Japan International Cooperation Agency (JICA)

Autoridad Marítima de Panamá (AMP)

No.

Final Report

THE STUDY ON THE COMPREHENSIVE PORTS DEVELOPMENT PLAN IN THE REPUBLIC OF PANAMA

Volume 1
Nationwide Port Development

August 2004

PACIFIC CONSULTANTS INTERNATIONAL

INTERNATIONAL DEVELOPMENT SYSTEM INC.

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Note: The following exchange rate are used in this report.
1.00 Balboa = US Dollar 1.00 = Japanese Yen 108
December 2003

PREFACE

In response to the request from the Government of the Republic of Panama (hereinafter referred to as “GOP”), the Government of Japan (hereinafter referred to as “GOJ”) has decided to conduct the Study on the Comprehensive Ports Development Plan in the Republic of Panama (hereinafter referred to as the “Study”) and entrusted the Study to the Japan International Cooperation Agency (JICA).

JICA selected and dispatched a study team to Panama three times between June 2003 and June 2004, which was headed by Mr. Nobuo ENDO of Pacific Consultants International (PCI) and was comprised of PCI and International Development System Inc. (IDS).

The team held discussions with the officials concerned of the GOP and conducted the field surveys at the study area. Upon returning to Japan, the team conducted further studies and prepared this final report.

I hope that this report will contribute to the promotion of the project and to the enhancement of friendly relationship between our two countries.

Finally, I wish to express my sincere appreciation to the officials concerned of GOP for their close cooperation extended to the Study Team during the Study.

August 2004

Kazuhisa Matsuoka
Vice President
Japan International Cooperation Agency

LETTER OF TRANSMITTAL

August 2004

Mr. Kazuhisa MATSUOKA
Vice President
Japan International Cooperation Agency

Dear Mr. MATSUOKA,

It is my great pleasure to submit herewith the Final Report of "The Study on the Comprehensive Ports Development Plan in the Republic of Panama".

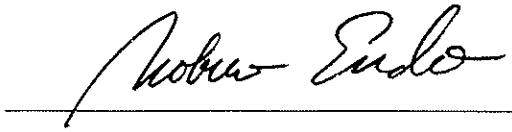
The Study Team comprised of Pacific Consultants International (PCI) and International Development System (IDS) conducted studies in the Republic of Panama over the period between June 2003 and June 2004 according to the contract with the Japan International Cooperation Agency (JICA).

The Study Team compiled this report, which proposes the future development scenario including a Nationwide Port Development Strategy in Panama for the target year 2024, Master Plans of selected four local ports for the target year 2024 and a feasibility Study on the priority projects, through close consultations with officials of the Panama Maritime Authority and other authorities concerned.

On behalf of the Study Team, I would like to express my sincere appreciation to the Panama Maritime Authority and other authorities concerned for their cooperation, assistance, and heartfelt hospitality extended to the Study Team.

We are also very grateful to the Japan International Cooperation Agency, the Ministry of Foreign Affairs, the Ministry of Land, Infrastructure and Transport, and the Embassy of Japan in the Republic of Panama for valuable suggestions and assistance during the course of the Study.

Yours faithfully,



Nobuo ENDO
Team Leader
The Study on the Comprehensive Ports Development Plan in the Republic of Panama

Bocas del Toro Port

Almirante Port

Chiriqui Port

Coquira Port

La Palma Port

LIST OF ABBREVIATIONS

ACP	:	Autoridad del Canal de Panamá (Panama Canal Authority)
AMP	:	Autoridad Marítima de Panamá (Panama Maritime Authority)
ANAM	:	Autoridad Nacional del Ambiente (National Authority of Environment)
ANCON	:	Asociacion Nacional para la Conservación de la Naturaleza /National Association for Nature Conservation
API	:	Administración Portuaria Integral (Integrated Port Administration)
APN	:	Autoridad Portuaria Nacional de Panamá (National Port Authority of Panama)
APSA	:	Atlantic Pacific, S.A.
ARI	:	Autoridad de la Región Interoceánica (Authority of the Interoceanic Region)
AUC	:	United Self Defense of Colombia
BFZA	:	Baru Free Zone Authority
BOO	:	Build-Own-Operate
BOT	:	Build-Operate-Transfer
CAPAC	:	Cámara Panameña de la Construcción (Panamanian Chamber of Construction)
CBP	:	Customs and Border Protection
CCT	:	Colon Container Terminal
CEMIS	:	Multimodal Industrial Service Center
CFZ	:	Colon Free Zone
CIQ	:	Customs, Immigration, Quarantine
COCATRAM	:	Commission of Central American Maritime Transport
CSI	:	Container Security Initiative
C-TPAT	:	Customs-Trade Partnership Against Terrorism
DGRMC	:	General Directorate of Marine and Coastal Resources
DHS	:	Department of Homeland of Security
DINAAC	:	National Aquaculture Directorate
DMPSP	:	Development Master Plan for Selected Ports
DO	:	Dissolved Oxygen
EAP	:	Economic Active Population
ECMWF	:	European Center for Medium-range Weather Forecasts
EIA	:	Energy Information Association
EIA	:	Environmental Impact Assessment
EIRR	:	Economic Internal Rate of Return
FAO	:	Food and Agriculture Organization of the United Nations
FC	:	Fecal Coliform
FCCA	:	Asociacion de Cruceros de Florida y el Caribe (Florida and Caribbean Cruisers Association)

