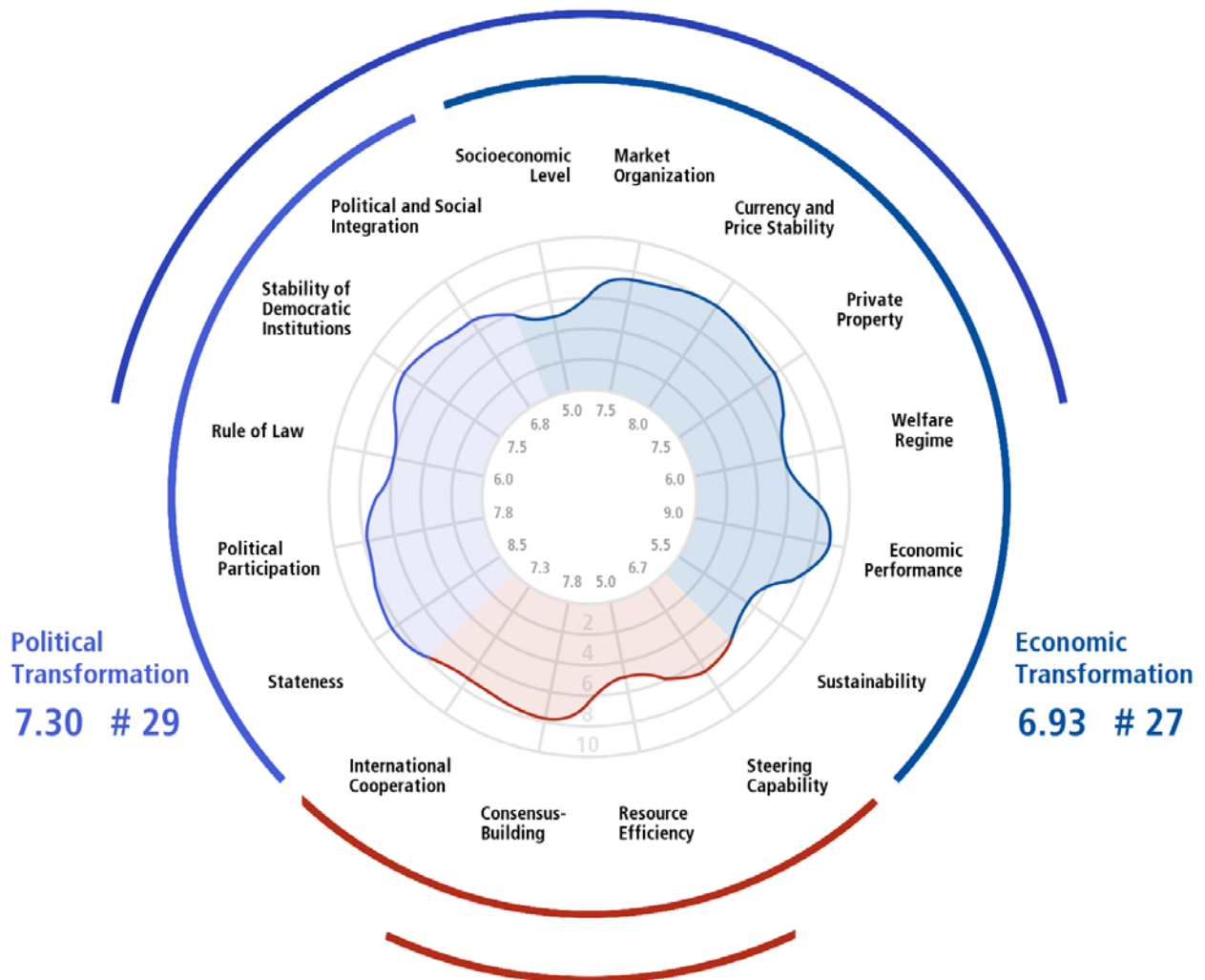


Panama

Status Index

7.11 # 25

on 1-10 scale out of 129



Governance Index

5.72 # 40

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	4.0	HDI	0.788	GDP p.c., PPP \$	23015
Pop. growth ¹	% p.a.	1.6	HDI rank of 188	60	Gini Index	51.0
Life expectancy	years	77.8	UN Education Index	0.708	Poverty ³	% 7.0
Urban population	%	66.9	Gender inequality ²	0.457	Aid per capita \$	2.2

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The election and the beginning of the mandate of Juan Carlos Varela in July 2014 meant a return to political normality for the country, which had experienced a previous government under President Martinelli (2009-2014) characterized by a high perception of corruption and authoritarian tendencies in governance. Citizens' expectations for the new government were to strengthen institutions (especially by opening legal proceedings against corrupt suspects), to continue the infrastructure projects initiated by the previous governments, and to increase the purchasing power of the most vulnerable part of the population. Indeed, the beginning of the mandate was marked by investigations and the opening of judicial proceedings against some members of the former Martinelli government. However, the absence of proceedings initiated against persons related to the political party currently in power has led observers to think that such investigations had political rather than judicial objectives. Corruption and the lack of independence of the judiciary continue to be matters of public concern.

The period under review has also been marked by the worldwide scandal of the Panama Papers. The international community had been pressuring successive governments to abandon opacity in banking and its taxation system, which made the country a magnet for tax evasion by people from other parts of the world, as well as for money laundering. The country finally had to give up its resistance to abandoning these practices due to the outbreak of the scandal, which has forced the country to make efforts to meet the standards demanded by its international counterparts.

Another characteristic of the period is growing political influence by the evangelical churches and of the most orthodox sector of the Catholic Church. They have been able to use this power on several occasions, specifically to introduce a bill on sex education and to annul a decree creating a department for gender equality in the Ministry of National Education. In addition, there have been outbreaks of xenophobia on the part of citizens, backed by irresponsible and corrupt state

policies and promoted by the permissiveness of sensationalist media outlets insensitive to immigration.

Despite a relative decline in economic activity and a slight increase in unemployment, GDP growth in 2016 is estimated at 6.3%, the highest in the region. In addition, despite a slight increase in recent years, unemployment has remained at a rather low level, but almost 40% of the economically active population work informally. Price controls have managed to keep the cost of the basic basket at a level below 40% of minimum wage.

In addition, over the past two years, the government has achieved a significant improvement in security matters, particularly through the re-socialization of young (gang) people and the reevaluation of certain urban areas. The homicide rate declined from 16.1 per 100,000 inhabitants in 2014 to just 9 per 100,000 inhabitants in November 2016. However, this success does not translate into an improvement in citizens' perception of security. Accordingly, two and a half years after his election, President Varela enjoys only 37% approval among the population as of January 2017, while his government enjoys 32% approval. One of the reasons for the unpopularity is the perception that the government moves too slowly in comparison to the more authoritarian decision-making style of former President Ricardo Martinelli.

History and Characteristics of Transformation

Panama was a province of Colombia until 1903, when a U.S. supported revolt resulted in the proclamation of an independent republic. The creation of the new political entity was closely related to President Theodore Roosevelt's aspiration to build an inter-oceanic canal on the land bridge between Mexico and Colombia. Since the construction of the Panama Canal, the country's history has been strongly tied to this 50-mile long masterpiece of engineering. The United States managed the transit service and exercised quasi-sovereign control over the Canal Zone, a 10-mile stretch between the two entrances of the waterway. Over time, the United States established a dozen military bases in the zone. Up to the mid-1930s, Panama was a de facto American protectorate.

Until 1968 an urban economic elite, aligned with the political, economic and military interests of the United States, dominated domestic politics. A period of weak civilian rule ended with a military coup, which brought General Omar Torrijos to power. His most important political achievement was the signing of a new canal treaty, according to which the Canal Zone and the inter-oceanic passage were gradually transferred to Panama. To ease approval of the treaty by the U.S. Congress, Torrijos announced the opening and gradual democratization of the political system. He founded the Democratic Revolutionary Party (PRD) in order to provide the regime with a political platform. After Torrijos's death in a plane crash, General Manuel Noriega took over the command of the National Guard and became the new strongman of the regime. While the army leadership was the real center of power, the PRD government equipped the authoritarian system with a democratic facade. However, the Democratic Alliance of Civic Opposition (ADOC)

won the 1989 election, though Noriega retained power by declaring the vote annulled. A U.S. military intervention overthrew the regime later that year and the ADOC's Guillermo Endara became president.

During his term, Endara (1990-1994) made progress in reinvigorating Panama's political institutions after 21 years of military-controlled government. After the abolition of the armed forces, a new civil police organization became the key actor in the national security architecture. As early as 1994, the PRD staged its political comeback with Pérez Balladares winning the presidential election. President Pérez Balladares implemented an economic reform program that included the privatization of many state-owned companies. Mireya Moscoso – the widow of three-time president Arnulfo Arias and the Arnulfista Party candidate – won the 1999 presidential election. On December 31, 1999, President Mireya Moscoso presided over the defining event in recent Panamanian history, the handover of the Panama Canal. However, when she left office, her government was widely perceived as corrupt, incompetent and ineffectual. In the 2004 presidential race, Martín Torrijos – the son of Omar Torrijos and PRD candidate – won a decisive victory with 47.5% of the vote. During his presidency, the most serious challenges his government had to address were the need to reform the deficit-ridden social security system and the modernization of the aging Panama Canal. In 2006 a referendum, a majority of the voters voted for the expansion of the waterway.

During Torrijos's presidency, Panama experienced a spectacular economic upturn, the result of extraordinarily favorable conditions in the world market, which significantly eased governing. Nevertheless, the high popularity ratings for President Martín Torrijos had little impact on the 2009 presidential election campaign of Balbina Herrera, Torrijos' housing minister and PRD candidate. Internal divisions within the PRD and a public perception that Herrera was too far to the left allowed Ricardo Martinelli, a wealthy supermarket magnate, to win. Ricardo Martinelli ran as an independent centrist candidate, backed by his small Cambio Democrático (CD) party with support from the Partido Panameñista (PPa). PPa chairman Varela served as vice-president and foreign minister in Martinelli's government. An agreement between the two politicians proposed that in return for the support Martinelli received, Varela would run for president in the 2014 election with the support of the CD.

