriega's effective use of intimidation to cow the opposition limits the chance that economic deterioration will translate into political actions that could topple the regime. Noriega and his closest advisers have paid little attention to the long-run implications of Panama's current financial and economic problems, [redacted] To a

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This typescript was prepared by [redacted] Middle America-Caribbean Division, Office of African and Latin American Analysis with a contribution from analysts of the Economics Division of the Office of Global Issues. Comments and queries are welcome and may be directed to the Chief, Middle America-Caribbean Division, ALA, [redacted]

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certain extent, business failures may be welcomed because of Noriega's disdain for many of the economic elite. [REDACTED]

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### Cash Crunch Slashes Imports

Imports fell more than 50 percent in March and remain severely depressed, [REDACTED]

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[REDACTED] In late April for example, deliveries of US products to Panama by an international shipping company with regular service to the area had dropped to less than 10 percent of pre-March levels, [REDACTED]

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[REDACTED] Foreign suppliers have virtually stopped deliveries to the public sector because of non-payment and because the regime's default on debt obligations is sharply limiting access to trade credits. Imports by the private sector also have plummeted because of financing problems [REDACTED]

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Imports are being further disrupted by US sanctions and by regime efforts to funnel available funds to priority local requirements. We estimate that regime access to short-term import financing has fallen by at least \$20 million because the 8 April International Emergency Economic Powers Act (IEEPA) sanctions prohibit US banks and US companies from providing trade and supplier credits to the regime or its agencies. While the regime ordered local banks to provide trade financing to businesses beginning the last week in April, [REDACTED] banks are in no position to do so, in part because Panama City has ordered the banks to provide the regime preferential credits to meet its own priority payrolls and purchases. [REDACTED]

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### Growing Food Shortages

The US Embassy reported in late April that bread, flour, and cooking oil were being rationed because of import constraints and that many other imported staples were becoming hard to find. According to the Embassy, processed foods inventories are low and cannot be restocked because of financial constraints. [REDACTED]

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While some Panamanians are replenishing depleted supplies by buying food staples in Costa Rica, increased border controls are likely to greatly restrict future food deliveries from across the border. [REDACTED]

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[REDACTED] The surge in smuggling has alarmed Costa Rican businessmen and consumers who see their food stocks jeopardized. By the end of April, Costa Rican economic officials demanded that security officials stop contraband shipments of flour, rice, wheat, and other basic grains to Panama, according to the US Embassy in San Jose. [REDACTED]

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### Public Services Deteriorating

The import crunch is undermining the regime's ability to meet basic services and protect the health and safety of Panamanians. The regime's financial problems and its policy of borrowing from the social security administration and other state agencies and utilities to meet central government payrolls has virtually ended even priority public sector imports. At the nuisance level, in mid-April the regime suspended issuing documents, including drivers licenses, work permits, and other identification cards, because of depleted photographic supplies, according to Embassy reporting. More significant for public safety, local airport managers have told the Embassy that shortages of imported parts have prevented repair of malfunctioning runway lights and radio communications. [REDACTED]

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Of much greater concern to Panamanians is the impact the suspension of imports of medical supplies--which had averaged \$4 million a month prior to March--has had on public health. In mid-April, an official of a government-subsidized hospital reported acute shortages of antibiotics, amino acids, gauze, and surgical gloves in a speech to the Panamanian Chamber of Commerce. On 19 April, local press accounts indicated that inventories of many medicines and medical supplies would be exhausted in a few weeks. At the end of April, a Panamanian medical professional told a US military officer that Cuba had reportedly supplied some badly-needed antibiotics. Even so, the

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same source said shortages of medicines were worsening and many hospital patients were not receiving proper care. [REDACTED]

### Impact on Business

Lower imports have hit the industrial and commercial sectors hard. Among the most affected so far have been manufacturers dependent on imported raw materials and semi-finished goods. At the end of April, a leading Panamanian economist with many contacts in the business community estimated that manufacturers were operating at only 40 percent capacity. At the same time, [REDACTED] 25X1

[REDACTED] 25X1  
Free Zone operations have fallen by more than 50 percent because of import shortages. While an owner of one local manufacturing firm reportedly rehired one third of his workforce during the past couple of weeks, most industrial and trade officials agree that business will remain depressed until the crisis is resolved. To cope with financial stress, [REDACTED] many firms are getting involved in contraband and other illicit business dealings. Moreover, a large number of Free Zone operators and other businesses are relocating to the Caribbean because of the political turmoil, [REDACTED] 25X1  
[REDACTED] 25X1

The plunge in economic activity has cost 75,000 to 80,000 workers their jobs, [REDACTED] 25X1

[REDACTED] The US Embassy figures indicate that the unemployment rate, which was about 10 percent in recent years, has now hit 25 percent. [REDACTED] 25X1

### Regime Reaction

The regime is responding to the import crunch by taking steps to protect its supporters while increasing anti-US rhetoric to deflect its blame for mounting economic problems. In an effort to offset consumer shortages, the regime is considering setting up markets selling basic necessities and is providing "dignity" food bags containing staple rations for regime supporters. To provide supporters bread, the regime commandeered 600 tons of flour from Panama's two major flour mills at the end of March. The regime also is pressing private businesses--including US companies--to bring in much needed food and fuel. [REDACTED] 25X1