FDI	:	Foreign Direct Investment
FERTICA	:	Fertilizantes de Centro America (Panamá) S.A.
FFD	:	Fondo Fiduciario para el Desarrollo (Develop Fiduciary Funds)
FSPDP	:	Feasibility Studies for Priority Development Projects
FTAA	:	Free Trade Area of the Americas
GANTRAP	:	Not-traditional Agricultural Exporters Association of Panama
GCO	:	Office of General Comptroller
GDP	:	Gross Domestic Product
GMT	:	Gross Metric Tons
ICAVE	:	Internacional de Contenedores Asociados de Veracruz (Internacional Associated Containers of Veracruz)
IDAAN	:	Instituto de Acueductos y Alcantarillados Nacionales (National Institute of Aqueducts and Sewage)
IDB/IADB	:	Inter-American Development Bank
IEE	:	Initial Environmental Examination
IMO	:	International Maritime Organization
INCOP	:	Instituto Costarricense de Puertos del Pacífico (Pacific Port Institute of Costa Rica)
IPAT	:	Instituto Panameño de Turismo (Panamarian Institute of Tourism)
IPDP	:	Individual Port Development Plans
IQ	:	Individual Quota
ISPS Code	:	International Ship and Port Facility Security Code
IT	:	Information Technology
JAPDEVA	:	Junta de la Administración Portuaria y de Desarrollo Economico de la Vertiente Atlantica (Port Administration and Economic Development of Atlantic Slope Union)
JICA	:	Japan International Cooperation Agency
JMA	:	Japan Meteorological Agency
JWA	:	Japan Weather Association
KCS	:	Kansas City Southern Railway
LLC	:	Lanigan Holdings
MARPOL	:	International Convention for Prevention of Marine Pollution
MEF	:	Ministerio de Economia y Finanzas (Ministry of Economy and Finance)
MICI	:	Ministry of Commerce and Industry
MIDA	:	Ministry of Agricultural Development
MIT	:	Mansanillo International Terminal
MIVI	:	Ministerio de Vivienda (Housing Ministry)
MOP	:	Ministerio de Obras Públicas (Ministry of Public Works)
MOPT	:	Ministry of Public Works and Transport

MSY	:	Maximum Sustainable Yield
MTSA	:	Maritime Transportation Security Act
NAMPF	:	Nationwide Allotment of Major Port Function
NMS	:	National Maritime Strategy
NMS	:	Servicio Maritimo Nacional (National Maritime Service)
NPDCP	:	National Port Development Conceptual Plan
NPS	:	National Port Strategy
OCUPA	:	Operadora de la Cuenca del Pacifico, S.A. de C.V (Pacific Basin Operator)
PCC	:	Pure Car Carrier
POT	:	Land Use Management Plan
PPC	:	Panama Port Company
PPP	:	Public and Private Partnership
PROPRIVAT	:	Unidad Coordinadora para el Proceso de Privatización (Coordinator Unity for Privatization Process)
PTP	:	Petro-terminal de Panama S.A.
RGDP	:	Regional Gross Domestic Product
SCF	:	Standard Conversión Factor
SCT	:	Secretary of Communications and Transportation
SIECA	:	Central Economic Integration System
SINCOTAVECOP	:	Sindicato de Conductores de Taxis y Vehículos Comerciales de la Provincia (Union of Taxi Drivers and Commercial Vehicles of the Province)
SOLAS	:	International Convention for Safety of Life at Sea
SPC	:	Special Purpose Company
TAC	:	Total Allowable Catch
THC	:	Total Hydrocarbon
TMM	:	Transportacion Marítima Mexicana (Mexican Maritime Transportation)
TN	:	Total Nitrogen
TP	:	Total Phosphorus
TSA	:	Transport Security Administration (United States)
UNFPA	:	United Nations Population Fund
UNHCR	:	United Nations High Commissioner for Refugees
USAID	:	U.S. Agency for International Development
UCST	:	Coordinator Unit of the Transportation Sector
UTM	:	Universal Transverse Mercator's Projection System
VAF	:	Value-Added Facility
VAS	:	Value-Added Service
VIPA	:	Virgin Island Port Authority
WB	:	World Bank

TABLE OF CONTENTS

(Volume 1)

Nationwide Port Development

(Volume 2)

Master Plan and Feasibility Study

(Volume 3)

Supporting Report

LIST OF TABLES

(Volume 1)

Nationwide Port Development

LIST OF FIGURES

(Volume 1)

Nationwide Port Development

1. INTRODUCTION

1.1 Outline of the Study

In response to the request from the Government of the Republic of Panama (hereinafter referred to as "GOP"), the Government of Japan (hereinafter referred to as "GOJ") has decided to conduct the Study on the Comprehensive Ports Development Plan in the Republic of Panama (hereinafter referred to as "the Study").

Accordingly, the Japan International Cooperation Agency (hereinafter referred to as "JICA"), the official agency responsible for the implementation of the technical cooperation programs of GOJ, dispatched a preparatory study team to Panama in January 2003, and reached an agreement with GOP on the scope of the Study.

JICA dispatched a full-scale study team (hereinafter referred to as "the Study Team") to Panama in June 2003 to carry out the Study. The Study was to undertake four objectives; namely:

1) To formulate a nationwide port development strategy in Panama for the target year 2024,
2) To formulate a master plan of the selected local ports for the target year 2024,
3) To conduct a feasibility study on priority projects,
4) To carry out relevant technology transfer to Panamanian counterpart personnel in the Study.

The Study Team in coordination with AMP conducted field study twice: the first one was from June 2 through September 11, 2003 and the second one was from November 21, 2003 through February 21, 2004. During these periods, the team made presentations of the progress of the Study to the Steering Committee of Panama on the occasions of the submission of Progress (1) Report, Interim Report and Progress (2) Report. The team also attended workshops at Bocas del Toro, David, Vacamonte and La Palma, in which local stakeholders participated. The Study Team also collaborated on the study results with Advisory Committee of JICA and representatives of ministries concerned of Japanese Government.