After repeated criticism, Varela and the PPa withdrew their support for Martinelli when he attempted to amend the constitution to allow him to run for re-election in 2014. During Martinelli's presidency, the Panamanian economy achieved the highest growth rate in the Western hemisphere. At the same time, due to the autocratic inclinations of the president, the quality of democracy deteriorated considerably and numerous corruption scandals erupted. The incumbent president's attempt to rule by proxy for another five years failed in the 2014 elections, as the surprising winner of the presidential race was Juan Carlos Varela. His tenure in office has been characterized by a normalization of democracy, grappling with international difficulties associated with the Panama Papers, the rise of religion's influence and the implementation of assistentialist policies.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

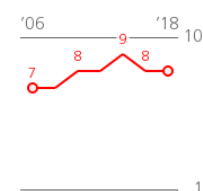
The state's monopoly on the use of force prevails throughout the country and is not challenged by any important political player. State control is weakest in the remote and inhospitable Darién region near the Colombian border. Consisting of a large swath of undeveloped swampland and rainforest, Darién Province is the one and only missing link in the famous Panamerican Highway. Drug traffickers and Colombian guerilla fighters (FARC) have long used the inaccessibility of the region for their own purposes. In recent years, the decrease in the intensity of the Colombian conflict, due to the ongoing peace process promoted by Colombian President Juan Manuel Santos, has led to a significant decline in clashes between parastatal groups and Panamanian security forces (SENAFRONT – National Border Service) on the border with Colombia. The approval of a peace treaty by the Colombian parliament has further improved chances for an abatement in military activities in Darién Province.

However, significant challenges to state control still exist in the region. In particular, the prevalence of drug trafficking, with regular discoveries of cocaine shipments and aspects of a clandestine infrastructure for transportation (heliport), remains a major challenge. In addition, since 2014 Darién Province has become a frequently used route of irregular migration, especially for people from Cuba and Haiti. Cubans are heading by thousands for the United States because they fear that detente with Havana will cause the U.S. government to end the preferential immigration treatment that Cubans now receive when reaching U.S. soil. Haitians flee from the economic consequences of Hurricane Matthew, while many of their countrymen leave Brazil, where the employment boom triggered by major sporting events is over. At the same time, the number of refugees from the Middle East, Africa and Asia, who previously legally arrived at airports in Brazil or Ecuador, is growing rapidly. After Nicaragua and Costa Rica closed their borders in November 2014 and March 2015, respectively, to stop the flow of migrants, Panama followed suit in May 2015. Parallel to the closure of the border with Colombia, the Varela government reached an agreement with Mexico to directly fly more than 3,500 stranded Cuban refugees to Ciudad

Question
Score

Monopoly on the
use of force

8



Juárez at the Mexico-U.S. border. To avoid detection by Colombian and Panamanian security forces, migrants now have to take more complicated and dangerous routes through the dense jungle separating the two countries.

No major social or political group questions the legitimacy of the nation-state and opinion polls show that the large majority of Panamanians is proud of being Panamanian.

Article 12 of the Panamanian constitution mentions physical or mental incapacity of persons as a valid reason for denial of citizenship. Indigenous communities enjoy a degree of autonomy and self-government. They respect the authority of the political system, as long as their rights to autonomy are not violated.

According to polls conducted by the Pew Research Center, 70% of Panamanians are Catholics, 19% are Protestants and 4% have another religious affiliation. Seven percent are unaffiliated.

The constitution does not clearly establish the status of religion in relation to the state. Indeed, Article 35 guarantees freedom of worship, but limits this to respect for Christian morality and public order. In addition, it recognizes that Catholicism is practiced by the majority of Panamanians. In fact, although parents have the right to raise their children without religious education, Catholicism is taught in public schools, and the celebration of important events in the political life of the country often includes religious invocations. In the years covered by this report, this was the case, for example, with regards to the inauguration of the expansion of the Panama Canal.

Due to the well-known proximity of the president of the republic to the Catholic Church, part of civil society is concerned about the relationship between church and state. This has been the case in particular with the questioned four trips made since his election by the president and his family, accompanied by members of the Cabinet Council, to meet Pope Francis. Other important questions were asked by the media and civil society actors regarding public resources channeled discretionarily to the Catholic Church. In the first two years of President Varela's administration, about \$24 million has been awarded, including for the costs of church renovations, and as donations to the Catholic Church, et cetera, compared to the \$3.8 million that went to the church during the entire previous presidential term. The church also exerted significant pressure against the law on sexual education and to annul a decree creating a gender equality department in the Ministry of Education, and organized a demonstration against "gender ideology" in July 2016 in response to a LGBT demonstration one week earlier that demanded legalization on same-sex unions and equality of human rights.

State identity

10



1

No interference of religious dogmas

9



1

The presence of the government's administration is widespread throughout the country, but the basic services provided do not enjoy the same level of efficiency in all municipalities. Rural and indigenous areas are particularly affected by this situation. By 2015, 25% of the population had no access to basic sanitation and 5% had no access to adequate drinking water sources. However, the 100/0 Program (100% potable water / 0 latrines), a central project of the current administration, aims at improving this situation. In 2016, while 82% of primary schoolchildren reached a reading level of 2 in urban areas, only 38% of children in rural areas were able to attain that level. Finally, in 2014, while the national infant mortality rate was 13.8 per 1,000 live births, it amounted to 60.3 in rural areas.

2 | Political Participation

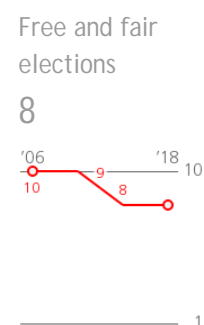
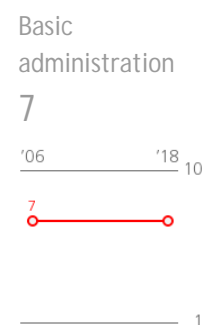
Since the restoration of democracy and universal suffrage, national and local democratic elections have been conducted regularly. The constitution requires that the president, vice-president, national legislators and local representatives are elected by a popular and direct vote every five years.

Even if the electoral management body is considered to be impartial, the lack of rules and controls and the importance of private funding in campaigns do not allow the elections to be considered completely fair. It is presumed that the 2014 elections were the costliest on the continent by number of voters, to the point that the Electoral Observation Mission of the Organization of American States described the sums spent on campaigns as "exorbitant." There is no limit on the amount of private financing. Nor are there obligations to be transparent concerning origins of donations. Private financing results in very unequal access to the media. Thus, the Organization of American States has noted that more than 95% of media coverage was concentrated on three of the seven candidates.

This importance of private financing in the campaigns implies exaggerated interference in the process of policy formulation by private actors, such as large-scale entrepreneurs, but also by organized crime. In the period under review, concern about the possible emergence of a narco-politics phenomenon led to the removal of the distinctive registration plates from deputies' cars, so that they could not be used to commit crimes.

In addition, a number of irregularities occurred in the last elections, which is why the election of 11 elected deputies was annulled, in particular because of the improper use of public funds for the election campaign. However, the electoral law allows candidates recognized as guilty of this type of irregularity to participate in new elections.

Finally, as several national experts have noted, the electoral system for the election of deputies to the National Assembly historically has been one of the most disproportional in Latin America, and thus to a certain degree unfair and exclusionary.



By and large, democratically elected political representatives have the effective power to govern. With the abolition of the armed forces, the single most powerful veto player has vanished. However, some stakeholders exercise considerable political influence over the country's public policies.

In particular, this is the case for the economic elite linked to the financial and service sector. The funding of electoral campaigns by wealthy individuals and companies, without any limits on the size of contributions or obligation of transparency, is a major limitation to the independence of political power and provides a certain veto power to those individuals and companies. There is collusion between the economic and political elites to the extent that partners (formally licensed) of the largest law firms specializing in the creation of offshore companies hold the positions of minister and vice minister in portfolios charged with dealing with the scandal unleashed by the publication of the Panama Papers. Also, the main partner of the Mossack Fonseca firm, Ramón Fonseca Mora, was adviser to the president of the republic, with minister status, until a few days before the scandal surfaced. In this context, the resignation in August 2016 of Nobel Prize-winning economist Joseph Stiglitz and international expert Mark Pieth from the commission formed by the government after the Panama Papers's release, denouncing both the lack of commitment and lack of transparency of government, is a sign of the veto power of the financial sector in the country.

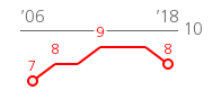
Churches are another actor with some influence over local politics. During 2016, by exerting significant pressure on the National Assembly, especially with the convening in July 2016 of a remarkably large march for the morals of the country, the religious sector, in which evangelical churches played an especially important role, managed to delay the legislative process to pass a law that would institute compulsory sex education in schools. Despite the high rates of early pregnancy and sexually transmitted infections and the approval of the law by a majority of Panamanians, the bill has been regularly postponed because of pressure from the churches.

The constitution guarantees freedom of association and assembly. During the period under review, the government generally respected these rights and individuals and groups can assemble freely.

There are, however, significant restrictions, such as the minimum number of workers needed to form a union, the number of union organizations allowed in an institution or company, and interference in the internal affairs of unions. In addition, there is no freedom of association in certain sectors of the economy, such as the public sector until very recently (in 2016, the first union of educators won the right to become a juridical person), the banking sector, the Colón Free Zone, domestic work and important parts of the business sector. Employees of the Panama Canal cannot exercise the right to strike. In recent years, many trade union leaders have been dismissed.

Effective power to govern

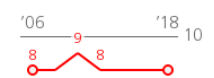
8



1

Association / assembly rights

8



1

Recognition of legal status of civil society organizations is regulated by Executive Decree 524 of 2005 and, as for unions, establishes fairly restrictive requirements regarding nationality and necessary documentation. The obligation to appeal to lawyers and a notary and to carry out the process in the capital makes it expensive and time-consuming – usually lasting between three and five months, but the process is more discretionary and may last for years. This was particularly the case for the country’s first LGBT association.

The constitution guarantees freedom of speech and of the press, but these rights (with the exception of internet access) are not always respected in practice. The latter also holds true for Article 37 of the constitution, which prohibits any form of prior censorship.

In its 2016 report (referring to 2015), Reporters Without Borders ranked Panama 91st out of 180 countries in terms of freedom of the press, which means a decline of eight places compared to the 2015 report and a ranking within countries with serious press freedom problems. Still, the situation improved significantly in comparison to the previous administration, when Panama was ranked 111th (in the 2012 and 2013 reports). In addition, the Americas Barometer published in 2012 showed weak attachment among the Panamanian population to freedom of expression: only 53.5% of the respondents supported freedom of expression.

