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ESSAY

TRENDS, FEASIBILITIES AND OPPORTUNITIES

OF EXPORT PRODUCTS FROM PANAMA

Essay to be presented before the "Special Work Group on the Expansion of Commercial Opportunities of Developing Countries"
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Trends, Feasibilities and Opportunities of Export Products from Panama

Due to the different levels of prosperity between the participants in world commerce, imbalances have come about among all countries; between industrialized countries one against the other, and between industrialized countries and non-industrialized countries, specially.

The unequal growth of world commerce is product of:

- a growing disparity between the adjustment of needs and the adjustment of capacities
- an inadequate rhythm of adjustment as a result of market rigidity, product of commercial barriers, that growing regionalization is bringing about
- the extraordinary imbalances between industrialized countries, such is the case of the Japanese surplus and the United States' deficit.

As a way out for the disparities cited, countries in our area have encourage intra-regional commerce as well as with the U.S., and in the case of Panama, non-traditional agricultural and agri-industrial products are being promoted, as elements that contribute to the economic growth of the country, as well as to the solution of the balance of payment and employment problems.

Panama traditionally has concentrated its agricultural exports to a few products such as bananas, shrimp, coffee, sugar, and cocoa for which definite external markets exists, with a slow demand and decreasing prices.

Because of this, traditional exports show decreaselements that could be magnified due to the EC restrictions on banana imports from our area.

In reference to our non-traditional products, its important to mention significant growth in their participation in our export products mix.

Within this mix, exports of non-traditional agricultural products have produced great interest for their positive economic potential within a sector, that even though shows important advancements, stills require a growing support from the private and the governmental sector for greater development.

For the last couple of years we have entered a structural adjustment program, focusing on a growth model based on exports, that has to take into account an important foreign debt, capital flight -product of pressures exerted by international financing institutions-, and a complex array of factors of political, social and economic nature.

Panama's economy is different to the economies in the area by the small part agriculture plays in its GNP (only 9%), but from the labor point of view its quite relevant by employing 31% of the economically active population. On the other hand, the service sector in Panama is of great importance for its capacity to generate hard currencies, but definitely, the export of agricultural products stands out for participating in more than two thirds in overall exports of goods, and its effect on employment.

Like in other countries in the region, in Panama the export diversification drive started in the early seventies, and in 1974 the Tax Allowance Certificates ("CAT") were enacted as fiscal incentives for export of non-traditional goods.

During the seventies, export diversification was limited, and in the eighties, as part of the agreements SAL I (1983) and SAL II (1986) with the World Bank, export of non-traditional goods are encourage as part of the reorientation of the economy to export driven growth.

Panama has had relative success in its augmentation of non-traditional agricultural export, standing out honey-dew melons as the most successful of this group.

It is important to note, that problems that affect a greater export of melons also affect other non-traditional export products. These problems are: infrastructure deficiencies, delays in the export procedures chain, need for more market information and of investment opportunities in the sector.

Panama, as a tropical country with multiple areas suitable for agricultural development, presents a huge potential for agri related export orientated investment. Also, for its privileged geographical location, Panama for five hundred years has been an important transshipment point for people and goods from all parts of the world, to and from Latin America, circumstance that has fostered in the Isthmus a commercial vocation that has favored the development of foreign trade activities.

More recently, as a result of the construction of the Panama Canal, it is common to think, that by being at the crossroad of multiple shipping routes, Panama has been favored by ample availability of adequate transport to all parts of the world.

Reality is different from this perception, due to the fact that relatively few vessels stop in Panama for outward bound (export) cargo.

Because of this, freight costs to major markets for our non-traditional export products are relatively high, compounded by high internal shipping and handling costs that affect our export prices, thus affecting our competitiveness.