1.2 Background of the Study

Panama is located in Central America, bordering Caribbean Sea to the north, Pacific Ocean to the South, Colombia to the east and Costa Rica to the west. The efficient operation of the Interoceanic Canal has given Panama great importance in the maritime world and the development of the Canal and ports in Panama is one of the state policies/strategies of GOP.

Local ports in Panama have been declining rapidly due to lack of maintenance of their facilities, while major ports in Panama City and Colon City (Port of Balboa and Cristobal, Manzanillo International Terminal and Colon Container Terminal) have made remarkable advances with privatization and modernization. This means that the actual situation of local ports in Panama is far from "the regional development harmonious with port development" which GOP wishes.

Successive political powers invested hard in the development of the social infrastructure in the Panama metropolitan area instead of the rural development. As a result, Panama has the most unequal distributions of income of any country in the hemisphere. Therefore, GOP aims to eliminate poverty in rural communities and disparities between rich and poor regions. It is expected that the development of local ports will help GOP achieve these objectives effectively.

Therefore, it is the necessary and urgent requirements to create a comprehensive ports development plan, which aims at growth of the whole country based on the development of local ports and the promotion of regional industries.

1.3 Study Area

The Study covers all ports in Panama and ports locations are shown in the Figure 1.3.1.

1.4 Study Team

The Study Team was made up of the experts listed below.

Expert	Assignment
Mr. ENDO Nobuo	Team Leader / Regional Development
Mr. NISHIDA Yukio	Port Policy / Port Administration
Dr. KOBUNE Koji	Port Planning (1)
Mr. KASHIMA Kazutoshi	Port Planning (2)
Mr. SAGARA Hideaki	Port Operation and Management
Mr. NISHIGAYA Kunimasa	Economic Analysis / Financial Analysis
Dr. Eddy Declercq	Regional Industrial Development
Mr. YOKOMOTO Hideki	Demand Forecast
Mr. KUMAGAI Mitsumasa	Shipping Trend Analysis
Mr. IWAMA Ken-ichi	Port Facility Design
Mr. YAMAUCHI Jun	Construction Planning / Cost Estimation
Dr. JAYAMOHAN Somasundaram	Environmental Consideration
Mr. SHIMODAIRA Toshitsugu	Natural Conditions Survey
Mr. UEZUMI Kazuo	Coordination
Ms. TAKEI Mitsuko	Interpreter

Figure 1.3.1 Study Ports in Panama

1.5 Study Reports

This Final Report will discuss, present and compile all the information, study results, conclusions and recommendations, which identify the present physical and institutional issues of the national ports of Panama and outline what should be done for their future.

Volume 1 of the Final Report describes the present socio-economic conditions, policies and projects for the national and regional economic development. The report outlines the future socio-economic framework in which the Study Team forecasts the port traffic. Volume 1 also addresses the national port strategy as of the government policies after discussing the current conditions of the port sector of Panama. The natural and environmental conditions of Panama are also discussed.

Based on the nationwide port development and selection criteria, the Study Team recommends the four local ports on which Master Plans are to be formulated. The selected local ports are Bocas del Toro/Almirante, Chiriqui, Coquira and La Palma.

The separately bound Volume 2 presents the Master Plans of the selected four ports for the target year 2004. Economic analysis concludes that the Master Plans of the selected ports are viable. Volume 2 also presents the results of the feasibility studies on the short-term development projects at Bocas del Toro and Almirante Ports, at Chiriqui New Port, at Coquira Port and at La Palma Port. The project scope, development scenarios and project costs for construction, administration and maintenance. Economic benefits and revenues of each project are discussed and used for the economic and financial analyses. It is concluded that all the short-term developments are economically and financially viable.

The Appendices contain more information about the Study such as “Financial Conditions of Government and AMP,” “Administration and Management of AMP,” “Present Conditions of Port Sector,” “Navigation Channel Improvements of Aguadulce Port,” “Wave Analysis on the Pacific Coast,” “Design Criteria of Port Facilities,” “Unit Rates of Construction Works in Panama,” “Port Administration and Privatization in Coast Rica and Nicaragua,” “Port Management in Mexico and Jamaica,” “Study on Cruise Tourism in the Caribbean Sea” and “Workshop Report”, etc.

1.6 Conclusions and Recommendations

The important conclusions of the Study are the following:

(1) Through nationwide port development, Panama can achieve the second objective of National Maritime Strategy, particularly Item 3 - *“To stimulate the investment in the required physical infrastructure for the conglomerate to maximize the wealth to strengthen the comparative advantage of the country.”*

(2) Nationwide port development can promote local industries, mitigate regional disparity and alleviate poverty.

(3) The existing facilities of the national ports require in total USD 0.8 million for annual maintenance and USD 1.2 million for renovation of port facilities and renewal of equipment.

(4) The ports to be developed are Bocas del Port with its counterpart port at Almirante for tourism promotion, a new port at Chiriqui for creation of a new economic zone apart from the Panama Canal area, Coquira Port for maintaining the lifeline to the islands in Panama Gulf, and La Palma Port for fishery industry and regional development.

(5) The economic benefits of each port development are sufficiently large and the developments should be implemented.

(6) The recommended short-term developments are economically and financially viable. They should be implemented in accordance with the scenarios described in this report.

AMP and the other government agencies concerned are requested to seriously consider the following:

(i) The proposed nationwide port development strategy can be useful in achieving the objectives of National Maritime Strategy.

(ii) The facilities of the national ports need to be properly maintained and repaired. AMP as the responsible agency and owner of the ports should own appropriate human resources and secure the budget to this end.

(iii) The proposed future nationwide port network scheme to support both the foreign and domestic trades can be used as the guideline for the port sector development.