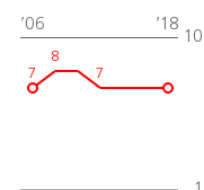
La Prensa newspaper, which participated in the investigations that led to the leak of the Panama Papers, endured harsh accusations from other media outlets and other sectors in society. According to the newspaper’s director, those attacks came especially from media outlets owned by former President Martinelli. In addition, there have been reports of intimidation of journalists by the National Security Council. Former leaders of the council are currently facing legal proceedings for illegally wire-tapping journalists – among other persons who were wiretapped.

In October 2015, a bill was introduced by a deputy of the governing party that would regulate the exercise of journalism, particularly by non-nationals, which provided for the possibility of imprisoning people practicing the profession “illegally.” Given the strong rejection by journalists, the bill was abandoned. In 2016, various federations of journalists denounced the arrest and sentence to 20 months in prison for insults of Okke OrNSTEIN, an award-winning Dutch journalist, for posting articles on his blog on corruption practices.

One of the biggest challenges in terms of freedom of expression in Panama is the reinterpretation and dishonest use of this freedom by the economic elite, especially media owners. They invoke freedom of expression to avoid reforms that force the media to put electoral candidates on equal terms, thus achieving more competitive and fair elections, or to avoid the prohibition of misogynistic discourse in the media. Both reforms have been slowed down with arguments by the media regarding freedom of speech and the right to information.

Freedom of expression

7



3 | Rule of Law

The separation of powers is laid out in the Panamanian constitution. However, traditionally the executive branch holds significant authority vis-à-vis the legislature and the judiciary. In the World Justice Project's 2016 Rule of Law Index, Panama ranks below the Latin American average in most indicators with regards to the variable "limited government powers," revealing a weak separation of powers.

This is particularly valid with respect to the interference of the executive in the judiciary. In December 2015, President Varela swore in two new judges for the nine-member Supreme Court. The new magistrates had been appointed according to the constitution, with thorough debate in the assembly but without respecting the State Pact for Justice, signed between state institutions and representatives from civil society, which defines an inclusive selection process as including specific institutional stakeholders.

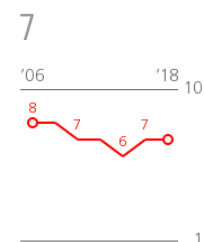
Concerning the legislature-executive relationship, the president has the right to veto, used on several occasions during the period under review. According to the Dichter and Neira poll of October 2016, 59% of Panamanians think that the National Assembly does not act independently, while 57% believe that the Supreme Court acts independently.

Undoubtedly, the judicial branch is the weakest and least functional element of the democratic system. The constitution provides for an independent judiciary, but in reality, the different branches of the judiciary are more or less inefficient, and susceptible to corruption and outside influence. The World Justice Project's 2016 Rule of Law Index placed Panama in 107th place out of 113 countries for criminal justice and 72nd with respect to civil justice.

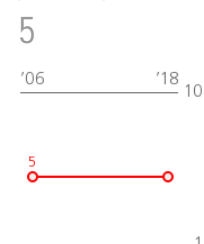
In September 2016, putting an end to a delay of five years, the Accusatory Criminal System was implemented on Panama's territory. However, what in principle is deemed a very important step forward for the country's justice system was tarnished, as was pointed out by the Public Prosecutor, by the appointment of 900 officials by the Supreme Court, without having followed the procedure provided for by the Judicial Career Law. The president of the Supreme Court warned that, due to budget shortfalls, the Judicial Career System would take three more years to implement, which means that the appointment of judges may remain subject to political manipulation.

Repeated corruption and cronyism scandals in the top echelons of the Supreme Court (leading to the prosecution of several judges and the condemnation of former Supreme Court President Moncada Luna to a five-year prison sentence for illicit enrichment in March 2015) and the re-election to the presidency of Judge Ayu Prado, despite seven pending complaints, have shrouded the institution in disrepute.

Separation of powers



Independent judiciary



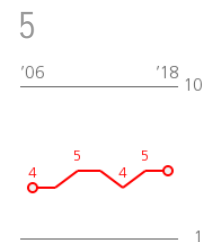
According to Dichter and Neira's survey, between February 2015 and October 2016, citizens' positive perception of the management of the Supreme Court declined significantly from 62% to 29%.

Despite improvements in recent years, Panama still has difficulties in prosecuting and punishing corrupt officials. In the Rule of Law Index for 2016, Panama scores 0.32 on the "sanctions for official misconduct" variable, on a scale of 0 to 1, which is significantly lower than the regional average and the high middle-income group. Under the administration of Juan Carlos Varela, a significant number of former high-ranking officials were prosecuted – policemen, judges, deputy ministers, ministers and even ex-President Martinelli. Allegations of corruption against members of the Martinelli government were repeatedly the subject of media coverage. In January 2015, the Supreme Court (CSJ) announced the opening of an investigation into the former head of state for alleged corruption at the Programa de Ayuda Nacional (PAN), a government fund for disaster relief and national emergencies. More than a dozen other people are involved in the case, including former Minister for Economic Affairs and Finance Frank de Lima. Martinelli left the country at the end of January 2015 (to attend a regular session of the Central American Parliament, Parlacen). Later it became known that he traveled to the United States. In April 2015, the National Electoral Court (TE) decided to strip Martinelli of the immunity from prosecution he enjoyed as leader of his Cambio Democrático Party.

In May, the chair of Transparency International hailed the Varela government's anti-corruption efforts. In July 2015, the Supreme Court launched a third investigation into the former president for issuing more than 300 illegal pardons to his imprisoned allies at the end of his term. In the same month, the previous minister for agricultural development was taken in custody because of a planned irrigation project, which was paid for, but never built. By August 2015 eight former cabinet members of the Martinelli administration had been arrested on corruption charges. After extending the investigation into corruption allegations against Martinelli in September (i.e., engagement in insider trading on the national stock market and ordering illegal wire-tapping of 150 people), in December the CSJ issued an arrest warrant for the former head of state in relation to the wire-tapping case; there has been an extradition request since September 2016, and Martinelli was taken into custody by United States authorities in June 2017.

However, sections of the population related to Martinelli's Cambio Democrático Party are accusing the current government of carrying out political persecution of its leaders, arguing that the current administration has not investigated members of the Martinelli administration with connections to the Panameñista Party (which was part of Martinelli's coalition government and is now the governing party).

Prosecution of
office abuse



Civil rights are guaranteed by the constitution and Panama has ratified most human rights conventions at the regional and international levels. However, many civil rights continue to be regularly violated.

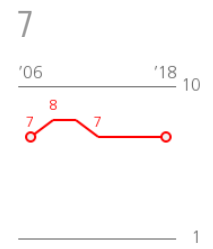
Despite the provisions of the constitution, discrimination against Afro-Panamanians, indigenous people, women and LGBTI people remains a matter of concern. Racial discrimination is still not criminalized, despite international recommendations. The Committee on the Rights of the Child expressed worry concerning discrimination against Afro-Panamanian children in the media and by public authorities in poor neighborhoods. Moreover, the committee's ombudsman reported that one of the most frequent complaints reported concerns schools not letting Afro-Panamanian girls wear braids.

Women suffer worrying underrepresentation in the three branches of government: they occupy 18.3% of National Assembly seats, 18.75% of cabinet seats and only one seat among the nine judges in the Supreme Court of Justice. Homosexuality is no longer a crime since 2008, but serious patterns of discrimination persist. For example, Article 133 of the Disciplinary Regulations of the National Police states that homosexuality is a serious offense that can warrant a public employee being suspended.

In 2014, the Open Society Foundation reported that Panama was the country with the highest number of people in preventive detention per 100,000 inhabitants, which shows little respect for the presumption of innocence and lack of access to effective justice. Additionally, high levels of overcrowding and violence in prisons continue to be reported, including violence committed by prison staff. In 2015, a new jail was inaugurated in a National Air and Naval Service facility, which depends on the Ministry of Security and not on the government ministry legally responsible for prisons. It provides neither adequate detention conditions nor respect for the basic human rights of persons deprived of liberty, arousing significant international criticism.

The rights to life and security have improved significantly in the last two years, with the implementation of different programs, such as Barrio Seguro, which provides gang members with amnesty in exchange for handing over their weapons and obligatory participation in job training programs. The homicide rate dropped from 17.3 per 100,000 inhabitants in 2013 to 8 per 100,000 inhabitants as of October 2016. Despite this significant improvement at the national average, levels of insecurity vary depending on the geographical location and remain of concern in some jurisdictions such as Colón and certain sectors of the capital.

Civil rights



4 | Stability of Democratic Institutions

Democratic institutions exist and perform albeit with certain weaknesses. The judiciary has problems with efficiency, independence and transparency. Cases of buying and selling rulings are regularly denounced, including at the highest level of the judiciary.

Parliament has significant difficulties in resolving political controversy and proceeding to parliamentary debates. Most agreements and negotiations on bills and appointments take place in parallel with regular parliamentary procedure, which renders these processes not very transparent, in addition to making dissident positions invisible.

Democracy and its institutions and rules are accepted in principle by the relevant actors in Panama, however, without agreeing on how to improve them. For example, there have been persistent demands from civil society and some political groups for the election of a constituent assembly and the drafting of a new constitution. In fact, these were included in the government plan of the Panameñista Party during the campaign that led to the election of Juan Carlos Varela to the presidency. The plan has yielded no concrete outcomes so far.

The endless series of reports on corruption in the government and the judiciary inevitably weakens the prestige of the democratic regime.

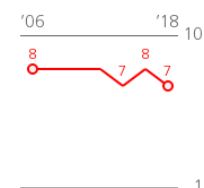
5 | Political and Social Integration

Panama's party system is composed of five, rather long-lived parties, with the most recent founded 18 years ago (which makes it a participant in more than half the democratic elections). The oldest party is over 90 years old (the history of the Partido Panameñista began with the Movimiento de Acción Comunal in 1925). Although the longevity of the parties may seem to suggest that the party system has strong roots in society, just like the unusual fact that almost half of citizens are registered as members of a political party, adherence to these organizations is essentially and increasingly more clientelistic. In the UNDP 2006 National Human Development Report survey, 80.7% of people interviewed stated that the reasons to join a political party were "to have a job" or "to seek personal benefits." The consequences of widespread clientelism are directly related to the quality of the Panama's public administration, which was described by the Inter-American Development Bank (IDB) as a "clientelistic bureaucracy," with consequences such as the de-ideologization of parties and inefficient provision of public services to citizens.