[REDACTED] 25X1

At the same time, [ ]  
 Noriega and his closest advisers have paid little attention to the long-run implications of the current financial turmoil. Noriega's willingness to negotiate directly with the United States at this time, probably reflects more a desire to explore his options than a concern that a deteriorating economic situation may eventually force him to step down. In fact, we believe business failures and economic deterioration may be welcomed to a certain extent by Noriega because of his disdain for private sector oligarchs. Moreover, we believe surviving two months of tough sanctions probably has given Noriega an unrealistic sense of economic control. [ ]

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### Prospects for the Economy

If the crisis drags on, virtually all sectors of the economy could suffer serious and longlasting damage. Some shortages of critical consumer supplies probably will be relieved by assistance from regime allies including Cuba and Libya. Nevertheless, we believe regime efforts to rebuild imports and revive the economy will be frustrated so long as sanctions remain. Most local experts are also pessimistic about the economic outlook; both opposition economists and the regime-associated College of Economists have issued statements in recent weeks predicting that economic activity could fall 50 percent and half the workforce could be unemployed by the end of this year.

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Agriculture. Without some relief soon, the agricultural sector and this fall's food supplies could become the most costly casualty of ongoing import shortages. In mid-April, Panama's Agriculture Minister warned that this year's bean, rice, and corn harvests could be lost if farmers did not plant before the rainy season began in the next month. The regime is promising to supply farmers with imported seeds, fertilizers, insecticides, and spare parts and machinery; but we have no indication it has been able to do so. While many commercial farms producing for export probably have stockpiled enough supplies to plant, we expect most small farmers producing for domestic consumption lack adequate supplies. In these circumstances, [ ]

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[ ] the regime's Agricultural Ministry is now projecting a 40 to 60 percent decrease in agricultural output this year. In any case, we expect agricultural problems to greatly increase the requirements for imports of food staples this fall. [ ]

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Energy. Serious energy shortages are unlikely during the next several months even though the regime has lost access to crude oil shipments under the San Jose Accord. The oil refinery now plans to import oil from Mexico on commercial terms and reopen on 18 May, [ ] Refinery officials expect to pay for the oil with money from domestic sales. [ ]

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Public Services. Within the next few months, depressed imports would severely hurt the regime's ability to operate public utilities and maintain the social infrastructure. For example, deferred imports of electrical and telephone equipment--which prior to March averaged \$3 million each month--will undermine state-owned electric and telephone service soon. Deferred maintenance of ports, roads, water, and sewage systems will raise production costs for producers and health concerns for everyone. [REDACTED]

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Other Vulnerable Sectors. Small to mid-sized, locally-owned firms and all foreign businesses are particularly vulnerable to longlasting and perhaps irreversible damage because of import shortages. Many domestic firms have already exhausted their limited financial resources and probably will not be able to resume operations unless the crisis ends soon. While most foreign-owned businesses--including assembly operators and wholesale merchants--probably have the financial wherewithal to remain, many would likely leave Panama if political turmoil continues much longer. As the economy worsens and Panamanians face more desperate straits, merchants, bankers, and businessmen will increasingly rely on contraband, drug dealing, and other illicit activities to survive. [REDACTED]

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**Panama: Composition and US Sourcing of Imports, 1987\***  
(Millions of US\$)

	World-Wide	From United States
<b>Total</b>	<b>1,100</b>	<b>500</b>
<b>Fuels</b>	<b>180</b>	<b>50</b>
<b>Food</b>	<b>160</b>	<b>90</b>
Grains	35	30
Meat, dairy	30	10
Fruits, vegetables	30	20
Vegetable oils	20	10
Other	45	20
<b>Manufactured consumer goods</b>	<b>140</b>	<b>55</b>
Apparel	40	15
Leisure	35	20
Electronic	35	10
Other	30	10
<b>Chemicals</b>	<b>140</b>	<b>70</b>
Medicines	50	20
Industrial	30	15
Agricultural	30	15
Other	30	20
<b>Machinery and Equipment</b>	<b>250</b>	<b>120</b>
<b>Raw materials, semi-finished</b>	<b>230</b>	<b>115</b>
Textiles	60	30
Metals	80	35
Other	90	50

\*Estimates. Does not include US sales to the Colon Free Zone.

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**Panama: Short Term Trade Credits From OECD Sources**  
(Millions US \$, end of period)

	1986	1987*	Mar 1988*	Apr 1988*
<b>Total</b>	561	490	430-450	360-420
<b>Banks</b>	480	425	380-400	320-380
Of Which				
US banks	132	164	125	100
<b>Official</b>	24	15	15	10
<b>Suppliers</b>	57	50	35	30
 <b>Total Held by the Nonfinancial Public Sector</b>	 40	 45	 40	 20

\*Estimates. Though most trade credit lines remained technically open in March and April, bank disruptions and delays in servicing credits greatly reduced Panama's access to these credits.

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