(iv) For Bocas del Toro and Almirante Ports, AMP should coordinate the development with IDB, the central and local governments. AMP should be a project promoter to motivate the local stakeholders such as hotel, restaurant and boat operators and be responsible for the environmental preservation on and off the coast.

(v) For Chiriqui Port, AMP should become the executing agency of the new port development project and advocate to other government agencies concerned that the project will mitigate the concentration of economic activities at the Canal area and alleviate the regional unbalanced development of the country. AMP should undertake project promotion to the stakeholders such as central and local governments, private entities.

(vi) AMP should recognize that the Coquira Port development is very important to take over the lifeline functions of Panama Fiscal Pier for the people living on the islands of Panama Gulf.

(vii) For La Palma Port, AMP should become the executing agency of the development project and advocate to other government agencies concerned that the project will not only be beneficial to fishing industries but also help mitigate poverty by creating job

opportunities at La Palma. AMP should undertake project promotion to the stakeholders such as central and local governments, shrimp trawler operators and artisanal fishermen. The IDB ferry project between La Palma and Quimba should be implemented as scheduled.

On this occasion, the Study Team would like to express its sincere thanks to all the personnel of AMP for their cooperation extended to the team, and to all the government and private organizations for information and data provided to the team. The team highly appreciated opinions given by the participants at the seminars and workshops. In addition, the team recognizes that this report owes much to the support extended by local engineering firms and local staff of the team. The Study Team would like to express its sincere thanks to all of them.

2. PRESENT SOCIO ECONOMIC FRAMEWORK

2.1 Social Framework

2.1.1 Introduction

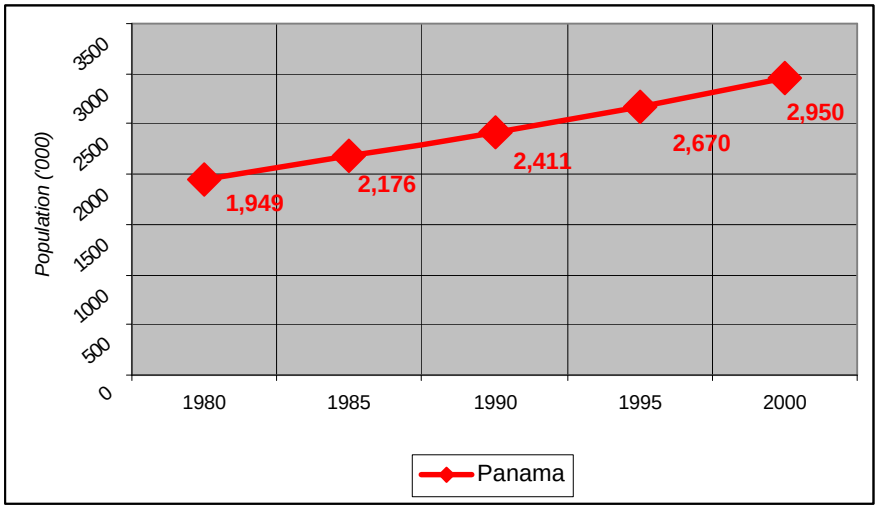
Population is, together with the Gross Domestic Product (GDP), a major socioeconomic index, used for developing transport demand models and forecasting future transport demand. But the social framework of Panama is not only determined by the number of people and their particularities (gender, age, birth and mortality rate, life expectancy, etc…) but also by other social indicators such as:

- Illiteracy rate
- Poverty distribution and employment
- Health (diseases, healthcare or social welfare)

This section provides a brief review of the social conditions in Panama. After reviewing the population according to their traditional specifications, a detailed analysis is made of the illiteracy and poverty situation, the urbanization and the health situation in the country.

2.1.2 Population

Between 1980 and 2000, the total population of Panama grew with approximately 1 million people, from 1.949 million people in 1980 to 2.950 million people in 2000, see next Figure 2.1.1.



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2002 Revision and World Urbanization Prospects

Figure 2.1.1 Population Growth in Panama 1980 – 2000

Panama is, except for Belize, the less populated country in Central America and it has the lowest annual growth rate during the period between 1990 and 2001 (see Table 2.1.1).

Table 2.1.1 Population Evolution of Selected Countries (Year 1990 - 2001)

Pop ('000)	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Belize	189	194	196	198	200	203	210	217	224	232	240	247
Costa Rica	3,049	3,130	3,209	3,285	3,359	3,430	3,503	3,577	3,653	3,730	3,810	3,873
El Salvador	5,112	5,208	5,312	5,423	5,542	5,670	5,788	5,911	6,035	6,154	6,276	6,400
Guatemala	8,749	8,979	9,217	9,463	9,716	9,976	10,243	10,517	10,799	11,088	11,385	11,683
Honduras	4,870	5,021	5,171	5,321	5,472	5,625	5,780	5,935	6,092	6,253	6,417	6,585
Nicaragua	3,824	3,938	4,057	4,178	4,302	4,426	4,552	4,681	4,811	4,941	5,071	5,205
Panama	**2,398**	**2,445**	**2,492**	**2,539**	**2,585**	**2,631**	**2,674**	**2,719**	**2,764**	**2,811**	**2,854**	**2,897**
% annual growth	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Belize		0.09%	0.10%	0.10%	0.15%	0.33%	0.33%	0.33%	0.33%	0.33%	0.29%	0.25%
Costa Rica		0.25%	0.24%	0.22%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.16%	0.18%
El Salvador		0.20%	0.21%	0.22%	0.23%	0.21%	0.21%	0.21%	0.19%	0.20%	0.20%	0.19%
Guatemala		0.26%	0.26%	0.26%	0.26%	0.26%	0.26%	0.26%	0.26%	0.26%	0.26%	0.26%
Honduras		0.29%	0.29%	0.28%	0.28%	0.27%	0.27%	0.26%	0.26%	0.26%	0.26%	0.26%
Nicaragua		0.30%	0.29%	0.29%	0.29%	0.28%	0.28%	0.27%	0.27%	0.26%	0.26%	0.25%
Panama		**0.19%**	**0.19%**	**0.18%**	**0.18%**	**0.16%**	**0.17%**	**0.16%**	**0.17%**	**0.15%**	**0.15%**	**0.15%**

Source: World Bank: World Development Indicators 2003

In the year 2003, the "Controlaria General de la Republica" estimated the total population of the Republic of Panama at 3.12 million people of which 50% live in Panama province and 12.7% of the population in Chiriqui, therewith ranking the second densely populated province in Panama (see Table 2.1.2).