The Panamanian party system has been moderately pluralistic since the 1994 elections. At the beginning, there emerged a bipolar dynamic with two major

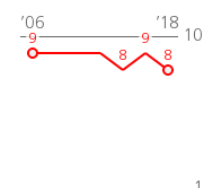
Performance of democratic institutions

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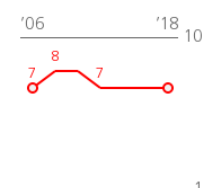
Commitment to democratic institutions

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Party system

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coalitions led by the Arnulfista Party (now Panameñista Party) and the Revolucionario Democrático Party. However, over time third forces appeared and grew stronger, until in the 2009 elections the Cambio Democrático Party ended the bipolar dynamic. This new dynamic is the product of high volatility during the presidential elections of 2004 compared to those in 1999, and the same in 2009 elections compared to 2004 (the Pedersen index in both elections was 43, one of the highest in the region). The 2014 elections confirmed the new tri-polar dynamic, anticipated in 2004 and 2009, with a Pedersen index value of 20.

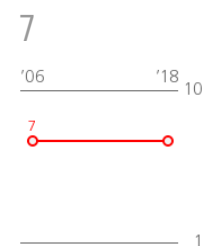
There is no real ideological polarization in the Panamanian party system. The five existing parties are on the right of the ideological spectrum. The absence of leftist parties is a system abnormality that is of little concern in the country's public opinion, although a considerable part of the population defines itself as leftist, according to polls.

The most influential interest groups are those from the business sector and a handful of labor unions. Employers' and business organizations (APEDE, CONEP, the Chamber of Commerce Panama) are well organized, control almost all media outlets and also finance electoral campaigns. The latter allows them to participate through representatives in decision-making positions in government who act directly in their interests. Another influential group is the church. Of Panamanians 70% declare themselves Catholic while Evangelical churches have gained influence in recent years. In 2014, 19% declared affiliation with a Protestant church, and the mobilization of Protestants in social debates has allowed them to gain influence as political actors.

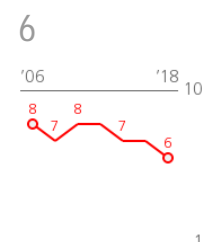
Civil society organizations are very fragmented and lack economic resources. In part they are linked to the most influential sectors mentioned above, which allows for dialog and cooperation to a certain extent. Some more critical groups operate in opposition to these groups. In rural areas, indigenous and environmental movements have become more visible as political actors through significant mobilizations in opposition to mining and hydroelectric projects in recent years. In urban areas, these struggles had an echo in new social movements that have managed to occupy political space in recent years. In general, however, the social interests of the poorest and most vulnerable groups, such as small-scale farmers, workers in the informal sector and ethnic minorities, are poorly represented in the political system.

For several years, survey data indicate a steady decline in support for democracy among Panamanians. According to Latinobarómetro, in 2016 only 45% of citizens considered democracy preferable to any other form of government, a significant decline since 1996 (75%). More worryingly, 51% of the respondents declared that they would not care if a non-democratic government came to power, if it could solve pressing national problems. This means that the population's low attachment to democracy is related to disappointments in the performance of public policies in recent years. In addition, Panama has the third-highest approval of hard-line policies

Interest groups



Approval of democracy

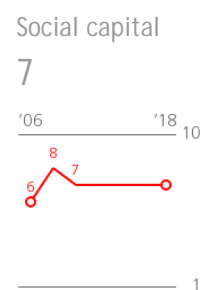


in the region, which enjoy 77% approval among respondents. Accordingly, 45.8% of the population trusts the police.

Approval of democratic institutions is also low. In 2015, the state enjoyed 33% confidence, the judiciary 28.5%, the National Assembly 24.9% and political parties 25.9%. It is worth noting that 51% of respondents trusted the electoral tribunal, which might support the interpretation that the low adherence to democracy in Panama originates primarily in the poor performance of the political system, and not in a fundamental rejection of democratic rules.

Social capital is not developed in Panama. Latinobarómetro survey data show that interpersonal trust is low, with only 22% of respondents declaring that most people can be trusted. Of those surveyed 75.4% have never contacted an NGO, association, union or church for help to solve problems affecting their community.

However, because of poor social policies, family networks remain fundamental in case of illness, old age or unemployment. Civil society organizations remain weak in terms of organization and ability to advocate effectively. However, as new grassroots organizations featuring of various formal organizational capacity have emerged in recent years, they have advanced progressive agendas and are increasingly visible in the public realm.



II. Economic Transformation

6 | Level of Socioeconomic Development

The country has high levels of poverty and inequality that could be described as structural. Panama is considered by the World Bank as a high-income country with a Gross National Income of \$20,170 per capita PPP and high human development, with an index of 0.780 that places it 60th worldwide and fourth regionally. However, by adjusting the HDI for inequality, Panama declines 20 places in the world ranking, and 16 in terms of the Gender Inequality Index. In the Failed States Index Fund for Peace, Panama is in the group of stable countries, but has by far the worst score in that group in terms of “uneven economic development,” comparable in this dimension to countries classified as “Very High Concern.” The Gini index (0.507) is the highest in Central America and the fourth highest in the region behind Colombia, Brazil and Paraguay.



Poverty remains high, with 20.3% of the population living on less than \$4 per day, of which almost 75% live in rural areas. This situation particularly affects indigenous people, as more than 90% of them live in poverty. Of indigenous people living in urban areas, 38% quit primary school before finishing. Indeed, public investment in

education amounts to almost \$500 per inhabitant overall, whereas this figure is below \$200 in indigenous territories. The lack of infrastructure in rural areas contributes to this situation. For example, while WHO recommends three hospital beds per 1,000 people, urban areas had 2.7, while rural ones only 1.5 beds in 2015.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	44856.2	49165.8	52132.3	55187.7
GDP growth	%	6.6	6.1	5.8	4.9
Inflation (CPI)	%	4.0	2.6	0.1	0.7
Unemployment	%	4.1	4.8	5.3	5.8
Foreign direct investment	% of GDP	9.5	10.1	9.7	10.8
Export growth	%	-5.1	3.3	3.9	-4.5
Import growth	%	-3.3	3.0	5.1	-8.0
Current account balance	\$ M	-4400.9	-6729.8	-3809.0	-3098.0
Public debt	% of GDP	35.0	37.1	38.8	38.8
External debt	\$ M	68391.0	78067.3	88566.1	89492.1
Total debt service	\$ M	1990.8	2230.9	2645.7	6345.6
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	10.3	9.9	10.4	10.6
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	5.8	5.9	-	-
R&D expenditure	% of GDP	0.1	-	-	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The Panamanian constitution guarantees free economic and market competition, but the rules for market competition are not consistent or uniform for all market participants. In 2016, Panama ranked 66th out of 178 countries in terms of economic freedom according to the Heritage Foundation's Index of Economic Freedom, two places higher than in 2015, and 13th out of 29 countries in the region. The Fraser Institute ranks Panama 37th out of 159 in its Index of Economic Freedom. According to advice from the U.S. Embassy in Panama for potential investors from the United States, poor rule of law, lack of judicial independence, a shortage of skilled workers, a high level of corruption and poorly staffed government institutions all add risk and complications to doing business.

Because of its open economy, Panama has few barriers to market access. There are no formal restrictions on capital flows or discrimination between foreign and domestic investment. In principle there is no discrimination between enterprises. After having dropped to 48th in the World Economic Forum's Global Competitiveness Report 2014–2015, and then to 50th the following year, Panama climbed again eight places to 42nd in the 2016–2017 report. While strengths of the Panamanian market economy are seen in financial market development and the macroeconomic environment, the most problematic factors for doing business are corruption, inefficient government bureaucracy, an inadequately educated workforce and restrictive labor regulations.

Panama's economy has been dollarized since 1904, which allows the country to benefit from a convertible currency and experience virtually no risk of devaluation or abrupt changes in monetary value.

In order to face rising inflation and the Panamanian population's worries over the cost of living, the Varela government introduced price controls for 22 basic products, a measure which has been extended twice.

The national legal regime is protectionist in certain sectors: investment in coastal lands, fishing in Panamanian waters, retail trade and radio broadcasting. In international air transport, cabotage traffic is reserved for companies in which a minimum of 60% of shares is held by Panamanians. However, criticism has been levied that this legislation has not been respected in recent years. There are also certain limitations on the nationalities of the workforce, since foreigners can only comprise 10-15% of the payroll when specialized personnel are employed.

About 40% of people work informally, especially as domestic workers, agriculture workers and employees of small-sized companies, which is an obstacle to competition for equal opportunities.

Market-based
competition

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In the Global Competitiveness Index of 2016-2017, Panama ranks 42nd out of 138 countries globally and second in Central and South America, only surpassed by Chile. With respect to efficiency of its antitrust policy, Panama ranks 43rd.

The first anti-monopoly law was enacted in 1996 during the liberalization of the Panamanian economy under President Pérez Balladares. According to the OECD, the current law, which has been in force since 2007, includes in many aspects of international best practice in the field of competition.

The law of 1996, modified since then, created the competition agency ACODECO, which has managed to play a successful role despite budgetary limits on its support. It controls cases of mergers, abuses of dominant positions, et cetera. In the most recent period, ACODECO opened investigative proceedings against domestic companies suspected of having divided public markets supplying food and domestic onion producers for agreeing to lower prices to meet agricultural imports. Grouping in the same institution of the defense of the interests of the consumer and free competition may have a certain bias that disadvantages consumers.

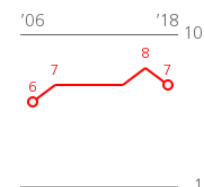
The state retains some monopolies, such as gambling through contracts with domestic and foreign companies, and the post and telegraph. It also has a de facto monopoly on electricity transmission. However, some economic actors, because of their relations with political power, possess a near-monopoly in certain sectors. In 2014, for example, Copa Airlines flew 70% of flights from Tocumen International Airport.