In its efforts to find solutions to our unfavorable balance of trade, the Panamanian government through the Panama Trade Development Institute ("IPCE") is implementing a strategy that proposes the selective promotion of products for export. The guide lines for this strategy are centered around the following objectives:

- Increase the production of those export items that have a higher national added value
- Diversify agricultural export products to those non-traditional items that optimize the use of land due to their high yields
- Create new job posts
- Obtain viable and adequate technology

This strategy makes emphasis in a series of products in which Panama shows greater possibilities of export success. In the agricultural sector, the products that are being promoted in the short run are:

1. Flowers and Foliage
2. Pineapple
3. Watermelon
4. Hot Chili Pepper
5. Squash
6. Plantain
7. Chayote
8. Ginger Root
9. Cassava (Yucca)
10. Melon
11. Yam
12. Eddoe

In the agro-industrial sector, concentrated fruit juices, fruit pulps and tomato paste are being promoted.

In the Industrial sector, brushes, galvanized and copper scrubbing meshes, plastic and natural fiber brooms, and clothing are being promoted.

In the Fishing sector the products selected for promotion are:

- Grouper
- Red Snapper
- Frozen Shrimp
- Shrimp Larvae
- Shark Fin

The Panama Trade Development Institute ("IPCE") in its quest to consolidate existing markets, and in its search for new markets, concentrates its export promotion efforts in the U.S.A. (Miami, New York), Canada (Toronto, Montreal), Puerto Rico, EC (The Netherlands, Germany) and the Central American nations.

Giving an overview of Panamanian exports for 1992 we have that the FOB value of all goods exported was US\$ 506 millions, that show an increase of 12% in relation to 1991, year in which US\$452 millions worth of goods, were exported.

In 1992, non-traditional export products showed interesting positive trends, specially fish products with exports of US\$ 23 millions, medicines with US\$ 11 millions, tropical fruits with US\$ 9.7 millions, processed bovine leather with US\$ 9.7 millions. The total value of non-traditional exports for this period was US\$ 195 millions which shows an increase of 37% in relation to US\$ 142 millions worth of goods exported in 1991.

On the other hand, the total value of traditional products exported in 1992 was adversely affected by a down fall of international coffee prices and the limitation to export bovine meat to Mexico.

Its worth while mentioning, that after the United States, the Central American countries, especially Costa Rica, are Panama's principal trading partners. Panama has subscribed commercial treaties with all of these nations to boost trade in the area.

Panamanian exports for 1992 under the "Free Trade and Preferential Exchange Treaties" with the Central American countries showed US\$ 40.7 millions worth of goods being exported.

This amount represents an increase of 27% in relation to the previous year when goods for US\$ 32 million FOB were exported under these mechanisms.

Of the exports made to these countries, 57% (US\$ 23.4 millions) went to Costa Rica, following in order of importance El Salvador (US\$ 7.8 millions), Guatemala (US\$ 6.2 millions), Honduras (US\$ 1.9 millions) and Nicaragua (US\$ 1.2 millions).

Among the 10 main products exported to Central America under the commercial treaties, we have in order of importance, medicines, spices and herbs (condiments), evaporated and condensed milk, fish meal, mayonnaise, aluminum cans, tomato products, cosmetics, rum, and concentrated coloring agents for paint manufacturing.

The future of our export promotion efforts are circumscribed within the "National Strategy for the Development and Modernizing of the Economy" that states that for its modernizing, the system must reduce simultaneously levels of protection and eliminate distortions that affect our competitiveness in international markets.

As the economic liberalization policies are enacted our export capabilities of goods and services will be enhanced.

In the area of service exports, the program incorporates the promotion of actions and projects that benefit from our advantageous geographical location, such as:

- the registration of merchant fleets
- the banking system and its free flow of capitals
- the Colon Free Zone
- tourism, specially that which is generated by conventions and congresses held in Panama

The strategy for modernizing the economy that is being implemented, in what regards to export promotion, makes emphasis in the creation of export processing zones in a dual conception, where the export of goods and the export of services are encourage.

In the existing export processing zone and those that eventually will be created, manufacturing activities in the fields of garments, electronics and others, are being promoted. In the service sector, activities such as: communications via satellite, international network information data management and transmissions facilities, international agricultural consolidating centers, and transshipment container terminals, are being encourage.

Panama's experience regarding exports shows relative success, specially in non-traditional products where Panama's climate and geographical position play an important role. Total success will come when we can consolidate: (1) the stability of our exportable offer, (2) export financing, and (3) the will of importing developed countries, in regards to, equal opportunities to access their markets for countries with roughly the same levels of development.

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