Table 2.1.2 Population Distribution over Provinces (Year 1995 - 2003)

Division	***Capital***	***Area (sq.km.)***	***1995***		***2000***		***2003***	
			Population	%	Population	%	Population	%
Bocas del Toro	Bocas del Toro	4,601	82,739	3.10%	93,682	3.18%	100,667	3.23%
Chiriquí	David	6,477	357,633	13.39%	381,405	12.94%	395,641	12.70%
Coclé	Penonomé	4,927	195,379	7.32%	210,240	7.13%	218,737	7.02%
Colón	Colón	4,891	192,975	7.23%	211,493	7.17%	222,796	7.15%
Darién	La Palma	11,091	39,973	1.50%	42,281	1.43%	43,457	1.39%
Emberá *	Cirilo Guainora	4,398	8,775	0.33%	8,998	0.31%	9,121	0.29%
Herrera	Chitré	2,341	102,644	3.84%	106,453	3.61%	108,675	3.49%
Kuna Yala *	Narganá	2,393	35,339	1.32%	35,455	1.20%	35,980	1.15%
Los Santos	Las Tablas	3,805	83,563	3.13%	86,857	2.95%	88,214	2.83%
Ngöbe Bugle*	Chichica	6,673	100,987	3.78%	116,082	3.94%	125,665	4.03%
Panamá	Panamá City	9,633	1,259,392	47.16%	1,437,264	48.75%	1,545,990	49.61%
Veraguas	Santiago	10,677	211,014	7.90%	217,813	7.39%	221,334	7.10%
Total		75,001	2,670,413	100%	2,948,023	100%	3,116,277	100%

* = Comarca

Source: JICA Study Team, based upon data from the Contraloría General de la República de Panamá.

The average distribution of the population over the different provinces remains relatively stable since 1995, with Panama, Chiriqui, Coclé and Colón being the most populated provinces. While the share of Chiriqui, Coclé and Colón slightly decreased since 1995 (with 0.5%, 0.3% and 0.1% respectively), the share of the total population in Panama province increased with 2.5% since 1995, reaching 50% of total population in 2003. Panama province is therewith the only province where the population significantly grew over the last 10 years, demonstrating the continued attractiveness of the country's capital. The overall growth rate in Panama has been declining since 1911, when the rate was 3.17% during the period 1911-1920 and 2.58% during the period 1980-1990. Panama Province, with 2.62% population growth rate, has next to Emberá Comarca (growth rate of 4.27%) the highest population growth in Panama between the years 1990 and 2000[1]. The distribution of the population over the two genders is equally balanced as can be seen in the next Table 2.1.3. In 2003, 50.47% of total population was male, and 49.53% was female. This distribution has not changed dramatically since 1995, when the distribution between genders was 50.52% male and 49.48% female population.

Table 2.1.3 Gender Distribution of Total Population (Years 1995 and 2003)

	1995		*2003*	
Gender	**Total**	**%**	**Total**	**%**
Men	1,349,150	50.52%	1,572,850	50.47%
Women	1,321,263	49.48%	1,543,427	49.53%
Total	2,670,413	100%	3,116,277	100%

Source: JICA Study Team, based upon data from the Contraloría General de la República de Panamá.

Compared to other Central American countries, Panama's natural population increase is 1.8% as compared to 2.4% for the region, as can be seen in Table 2.1.4.

Table 2.1.4 Population Characteristics Central America (year 2003)

CENTRAL AMERICA	Population mid 2003 (millions)	Births per 1,000 pop	Deaths per 1,000 pop	Rate of natural increase	Infant mortality rate	Total fertility rate	% pop. < 15	% pop. 65+	Life expectancy at birth			% urban
									tot	m	f	
Region	*144*	*29*	*5*	*2.4*	*27*	*3*	*35*	*5*	*74*	*71*	*76*	*68*
Belize	0.3	29	6	2.3	21	3.7	41	4	67	65	69	45
Costa Rica	4.2	18	4	1.4	10	2.1	30	6	79	76	81	59
El Salvador	6.6	29	6	2.3	30	3.4	38	5	70	67	73	58
Guatemala	12.4	33	7	2.6	41	4.4	42	4	66	63	69	39
Honduras	6.9	34	5	2.9	34	4.2	42	4	71	67	74	46
Nicaragua	5.5	32	5	2.7	31	3.8	42	3	69	66	71	57
Panama	**3**	**23**	**5**	**1.8**	**21**	**2.7**	**32**	**6**	**74**	**72**	**77**	**62**

Source: 2003 World Population Data Sheet, from Population Reference Bureau

[1] "Censos Nacionales de Población y Vivienda 14 de Mayo de 2000 – Resultados Finales, Total del País"; Contraloría General de la Republica, Dirección de Estadística y Censo Volumen II, Población, Junio de 2001

The country has a lower fertility rate (2.7 as compared to 3 for the region) and a lower rate of natural increase (1.8 as compared to 2.4 for the region). In terms of life expectancy, Panama scores equal to the region average, with a total life expectancy of 74 years. But distributed over the genders, the life expectancy of both men and women is one year longer than the region average.