Panama's economy is basically focused on free trade. In its 2016 report on the state of economic freedoms in the world, the Fraser Institute ranked Panama ninth out of 159 countries in terms of freedom to trade internationally. The Panamanian economy was liberalized in the 1990s and largely privatized. Panama is a member of the WTO since 1997. Since then it has signed free trade agreements with the United States, Canada and most of the states in the region, as well as with Asian countries (China) and the European Free Trade Association. In addition, in order to attract foreign investment, it maintains certain free tax- and duty-free zones, as the Colón Free Trade Zone, from which 66% of the country's foreign trade is operated. Additionally, several other special economic zones exist, such as Panama Pacífico, City of Knowledge and others.

In order to increase FDI, the Agency for Attracting Investment and Export Promotion (PROINVEX) was created. The process of starting a company has been simplified through an electronic procedure. Panamanian legislation does not discriminate between foreign and national investors and the companies in which they participate. The repatriation of capital, dividends and interest is free. Except in certain activities, such as banks and insurance, foreign investment does not require prior permission. The average tariff has progressively declined to reach an average of 6.1%, according to the 2016 Heritage Foundation Economic Freedom Index report. In April 2015,

Anti-monopoly policy

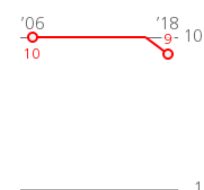
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Liberalization of foreign trade

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however, because of the major difficulties in the agricultural sector, the government introduced new tariffs on food goods.

However, as underlined by the Global Competitiveness Report, significant trade barriers remain, such as corruption and the inefficiency of the government's bureaucracy. The 2017 Doing Business Report ranked Panama 53rd out of 190 countries in "trading across borders."

The Panamanian banking sector is a fundamental pillar of the economy, accounting for 9.5% of GDP and 24,000 direct jobs. In addition, it is one of the sectors with above average growth each year (10.4% in 2015). More than 90 banks were registered in the country in 2016, with no restrictions on the establishment of foreign banks.

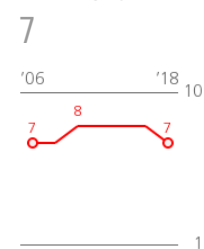
In 2014, the World Trade Organization report on Panama considered the Panamanian banking sector to be solid, with high levels of solvency, liquidity and profitability. The capitalization level is higher than 9% and complies with the Basel agreements – which establish a minimum of 8%, although it has been declining in recent years. Likewise, the loan default rate was only 2.2% in 2014.

However, a number of recent scandals (the Panama Papers and the Waked Money Laundering Organization and its leader, considered by the Treasury's Office of Foreign Assets Control to be connected to international drug traffickers) have placed Panama in international focus as a money-laundering center and destination for tax evasion. Panama was listed on the Financial Action Task Force (FATF) gray list until February 2016, from which it was withdrawn after making several commitments, such as submitting to the automatic exchange of financial information in October 2015. However, Panama reversed the commitment and the Panama Papers scandal highlighted the country's weakness in terms of financial transparency.

The OECD Global Forum on Transparency and Exchange of Information for fiscal purposes delivered in October 2016 a joint evaluation of "phase two," which monitors the implementation, compliance and effectiveness of the legal system. It concluded that Panama did not meet international standards, and faced difficulties in particular in obtaining and exchanging information for fiscal purposes. The report considered the various measures taken since 2015 were considered insufficient or inadequate. Gaps in domestic legislation led Panama only to be able to respond in eight out of the 48 cases for which information was requested. In cases in which Panamanian companies did not provide the required information, no sanctions were applied. The impact of the scandal on the image of the country at the international level forced it to sign the Multilateral Convention on Mutual Assistance in Tax Matters of the OECD in October 2016.

In October 2016, Standard and Poor's devalued the banking industry's risk trend from stable to negative, highlighting weaknesses in the institutional framework, particularly failure to adopt and properly implement Basel III regulatory standards.

Banking system



In addition, the rating agency devalued the notation of three banks installed in the country due to deficiencies in their regulation, supervision, governance and transparency. The overall rating of the banking industry is 5/10, and the economic risk is 6/10, 10 being the highest risk situation, especially with regards to the high risk of economic imbalances, credit risk and a very high risk as to the system's funding.

8 | Currency and Price Stability

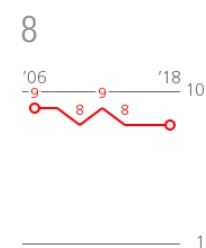
The currency of Panama is the balboa, which has been pegged to the U.S. dollar since 1904. Panama does not print its own paper currency – for which it uses U.S. dollars – and only distributes coins up to a maximum value of one balboa. Therefore, the country does not have the tools to carry out a monetary policy to combat inflation and there is no exchange control. There is also no traditional central bank; the National Bank of Panama fulfills certain functions of a central bank, such as serving as the state bank and the regulatory bank.

Although inflation has been low since the 1980s (below 2% since 1983), the economic boom of recent years, the significant increase in foreign direct investment (from 6.7% of GDP in 2005 to 11% in 2015), the soaring public budget deficit and speculation in some parts of the economy, such as the real estate sector, allowed inflation rise to unusual heights, making the cost of living a central concern among the public. After reaching an all-time high of nearly 10% in September 2008, the inflation rate averaged 3.9% from then until 2016. In order to counter the rapidly rising prices of basic necessities, the incoming Varela administration enacted “temporary” emergency price controls in July 2014. This measure to control the prices of 22 products of the basic basket was subsequently extended twice for half a year each time. Consumer prices in Panama rose 1.6% year-on-year in January 2017.

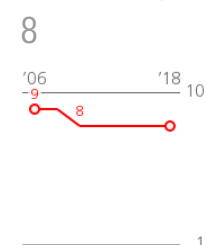
Panamanian macroeconomic indicators have been healthy in recent years thanks to public investments in large infrastructure projects – expansion of the canal and the Tocumen Airport, the first metro line in Panama City, a third bridge over the canal and coastal strip, among others. Although GDP growth remains high (5.8% in 2015 and 5.4% in 2016), recent years have seen a marked deceleration in growth. This has led to a slight increase in public debt (38.8% of GDP in 2015) – though still a significant improvement over the last ten years (62.5% of GDP in 2005) – but also a slight decrease in the trade deficit. Because of the country's specialization in services and the weakness of the primary and secondary sectors, Panama relies heavily on imports of primary and secondary goods, and the current account balance showed a deficit over \$3 billion in 2015.

The budget gap has been quite moderate in recent years with a deficit of 2.3% in 2015, partly thanks to the efficiency of tax revenue collection. In 2015, tax revenues were the highest of the last seven years. However, this is mainly due to financial

Anti-inflation /
forex policy



Macrostability



transfers from the canal and mixed companies, while tax collection was not as high as budgeted.

In fact, the rating agency Moody's in its October 2016 assessment noted that, despite the country's good economic performance, there was a slight deterioration in fiscal indicators even though the government has followed a fiscal consolidation strategy since 2014.

9 | Private Property

Private property rights are generally protected by law, but the application of legal norms is inefficient and often subject to corruption. In 2016, Panama ranked 56th globally and fifth in the region in the International Property Rights Index. It scored especially high in terms of intellectual property protection and access to credit, for which it ranks as a regional leader. Additionally, it is well positioned in terms of registration of properties and the protection of physical property. However, other factors contribute to a lower score, especially low judicial independence, rated at 109th out of 128 countries.

Likewise, in the Fraser Institute's Index of Economic Freedom, the country obtained a 5.5/10 rating in property rights, ranking 82nd out of 134 countries. There too, the factors that negatively affect property rights are a lack of judicial independence with a score of 2.75, the deficient legal implementation of contracts (2.99) and weak impartiality of justice (3.74).

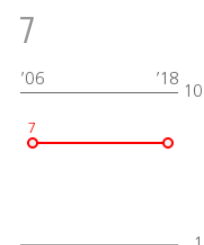
The 2017 Doing Business Report ranked Panama 84th out of 190 countries concerning registering property. It takes seven procedures over 22.5 days and costs 2.4% of the property value, which is more than the regional average.

The Libertad Foundation also points to the non-existence of property rights among indigenous people over the comarcas – the indigenous territories that enjoy a legal regime different from that in the rest of the country.

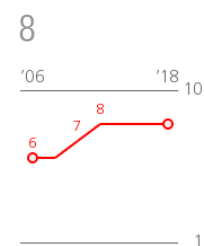
Private companies are considered the base of the economy and regulatory framework facilitates their creation. In fact, only six days and five procedures are required to register a company, which makes Panama the country the easiest country in the region when it comes to registering new firms, practically on par with Chile (where, on average, it takes half a day less but two more procedures to register a company).

There are some public (state-owned) and mixed capital companies, especially the Panama Canal Authority and the Colón Free Zone – the most important of its kind in the world after Hong Kong – which are also fundamental to the country's economic model and could hardly be privatized. In fact, a land privatization project in the Colón Free Zone in 2012 was strongly rejected by residents of the region, which resulted in clashes over several weeks during which three people died. In addition, the Panama

Property rights



Private enterprise



Canal Authority has continuously improved its service since taking over responsibility for the canal, even if there are several accusations of conflicts of interest among the Board of Directors.

10 | Welfare Regime

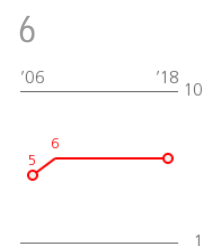
Welfare institutions exist but do not cover all the social risks created by a capitalist economy nor extend to all segments of the population. The IMF recommended that Panama generate more inclusive growth, especially in order to reduce inequality and poverty in indigenous areas, addressing the issue through a more effective system of social safety nets.

The two most important areas covered are health care and pensions, both of which are assumed by a social security fund (Caja de Seguridad Social, CSS), a public corporation administered by the state and charged with managing various social services and entitlement programs. However, the system is not universal and is conditional upon social contributions. In 2016, approximately 1.5 million people were enrolled in the CSS and more than 3 million were entitled to use the CSS services, leaving 25% of the population uncovered. The IMF recommended ensuring universal access to primary care. In addition, the efficiency of the CSS is regularly questioned due to repeated shortages of medicine and basic inputs, delayed deadlines for medical appointments and various health scandals – hospital bacteria and a mass poisoning scandal in 2006. The program in charge of managing disability funds and pensions has financial difficulties, especially since it is in the process of transitioning from a system based on principles of solidarity to one focused on individual payment. Projections indicate that the CSS pension system might collapse by 2024, if not overhauled.