The Table 2.1.4 suggests that the population in Panama is aging. Panama has, compared to the region average, the second lowest percentage of population below 15 years of age and the highest percentage of people, older than 65 years (equal to Costa Rica). The aging of the population is confirmed by the May 2000 Census results, as can be noted in Table 2.1.5.

Table 2.1.5 Population Distribution per Age (%, Years 1980 - 2000)

Age group	1980	1990	2000
Total	100.0	100.0	100.0
Under 15 years	39.1	34.9	32.0
15 – 64 years	56.6	59.9	62.0
65 years and more	4.3	5.2	6.0

Source: "Censos Nacionales de Población y Vivienda 14 de Mayo de 2000 – Resultados Finales, Total del País"; Contraloría General de la Republica, Dirección de Estadística y Censo Volumen II, Población, Junio de 2001, p 3

Although the demographic situation in Panama still demonstrates several reasons for concern, there are also positive signs. According to United Nations Population Fund (UNFPA), there "*…have been some successes in the areas of population and development, reproductive health and rights, and gender equity, due to the support of the Government, civil society groups and donor agencies, including UNFPA. Successes include the ratification of the Convention on the Elimination of All Forms of Discrimination against Women Protocol, the passing of a revised HIV/AIDS law, the revision of the intrafamily violence law and the approval of Law 29 of 2002, which guarantees pregnant adolescent girls the right to reproductive health services and to continue within the educational system. ... Positive developments also included the implementation of the National Sexual and Reproductive Plan of Action, which incorporates components on adolescent and indigenous reproductive and sexual health and HIV/AIDS prevention. The country has also seen capacity-building or strengthening of key national counterparts, such as the National Reproductive and Sexual Health Commission and the 14 provincial multisectoral commissions created by the Ministry of Health. In collaboration with other UN and donor agencies, UNFPA has been assisting the country in the design of the National Plan Against Violence and Intrafamily Violence and of the Equal Opportunities' Plan of Action.*"[2]

[2] "Country Profiles for Population and Reproductive Health: Policy Developments and Indicators 2003"; United Nations Population Fund and Population Reference Bureau, 2003; p 262

2.1.3 Other Social Indicators

Economic growth and prosperity of a country also depend upon a number of social conditions such as the health, literacy and poverty of its population. In spite of the fact that Panama is rated as an "upper middle income country" by the World Bank, Panama has experienced in recent years "*… serious socio-economic challenges, which have hampered the Government's ability to invest in the social and health sectors. The country has struggled with profound social inequalities, negative economic growth, high levels of unemployment (mainly among youth groups), poverty figures that have remained constant (37 to 42 per cent in the last two decades), and growing social and domestic violence. … It also views HIV/AIDS as a major concern.*"[3] The UNFPA estimates of the social conditions of Panama are summarized in Table 2.1.6.

Table 2.1.6 Social Conditions of Panama (Year 2003)

Social condition	Rating
Income Group per World Bank Classification	Upper middle income
Population Below USD 1/Day, %	14
Access to Improved Water Supply, %	87
Illiteracy Rate, % of Population Age 15 and Over, Male	7
Illiteracy Rate, % of Population Age 15 and Over, Female	9
Primary School Enrolment, Gross % of School Age Population, Male	108
Primary School Enrolment, Gross % of School Age Population, Female	111
Secondary School Enrolment, Gross % of School Age Population, Male	67
Secondary School Enrolment, Gross %of School Age Population, Female	71

Source: "Country Profiles for Population and Reproductive Health: Policy Developments and Indicators 2003"; United Nations Population Fund and Population Reference Bureau, UNFPA & Population Reference Bureau; 2003

Comparing the above data with the results of the May 2000 Census demonstrates that, in spite of the rather pessimistic comments of the UNFPA, the situation is improving. Comparing the evolution of illiteracy over the last 20 years shows that for the country as a whole, illiteracy has diminished from 13.2% of total population in 1980 to 7.8% in 2000. But substantial differences remain between the provinces as Table 2.1.7 demonstrates.

[3] "Country Profiles for Population and Reproductive Health: Policy Developments and Indicators 2003"; United Nations Population Fund and Population Reference Bureau, 2003; p 262

Table 2.1.7 Illiteracy Rate in Panama Provinces (%, Year 2000)

Province	1980	1990	2000
Total country	*13.2*	*10.7*	*7.8*
Bocas del Toro	34.6	30.1	16.9
Coclé	11.4	9.7	6.1
Colón	6.3	5.7	3.7
Chiriqui	19.1	15.9	7.7
Darién	36.7	30.4	23.0
Herrera	18.9	14.0	10.4
Los Santos	19.1	14.8	10.7
Panamá	5.3	4.3	2.8
Veraguas	28.5	21.9	15.2
Comarca Kuna Yala	50.6	40.0	38.5
Comarca Emberá	-	-	34.5
Comarca Ngöbe Buglé	-	-	45.9

Source: "Censos Nacionales de Población y Vivienda 14 de Mayo de 2000 – Resultados Finales, Total del País"; Contraloría General de la Republica, Dirección de Estadística y Censo Volumen II, Población, Junio de 2001, p 4

In spite of an increase in gender equality, illiteracy is still higher among the female population. In the year 2000, 8.2% of the female population was illiterate, compared to 7.1% of the male population. There also remains a clear difference between the economically better developed provinces and the country's Interior. While the former remain below the country's average, the latter have illiteracy rates which can be 3 times higher than the average of the country. In particular Darién, Bocas del Toro and Veraquas still have high illiteracy rates, with 23%, 16.9% and 15.2% of illiteracy rate respectively. But the government's efforts are paying off, given that the average illiteracy rate in these provinces has been reduced to half since 1980. The situation remains dramatic in the Indian territories (Comarca), where illiteracy still is extremely high, predominantly among the female population. Comarca Kuna Yala has an illiteracy rate of 38.5% (down from 50.6% in 1980), Comarca Emberá 34.5% and Comarca Ngöbe Bulgé a staggering 45.9%.