In recent years, various economic transfer programs have been implemented to alleviate poverty and extreme poverty among certain sectors of the population. A minimum pension plan called “100 for 70” was implemented under Martinelli, which consisted of \$100 monthly payments for people over 70, who were unable to access retirement for having not contributed enough during their working years. This amount was increased to \$120 per month for people over the age of 65 by the current government. In 2016, 33.7% of those over 70 years of age benefited from this program.

Since 2010, the Opportunities Network Project has provided conditional cash transfers to beneficiaries (consisting of a \$50 monthly stipend); 72,563 women are registered, based on socioeconomic criteria. Transfers are conditional – depending on the case – upon attending health programs, undergoing pregnancy care and medical testing, providing assistance to children at school and participation in school meetings, attending professional training for improving productivity, and registering

Social safety nets



births and deaths. Beneficiary families that attend such training are provided support through the program.

Since 2012, the Guardian Angel Program has made monetary payments to people with severe disabilities living in extreme poverty, also upon condition of participating in health services checkups and educational programs. In addition, the National Food Security Plan (SENAPAN) distributes food vouchers. There are other projects, such as the Ceiling of Hope that seeks to address the problem of precarious housing. Under the auspices of this program, 30,000 homes have been tendered, built or renovated.

A number of institutions and political programs work to compensate for gross inequalities, though their efforts remain insufficient. Equality of opportunity is enshrined in law, but implementation is undermined by corruption, limited resources and a lack of political will. There is no comprehensive legislation that prohibits discrimination; nor are there quota policies or affirmative action. This result is significant inequality in opportunities.

According to a World Bank study, people living in poverty-stricken urban areas in Panama are almost 50% more likely to emerge from poverty than people living in rural areas under the same conditions. Likewise, the probability of finishing primary school varies from over 97% to 37% depending on the province, and illiteracy rates vacillate between 2% and 30%, depending on geographic location. Provinces where children have a lower probability of completing primary school and are more likely to be illiterate are Panama's indigenous regions and provinces with high density of people of African descent.

Since 2010, scholarships for primary and secondary school students, dependent upon good school performance, health monitoring and parental attendance at academic follow-up meetings, have been paid to prevent school dropouts among students with socioeconomic problems. More than 600,000 students were awarded universal scholarships in 2016. However, this does not fulfill a redistributive purpose because it is not conditioned on socioeconomic criteria and is also assigned to students from private schools.

In the 2016 Global Gender Gap Index, Panama scored 47th out of 144 countries. In terms of access to health and education, Panama is very close to parity, but far from parity in terms of economic participation and even farther in terms of political participation. Panama ranked 105th in terms of women's labor force participation, at only 37.6%. Only three countries in the region (Costa Rica, Mexico and Honduras) have lower rates. In addition, men receive wages (on average) about 60% higher than women's.

Equal opportunity

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11 | Economic Performance

The Panamanian economy is characterized by strong primacy of its tertiary sector, accounting for more than 75% of GDP, including the canal, the International Banking Center and the Colón Free Zone, but also extending to logistics, container ports, insurance, flagship registry and tourism. The construction sector and the boom in real estate sales also had an important impact on economic growth in recent years.

The overall performance of the economy has been good. In the last ten years, GDP per capita doubled to \$22,192 PPP, the second largest per capita GDP in the region, just behind Chile, and the largest increase in the region. In fact, economic growth has been on average 7.8% in the last 11 years, stimulated by foreign direct investments (about 11% of GDP in 2015, the largest percentage in the region for the third consecutive year).

In 2015, the current account deficit amounted to \$3.37 billion, which is the first year with a deficit below \$4 billion since 2010. Public debt amounted to 38.8% of GDP, which has been evaluated by the IMF as sustainable.

In recent years, significant economic growth as well as the increase in the ITBMS sales tax, minimum wage, the budget deficit, as well as real estate speculation led to relatively high inflation rates, reaching almost 9% in 2008 and exceeding 5% in subsequent years. The deceleration of the national economy, falling fuel prices, historically low interest rates, a strong dollar, as well as temporary price control measures by the Varela administration managed to decrease inflation, with the lowest rate of the decade in 2015.

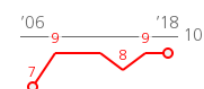
Thanks to good economic performance, there is almost full employment since 2011 – with a slight deterioration in recent years, however, with 5.5% unemployment in 2016. Notwithstanding, full employment is accompanied by a very high rate of informal employment at over 40%.

12 | Sustainability

Environmental concerns are taken into account, but repeatedly subordinated to development efforts. Since March 2015, Panama elevated its environmental agency to the rank of an environmental ministry, as one of the commitments that the current president has made to the issue. Its budget is twice the budget of the former agency. The country ratified the United Nations Framework Convention on Climate Change (COP 21) agreements in March 2016, but was one of the few (eight) countries not to present its commitments to fighting global warming that all signatories were supposed to publicize before the conference.

Output strength

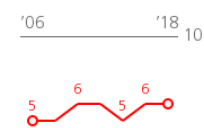
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Environmental policy

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Although the Environmental Performance Index 2016 ranked Panama 51st out of 180 countries, there are serious problems in terms of agricultural management (145th out of 166), fisheries (93rd out of 1316) and deforestation (64th out of 116). It is estimated that the country loses 20,000 hectares of forest per year. Environmental awareness is very weak, and the issue is not one of the concerns mentioned by citizens in national surveys.

Some public policies have tried to mitigate these effects of the capitalist economic model and intensive development. The Alliance for One Million, an alliance between the public and private sectors, seeks to reverse the process of deforestation by reforestation or afforesting one million hectares of forest in Panama. The national energy plan raises a target of 70% renewable energy by 2050. Various fiscal incentives promote reforestation and the use of solar panels. In November 2016, the Panama Canal established the Environmental Premium Ranking. According to the official canal website, this incentive allows qualified customers the opportunity to improve their position within the Panama Canal's Customer Ranking System, which is taken into consideration when booking transit through the Panama Canal.

However, several environmental scandals show that there are still important issues concerning environmental politics, as, for example, a case significant contamination of a river by an ethanol factory in 2014, and death threats made against environmental activists, one of whom had to leave the country in 2016.

Education is a sector with severe difficulties. Despite some progress in recent years, Panama's education system continues to be plagued by significant inequalities in coverage and quality with substantial differences between urban and rural areas. Children from higher socioeconomic backgrounds usually attend private schools.

The Global Competitiveness Report indicates that an inadequately trained labor force is the third most problematic factor for businesses in the country, after corruption and bureaucratic inefficiency, placing Panama 86th out of 138 countries in terms of "higher education and training." As for primary education, attendance is practically universal, but the country is ranked 99th in terms of quality. Most troubling, it ranks 110th out of 138 for education in mathematics and science. In fact, in the last PISA tests in which Panama participated, in 2009, it ranked 62nd out of 65 participants. Over 1% of children leave primary school prematurely.

The low salaries of teachers (\$640 in 2014) led to several nationwide strikes. Teachers obtained an incremental increase in their salaries, up to \$1,240 in 2018, and an increase of the education budget to 6% of GDP.

The percentage of people of corresponding age enrolled in a tertiary education institution is 38.7%, which is much lower than Panama's neighbors – Costa Rica and Colombia both exceed 50% of the age class, and even lower than countries such as Argentina or Chile that exceed 80%. Investment per capita in education is only \$300

Education policy /
R&D

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per year, below the Latin American average of \$450 and less than half of what Costa Rica invests.

Investments in R&D are less than 0.2% of GDP, which is much lower than regional powers such as Argentina or Chile, and even Cuba.

Governance

I. Level of Difficulty

There are considerable structural limitations on governance in the country, stemming from the very nature of the country's economic and social systems. Structural constraints are related to profoundly different levels of economic growth and development between the business center of the capital, peri-urban areas and other cities and rural areas, thus creating a highly disparate and very unequal country in socioeconomic terms.

In addition, the country's economy is primarily focused on logistics (such as the canal and ports), in contrast to very weak primary and secondary productive sectors. The economy of on the third sector is extremely dependent on external factors such as world trade, the economic activities of other countries, global regulations, et cetera.

With approximately four million inhabitants and insufficient investment in education, the market is small and the skilled labor force is often considered insufficient and poorly trained.

Finally, although there are no natural disasters, there are recurrent climatic situations, such as heavy rainfalls, which, due to inequality and the lack of a prevention policy, leave the poorer segments of the population very vulnerable.

The tradition of civil society in Panama is quite weak. There is little social capital (71% of people think that one can never be careful enough in dealings with others). There are a certain number of civic associations; nevertheless, 72% of people have never participated in the activities of an NGO or other civil society organization. This situation can also be understood from the perspective of the legal difficulties of creating a partnership or an NGO.

Toward the end of the 20th century, Panamanian civil society concentrated on fighting the authoritarian regime and regaining the sovereignty over the Panama Canal, which had been under U.S. control since its opening in 1914. The fulfillment of both objectives left civil society without a common project and the consensus on the economic and political destiny of the country leaves little room for alternative discourses. However, today, some groups in urban areas, but especially indigenous peoples opposed to infrastructure projects in their territories are the main actors in civil society. Nonetheless, they are new groups with very recent trajectories and have insufficient staff, logistical and financial resources to achieve real impacts on politics.

Structural constraints

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Civil society traditions

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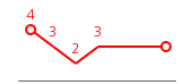
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A 2013 UNDP study shows that Panama is one of the countries with the highest number of conflicts per capita in the region, with more conflicts than any other country in Central America. This has been specifically the case in the context of the resistance against mining and dam projects, which led to violent repressions in recent past years (especially regarding indigenous workers in Bocas del Toro in 2010 and the Barro Blanco Dam project in 2012). However, a relatively low proportion of these conflicts (among the lowest in the region) are violent conflicts. The majority of conflicts are due to the huge problems of integrating specific sectors of society into the prosperity of the country. That is why most of those conflicts are about controlling resources. In most violent conflicts in recent years the main actors were members of indigenous, peasant and Afro-Panamanian communities. Overall, society and the political elite are strongly divided by social, geographical and racial cleavages.

Conflict intensity

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II. Governance Performance

14 | Steering Capability

There is an important ideological consensus shared by the three political parties that have been in power since the democratic transition. Therefore, the definition of the priorities and the direction of the public policies that have been implemented since the beginning of the 1990s have not changed profoundly: economic stability and competitiveness, including privatization, liberalization of the economy, outsourcing, priority for sectors of the economy related to the logistics platform in the country. Consensus is also to consider the “destination” of the isthmus as a transit zone, with virtually no productive purpose. Approved and pushed by the economic elite, these priorities have not had major difficulties to be implemented as policies of the country.

In 2014, the government published a strategic plan for its five-year mandate, with priorities, expected results and evaluation indicators. These included investing around \$19.5 billion in social development, specifically education, basic sanitation, drinking water, housing, transportation, health, agriculture, energy and security. At the end of every year, the government publishes an annual report outlining the activities of each public institution, which include information on the attainment of goals outlined in the strategic plan. The goals secretary, who reports directly to the president, is in charge of strategic planning.

Traditionally, professionalism and the development of expertise among public officials have suffered from a spoils system, according to which almost the entire government administration changes after each election. The creation of public careers (in the judiciary, the penitentiary system, the foreign affairs ministry) is based on public competition aimed at increasing public expertise. However, this practice has been executed poorly due to the permanence of patronage practices.

Question

Score

Prioritization

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As a general rule, the government is able to implement adopted policies because of the concordance of interests among economic and political elites. For example, the 2014 electoral campaign of the Pueblo Primero Alliance led by the Panameñista Party was based on the following five pillars: reducing the cost of living through price controls, a safe neighborhood plan, a plan aimed at modernizing sanitation facilities and generalizing access to drinking water, a quality bilingual education and the right to health for all. Because of the consensus attracted by these policies and sufficient administrative capacities, most were launched very quickly after the president and his new government took office. Emergency price controls on 22 food products constituted the first presidential decree, signed on the first day of the mandate. The only proposal that was abandoned by the government was the convening of a constituent assembly, although the possibility of amending the constitution has been invoked through the implementation of specific reforms without the need to go through a constituent assembly.

In January 2016 the economy and finance ministry presented the government's investment plan for the next five years. According to this plan, public investment over this period will reach \$19.5 billion. Of the total, \$10.7 billion will go to social impact programs including one to achieve 100% potable water and the rebuilding of the crisis-ridden city of Colón. Of this sum \$6.4 billion are to be spent on transport infrastructure (a second metro line in Panama City, inter alia), \$975 million will go to administration and justice, and \$215 million to environmental projects.

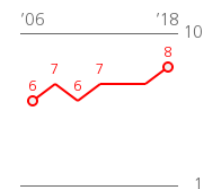
The good economic situation and a high level of tax collection facilitate the realization of government investment projects. At the same time, this also encouraged the misuse of public money. In its 2016 report on Panama, the IMF recommends considering introducing a multi-year budgetary process to provide guidance to policy makers and ensure that they are accountable for adhering to targets.

The country has a limited capacity to demonstrate learning from failed policies, innovation and flexibility. There are few systematic programs for monitoring and evaluating public policies. When these are implemented, it is often thanks to cooperation from international organizations, but there is little willingness to carry out monitoring processes internally. The lack of long-term policy efficiency and the dearth of technocratic skills among bureaucrats also hinder policy learning. Advances in policy learning, strategic thinking and action are made more difficult by the replacement of almost all the government staff every five years.

There is some level of international cooperation, such as participation in high-level seminars and congresses and exchanges of information on practices with the administrations of other countries, but without these measures necessarily corresponding to established policy learning plans. Often, it falls to other countries, such as the United States, to influence the country's public policies. This is especially the case in the field of security and prison policies.

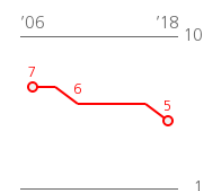
Implementation

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Policy learning

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The recent case of the Panama Papers scandal provides an interesting example of the difficulties of seizing opportunities offered by a difficult political situation. Identified by the international community for the dubious practices of its law firms that facilitated tax evasion and money laundering, the government convened a panel of experts composed of national and international experts, including Nobel Prize-winning economist Joseph Stiglitz. A few months after the commission began work, the two international experts resigned, denouncing the government's lack of transparency regarding the commission's procedures. The commission published a report whose conclusions are quite similar to the official positions taken by the government and representatives from the financial sector, while international experts published a more comprehensive report on the problems of the lack of financial transparency at the global level. Despite the disagreements that may have existed among members of the commission, one cannot but regret the waste of expertise possessed by the international experts.

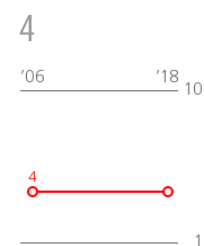
15 | Resource Efficiency

Traditionally, the recruitment of public administration personnel is characterized by patronage practices, with posts reserved for members of the governing party. Throughout the history of the republic, various attempts to modernize the administration have failed for political reasons. The adoption in 1994 of the Administrative Career Law marked a fundamental step in this direction. However, in spite of the constitutional mandate, only some public career opportunities (education, police) have been created thanks to actions initiated by professional associations. The current government launched several reforms to administrative careers, in order to implement recruitment and career plans based on public tenders. This has been the case with regards to diplomatic careers (Law 60 of 2015), penitentiary careers (Law 42 of 2016) and judicial careers (Law 53 of 2015). However, these are new regulations, and have yet to be implemented. The decision by the Supreme Court to postpone for several years the implementation of judicial careers has been particularly daunting. Meanwhile, recruitment remains subject to political influence.

The country's administrative organization suffers from a lack of professionalism among its staff. Some initiatives have recently been promoted to improve administrative efficiency, such as Law 66 of 2015, which will allow for a greater decentralization with an increase in the prerogatives and the budget of mayor's offices. However, especially in the capital, many infrastructure projects continue to be managed at the national level.

The levels of public debt and deficits are within levels recommended by international bodies. In September 2016, budget execution in the public sector was of 75%, although with significant differences between institutions.

Efficient use of assets



Even though tax revenues have increased, tax compliance is considered low by the IMF for a country with the level of development and dynamism of Panama. The country's revenue-to-GDP ratio was 9.6% in 2014, while the average for South American countries was 20.3%. VAT evasion has been estimated at about 40%.

In addition, frequent corruption scandals have made it evident that state resources are repeatedly misused, for example, to pay overcharges. The Odebrecht scandal that erupted in December 2016, when company executives confessed to having paid \$59 million to Panamanian officials in exchange for obtaining public contracts between 2010 and 2014, and the lack of will on part of the judiciary to prosecute bribery reveal a lack of transparency and efficiency in the use of public money.

A total of 252,000 persons were employed in the public sector in 2016, of which 141,000 worked in various institutions of the central government. Nowhere else in Latin America or in OECD countries is the inequality between salaries at the middle and upper level in government hierarchy greater than in Panama. In addition, employees with similar responsibilities frequently are paid very different salaries.

The consensus that exists in the country in terms of economic and social orientations has the consequence that there are few conflicting objectives to conciliate. The country has a highly centralized, hierarchical and bureaucratic coordination system, although the reform of 2015 on decentralization tends to modify this trend. Recent macroeconomic growth and stability have enabled governments to manage conflicts (of interests) with little impact on its capability to govern or the performance of the economy.

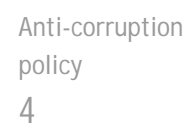
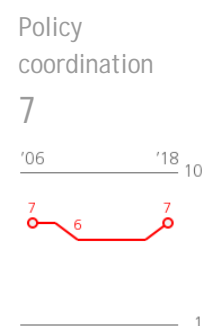
On social policy issues like health and education, dialogs have been promoted with participation by professionals (for example, teachers' and nurses' unions), ministries, the ombudsman and the U.N. as a facilitator, et cetera, in order to find solutions to conflicts.

On the whole, political goals are rarely incompatible due to the specific structure of the national economy.

Major challenges are redundancy and the lack of logic in the attribution of competencies. For example, the metro in the capital is managed at the national level by a secretary dedicated to it; and some areas of the city are managed by the Office of the First Lady or the Ministry of Public Works.

There is a lack of strong systemic checks and balances to promote and enforce government accountability. For example, financial reports submitted to the legislative branch are not subject to external auditing and often omit important expenditures, assets and account balances.

There is a system of auditing public expenditure through the public comptroller, which exercises prior and subsequent control over the management of public funds.



Public officials are obligated to create affidavits of patrimonial estate. In addition, the transparency law of 2002 allows citizens greater access to information. Overall, there are mechanisms to prevent and punish corruption. In addition, President Varela chose Angélica Maytín to head the government's anti-corruption agency, Autoridad Nacional de Transparencia y Acceso a la Información (Antai), for a five-year term. At the time of her appointment, Maytín was executive president of the local branch of Transparency International.

However, there are significant obstacles to the application of law and to ensuring policies that are genuinely free of conflict of interest and corruption. The private and opaque financing of electoral campaigns, which are presumably among the most expensive in the region, is a determining factor in this regard. In addition, there is no satisfactory ethical code to prevent conflicts of interest, such as the presence in government office of partners in large companies' or judges of the Supreme Court of Justice presiding over processes in which they have personal involvement.

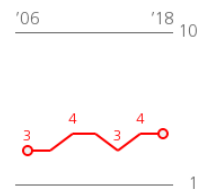
16 | Consensus-Building

There is consensus among political actors regarding democracy, although the reality in society is somewhat different. There is also a huge gap between the values pronounced in public, which favor democracy, and the refusal to improve its functioning, for example, through such measures as fairer election rules and allowing greater equality among candidates, more transparency in the use of public money, more equality in access to basic services such as health and education, et cetera.

Adherence is stronger to the idea of the capitalist market economy. The Panamanian elite is historically shaped by traders, and there is consensus over the idea that the country serves as a transit hub for goods, in which the Panama Canal plays the main role. The Panama Papers scandal and reactions among the public to it demonstrate that the mercantile and financial elites have succeeded in convincing the general population of the convergence between the interests of the elites and those of the nation.

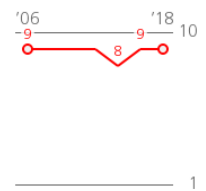
Panama is free of any politically relevant, anti-democratic forces. Even the fiercest opponents of neoliberal economic policies support democratic principles.

Although not formally opposed to democracy, there are unelected actors, especially members of the economic elite, churches and public security forces who have veto power over public policies that contravene their interests and that of the conservative neoliberal consensus. Their organizational and economic strength does not allow them to be excluded from the political game and they use their influence to limit reforms in social and societal matters.