Overall poverty figures for Panama remain relatively constant with estimations vary from 37% to 42% of the population. In the beginning of its most year 2000 poverty scan of Panama, the World Bank noted that despite "… *Panama's relatively high income per capita, poverty remains pervasive. Over one million people (37 percent of the population) live below the poverty line, and, of these, over half a million live in extreme poverty. The distribution and magnitude of poverty in Panama varies significantly by geographic area, with a bias towards rural areas. Poverty in indigenous areas can only be described as abysmal: over 95 percent of residents of indigenous areas fall below the poverty line and 86 percent live in extreme poverty. Although poverty is not as*

widespread or deep in urban areas, a significant share of the poor and near-poor live in Panama's cities."[4]

But poverty seems to reduce in Panama. In 1983, about 46% of the population lived in poverty with over 28% living in extreme poverty. In 2000, the World Bank poverty report estimated that 37% of total population lives in poverty and 19% in extreme poverty, therewith demonstrating a decrease in poverty of approximately 9 percentage points over the period.

Poverty and in particular extreme poverty are concentrated in the Interior area. Over three quarters of the poor and over 90% of the extreme poor in Panama live in the country side. Two thirds of all rural residents fall below the poverty line and nearly 40% live in extreme poverty. Concentration of extreme poor is particularly high among the indigenous population. Nearly 95% (approximately 200,000 people) live in poverty and 86% in extreme poverty. Poverty is also deepest and most severe in indigenous areas. According to the UNFPA, approximately 14% of the population presently has to survive with less than 1 USD per day. Although this number is high, it is somewhere a median value and still better than many other countries in Latin America and the Caribbean, as can be seen in Table 2.1.8.

Table 2.1.8 Poverty Rate in Selected Countries (%, Income below USD 1 per Day, Year 2003)

Country	%
Chile	2
Uruguay	2
Dominican Republic	3.2
Jamaica	3.2
Guatemala	10
Brazil	11.6
Trinidad & Tobago	12.4
Costa Rica	12.6
Panama	**14**
Bolivia	14.4
Peru	15.5
Mexico	15.9
Paraguay	19.5
Columbia	19.7
Ecuador	20.2
El Salvador	21
Venezuela	23
Honduras	24.3
Argentina, Bahamas, Belize, Bermuda, Cuba, Guadeloupe Guyana, Haïti, Martinique, Nicaragua, Saint Lucia, Suriname	Not available

Source: "Country Profiles for Population and Reproductive Health: Policy Developments and Indicators 2003"; United Nations Population Fund and Population Reference Bureau, UNFPA & Population Reference Bureau; 2003

[4] "Panama Poverty Assessment: Priorities and Strategies for Poverty Reduction": International Bank for Reconstruction and Development/ World Bank; 2000; Washington USA, p vi - Abstract

In that context, the UNFPA concluded that the situation is improving, in particular thanks to the efforts of international donors: "*With assistance from the United Nations system, including the Bretton Woods organizations, many countries are increasingly utilizing more systematic approaches in their efforts to promote sustainable economic and social development, with a special emphasis on reducing poverty within the framework of the Millennium Development Goals. … These efforts are beginning to pay dividends to a growing number of countries in the region. Such dividends include HIPC debt reductions, grants and International Development Association loans linked to governments' poverty reduction efforts*".[5]

The reduction in poverty and illiteracy is, contradictory to the statement by UNFPA, not (yet) reflected in the level of economic participation of the economically active population. According to the results from the May 2000 census, the participation in economic activities of the Panamanian population has grown from 47.5% in 1990 to 52.6% in the year 2000 as can be noted in Table 2.1.9, but at the same time, the levels of non occupied people and people with no economic activity has risen.

Table 2.1.9 Evolution of Participation in Economic Activity (Population +10 years)

	1980			1990			2000		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
TOTAL	1,253,558	633,123	620,435	1,769,488	892,588	876,900	2,206,868	1,109,656	1,097,212
Economically active	546,852	394,012	152,840	839,695	594,408	245,287	1,161,612	777,051	384,561
Level of participation (per 100 persons)	43.6	62.2	24.6	47.5	66.6	28.0	52.6	70.0	35.0
Occupied	500,672	366,538	134,134	741,567	532,281	209,286	1,010,837	690,639	320,198
Non- occupied	46,180	27,474	18,706	98,128	62,127	36,001	150,775	86,412	64,363
% of non-occupied persons	8.4	7.0	12.2	11.7	10.5	14.7	13.0	11.1	16.7
Economically not active	706,706	239,111	467,595	929,793	298,180	631,613	1,045,256	332,605	712,651

Source: "Censos Nacionales de Población y Vivienda 14 de Mayo de 2000 – Resultados Finales, Total del País"; Contraloría General de la Republica, Dirección de Estadística y Censo Volumen II, Población, Junio de 2001, p 5

It is thus clear that still much work needs to be done. Although improvement has been made since 1990, women still have a substantially lower level of economic participation, with only 35% of women participating compared to 70% for the male population. More worrying is the increase in number of non-occupied population that rose from 11.7% in 1990 to 13% in 2000. While 11.1% of the male population is non-occupied, 16.7% of the female population is not occupied, a rise with 2% over the last 10 years. Also the number of people without any economic activity[6] has risen over the last 10 years, from 929,793 persons in 1990 to 1,045,256 persons in the year 2000

[5] "Country Profiles for Population and Reproductive Health: Policy Developments and Indicators 2003"; United Nations Population Fund and Population Reference Bureau, 2003; p 221

[6] Non active people include students, senior citizens and people that have no registered economic activity (staying home)

and again, the share is substantially higher among women. The situation remains worse in the Interior area, where the economic opportunities are scarce and many people lack the know-how or economic skills to benefit from available economic initiatives. In the province of Panama, 56.3% of the active population has an economic activity. This high level is a consequence of the high economic concentration in that province. The level of economic participation in province Bocas del Toro, for example, is only 45.2%.