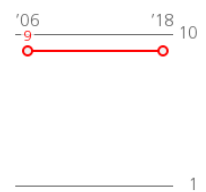
Consensus on goals

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Anti-democratic actors

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For example, the economic elite displays fierce opposition to electoral reforms that would allow candidates to have fair access to the media. The churches managed to pressure the government to repeal the creation of a gender department in the Ministry of Education, the aim of which was to promote gender equality in education. Finally, there are currents of public opinion speaking of the gradual militarization of the security forces, representing a potential danger to the country's democracy.

Social conflicts around social, geographical and racial issues occur but the political leadership often is successful in eventually depolarizing or at least attenuating cleavage-based confrontations. During the period under review, the Varela administration negotiated a peaceful settlement of the long-term dispute over the Barro Blanco Dam project (Chiriquí Province) with the representatives of the Ngöbe Buglé comarca.

Panama has a tradition of consensus that has become a characteristic of the country's democratic culture. Public opinion values consensus on the rule of the majority, not only to defuse conflicts, but to make decisions. This can even be seen in the National Assembly, where the actual debates and the results of votes are largely kept secret. Almost all discussions and negotiations happen in private and subsequent votes are consequently almost consensual. When a consensus cannot be reached, legislation is not voted upon.

The political leadership allows the participation of civil society in some instances, but generally, civil society's role in Panamanian politics is weak. Therefore, there is little incentive for the political leadership to seek a participation of civil society actors in agenda setting, policy formulation, decision-making and performance monitoring.

In the National Assembly, the National Directorate of Citizen Participation allows citizens to propose draft laws. However, in 15 years of existence, only 4.3% of the initiatives received became law, suggesting that the system may be inadequately used by citizens (proposing many non-viable initiatives) or by the National Assembly not following up on citizen proposals. Citizens can also participate in the first debates about a piece of legislation by stating positions for or against particular legislative proposals. After asking permission, they may even speak in the second debate, which takes place during a plenary.

In other instances, such as the National Electoral Reform Commission, a number of organizations interested in democracy and elections participated in debates on electoral reforms. In other processes of public policy-making or accountability, civil society is often invited to participate. This was the case, for example, in the preparation of reports submitted by the country for the Universal Periodic Review or for the creation of the National Mechanism for the Prevention of Torture.

Cleavage /
conflict
management

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Civil society
participation

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Despite these advances, civil society's capacities to influence policy processes are limited in terms of human and financial resources, and civil society positions are often not taken into account.

The greatest injustices committed in the past occurred during the years of Panama's dictatorship (1968-1989) and the U.S. invasion of Panama in December 1989. In both cases, reconciliation processes were unsatisfactory for the victims. Some cases have had to be treated at supranational level, due to the lack of diligence by the Panamanian justice system, as was the case in the disappearance of the leader Heliodoro Portugal, which was tried at the Inter-American Court of Human Rights.

A truth commission was established in 2001 to investigate the crimes committed by the dictatorship. The results were satisfactory to the families of the disappeared persons, which have not been able to access the documentation that was collected by the commission. Most of the cases are still in limbo. In the case of the United States' invasion of Panama, there have been no measures taken to determine the number of victims or to pursue compensation.

As for more recent cases, such as the repression that took place in the context of social conflicts in Bocas del Toro, Barro Blanco and Colón under the government of former President Ricardo Martinelli, which claimed several lives each and resulted in dozens of wounded with permanent sequelae, the current government has had a policy of compensating the victims of Bocas del Toro through a law passed in 2015 and created a commission to set compensation for victims of the conflict in Barro Blanco. In the case of the diethylene glycol poisoning of patients who received treatment through the social security fund in 2006 that killed 130 people, according to official figures, and harmed 8,000 more, various laws were enacted to care for the victims and their families. Moreover, the courts sentenced five people to between one and four years in prison. Victims and families continue to claim significant compensation.

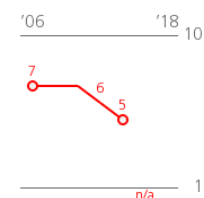
17 | International Cooperation

As a high-income country, Panama needs less and less international assistance. However, thanks in part to the presence of numerous international organizations (such as the UNDP, UNICEF, UNPE, FAO, et cetera) as well as non-U.N. organizations, the country continues to receive technical and financial support in a number of areas, especially to strengthen internal training. The objectives of political and economic development are well defined and the support is mainly to fix existing shortcomings in training and human resources.

However, the unwillingness to create sound tax revenues, which is directly related to the promoted economic model with low taxation rates means that the government

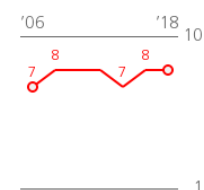
Reconciliation

n/a



Effective use of support

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faces difficulties in securing financing for projects and its search for international assistance might appear to be nothing less than a search for income.

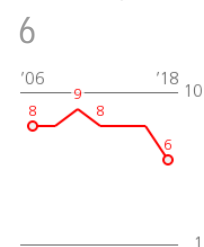
Because of its geographical location and the country's advantages (a hub airport, safety and political stability, among others), Panama acts as the regional headquarters for a number of NGOs and international organizations and there are numerous projects in the country financed in particular by the UNDP and the IDB.

The repeated failure of successive governments to comply with their obligations in different areas has significantly affected Panama's credibility. The issue of financial transparency is a very illustrative example. Despite repeated financial and money laundering scandals, condemned by the international community, and criticism of the country's non-compliance with the Basel III regulatory norms, Panama has initiated only a late and unwilling attempt to improve the regulations in this area of fiscal transparency. In addition, Law 48 of 2016 allows for the application of retaliation in the areas of trade policy, fiscal policy and even migration policy to countries that consider the country a tax haven. To overcome the damage to its reputation caused by the Panama Papers and to safeguard and strengthen Panama's role as an international financial hub, the country's authorities will have to cooperate more closely with the Financial Action Task Force, the U.S. government and the IMF in the near future.

Also, in December 2015, Panama was one of 12 countries out of 195 that did not submit a national proposal to COP 21, contrary to its obligations. Likewise, the required national reports to the United Nations human rights treaty bodies have not been submitted on time. As an example, the report to the Committee Against Torture was pending from the year 2000 and was finally delivered in 2016, while a report to the Committee on Economic Social and Cultural Rights has been pending since 2004. At the regional level, adherence to sentences issued by the Inter-American Court of Human Rights generally result in at least partial fulfillment of those sentences by the Panamanian State.

In spite of these shortcomings, it is important to recognize the important work being done by the Ministry of Foreign Affairs with support from the High Commissioner for Human Rights to deliver the set of outstanding reports (a dozen) during the president's current term and to take a more active role in the international community, such as nominating and electing a Panamanian to the Inter-American Commission on Human Rights or applying for membership in the United Nations Human Rights Council.

Credibility



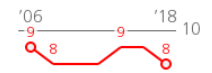
Panama is the seat of the Latin American Parliament and is part of other regional organizations such as the Organization of American States (OAS) and the Central American Integration System (SICA) or Parlacen. The election of a Panamanian woman to the Inter-American Human Rights Commission shows a willingness to take a more active role in the regional community. This was also the case when Panama offered to mediate during the conflict between Venezuela and Colombia in 2015.

Following the diplomatic crisis between Panama and Venezuela in 2014, due to the government's support for the Venezuelan opposition, during which diplomatic relations between the two countries were suspended for three months, relations with the South American country returned to normality after the election of Juan Carlos Varela and each state's embassies reopened shortly after the change of government.

At the moment, the neighboring country with which Panama maintains the tensest relations is probably Colombia. This is due originally to a trade and tax dispute dating from 2013. Despite the World Trade Organization's ruling in favor of Panama, reiterated on appeal in June 2016, Colombia has not accepted the decision and continues to apply tariffs to textiles from Panama. In addition to this, the Panama Papers revealed fiscal evasion by hundreds of Colombians with regards to Panama. Colombia was among the countries that accused Panama of being a tax haven, which also contributed to worsening relations. On a more political level, the differences between the two countries also come from opposing votes in the OAS Permanent Council on the conflict between Colombia and Venezuela in 2015. The Panamanian vote defeated Colombia's request to convene an extraordinary meeting of foreign ministers, the supposed reason being an agreement between Panama and Venezuela that the latter pay a billion-dollar debt with oil.

Regional
cooperation

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Strategic Outlook

Panama's immediate political future will depend to some degree on the political elite's ability to manage the problems that are long-standing or surfaced during the period under review. The global scandal caused by the Panama Papers, as well as other repeated corruption scandals, conflicts of interest and dishonest practices that have enveloped the country in recent years, might result in the unleashing of a crisis of legitimacy of the political and economic elite. Of particular concern is the emergence of religious actors as political actors and the strong moral-religious currents in public opinion, which could play an important role in a possible legitimacy crisis.

Alternative scenarios maintain the current state of affairs, or involve the adoption of a reform of the state that gives the country a better framework for incorporating new actors into politics, more accountability and improved protections of human rights. This – obviously the more desirable development would, however, have to be accompanied by a reform of the justice system, so as to achieve greater independence of the judiciary and to end the impunity that prevails with regards to corruption. To this end, serious policies to professionalize the judicial system and tackle organized crime activities, such as money laundering, must be developed. In the same vein, electoral reforms are necessary in order to make for less interference from the private sector and to achieve greater equity in electoral competitions. In a nutshell, Panamanian political elites are under pressure to avoid a populist backlash and to regain citizens' confidence.

Given Panama's specific economic structure, no major political party has presented an alternative economic strategy. Given the lack of an alternative, the Varela administration will continue to promote the economy's competitive advantage as a hub for international trade and services. However, this strategy increases the economy's vulnerability to external economic and financial shocks. Tightening fiscal policy would help to reduce inflationary pressures and this exposure to external shocks.

Continued structural reforms are crucial to maintain international competitiveness, reduce poverty, address income inequality, enhance human capital and increase productivity. Also, sustained economic growth cannot be perennial without substantial investments in the education sector, a sector perceived by citizens and economic actors in the country as performing extremely poorly. Current calculations anticipate that there will be demand for an additional 100,000 skilled workers in the near future. If the current deficiencies in the education system persist then the domestic workforce will fail to meet this increased demand, which will undermine future economic growth. The lack of skilled labor also results in significant inequality, low average wages (the median wage in August 2016 was \$656 per month) and the occupation of the most skilled and best paid jobs by foreign workers, which results in outbreaks of xenophobia in the country that could become a political issue of importance in the next years. High inequality and nationalist tensions could turn out to be very damaging to bringing about beneficial democratic and economic transformations.