Compared to other Latin and Central American countries, Panama has an average score regarding the economically active population (Table 2.1.10). Approximately 65.9% of the population between the age of 15 and 64 years has an economic activity. Compared to its closest neighbors, Panama scores better than Costa Rica (63.1%) but worse than Colombia (71.8%).

Table 2.1.10 Labor Force Participation (% - age 15 - 64)

Country	total	female	male
Bermuda	80.9	74.9	87.2
Bahamas	73.5	70.5	76.7
Martinique	72.2	66	78.5
Bolivia	72.1	61.1	83.7
Columbia	71.8	62.1	83.3
Peru	71.3	61.4	82.3
Uruguay	71.3	60.1	83.6
Brazil	70.9	56.9	85.7
Guadeloupe	70.7	62.2	79.4
Haiti	70.4	58.8	82.9
Jamaica	69.3	62.4	76.6
Ecuador	69.3	55.2	84.9
Cuba	69.1	52.9	85.3
Honduras	67.7	47.7	89.8
Saint Lucia	67.6	53.2	83.1
Guatemala	67	47.2	89.7
Trinidad & Tobago	66.5	51.6	81.1
Panama	**65.9**	**47.4**	**85**
Dominican Republic	65.6	43	87.3
Argentina	64.5	47.1	82.4
Guyana	64.5	41.9	88
El Salvador	64	47.5	83.2
Paraguay	63.4	37.2	89
Venezuela	63.3	43	83.4
Costa Rica	63.1	41.6	85.8
Mexico	62.5	40.7	96.4
Nicaragua	61.7	36	89.5
Chile	59.9	40.6	79.8
Belize	58.5	36.2	81.7
Suriname	58.4	36.8	80.5

Source: "Country Profiles for Population and Reproductive Health: Policy Developments and Indicators 2003"; United Nations Population Fund and Population Reference Bureau, UNFPA & Population Reference Bureau; 2003

As regards the participation of the female population in economic activity, the discrepancy is larger between the three countries. While around 47.4% of the female population of Panama is economically active, the country is still far behind Colombia, where the female participation is 62.1%, but scores better than Costa Rica where the level of female participation in economic life is 41.6%. As regards the male participation in economic life, Panama, with 85% of male participation, scores better than Colombia with a male participation of 83.3% and nearly equal to Costa Rica with 85.8% of the male population economically active.

But these numbers need to be considered with some care. According to the World Bank's poverty assessment report[7], there are substantial differences caused by the existence of a large informal employment sector where many of the poor and women are employed (strong correlation). According to this report, nearly half of the workforce in Panama is employed in the informal sector (blue collar day workers, in particular in agricultural sector, domestic employees or self-employed), and this number increases to 80% of the extreme poor and to 70% of the poor. Also 3/4th of the indigenous population is active in the informal sector.

A final important social factor is the health of the population. This issue is becoming an important economic factor, in particular when HIV/AIDS is considered. The Panamanian government considers HIV/AIDS as a health issue of major concern. At present, between 0.9% to 1.6% of the female population, and between 1.4% and 2.4% of the male population are infected[8]. Comparing these numbers with other countries in the region makes clear that the situation is more than serious and that Panama is ranked among the countries in the region with a higher infection rate. Costa Rica, for example has between 0.2% and 0.4% of the female population and between 0.4% and 0.8% of the male population infected; for Colombia, the percentage of infected persons is between 0.1% and 0.3% of the female population and between 0.6% and 1.2% of the male population.

Although the Panamanian government is taking the issue of health very serious, there are major discrepancies between the poor and the non-poor. The relatively good score of the country as a whole masks the poor health conditions and services for the poor and the indigenous population. This discrepancy is clearly demonstrated by the large difference in life expectancy in Panama. The overall life expectancy is on average 74 years, while this is only 66 years among the poorest in the country[9]. Because of a substantially lower access to health care and other basic services, people in provinces such as Bocas del Toro, Darièn, Veraguas and the Indian reservations are more likely to die from malnutrition, intestinal diseases, respiratory diseases, malaria, etc…

7 "Panama Poverty Assessment: Priorities and Strategies for Poverty Reduction": International Bank for Reconstruction and Development/ World Bank; 2000; Washington USA

8 "Country Profiles for Population and Reproductive Health: Policy Developments and Indicators 2003"; United Nations Population Fund and Population Reference Bureau, 2003; p 221

9 "Panama Poverty Assessment: Priorities and Strategies for Poverty Reduction": International Bank for Reconstruction and Development/ World Bank; 2000; Washington USA, p 15

The World Bank poverty report noted that "*…there are few incentives in the public health system to ensure quality of care. With limited access to services, poor consumers have little choice of provider. Health services are not adequately supervised and there are no appropriate accreditation and quality control systems in place. … the community survey does suggest that medical inputs are less available to the poor, who are more likely to live in communities reporting longer waiting times, unavailability of medicines, and insufficient medical equipment. Lack of medicines appears to be particularly problematic in rural areas, as medical equipment does in indigenous areas. Poor quality of care was the primary reason for not seeking care for three percent of those in the poorest quintile who were ill but did not seek treatment*"[10].

2.2 Macro Economic Indicators

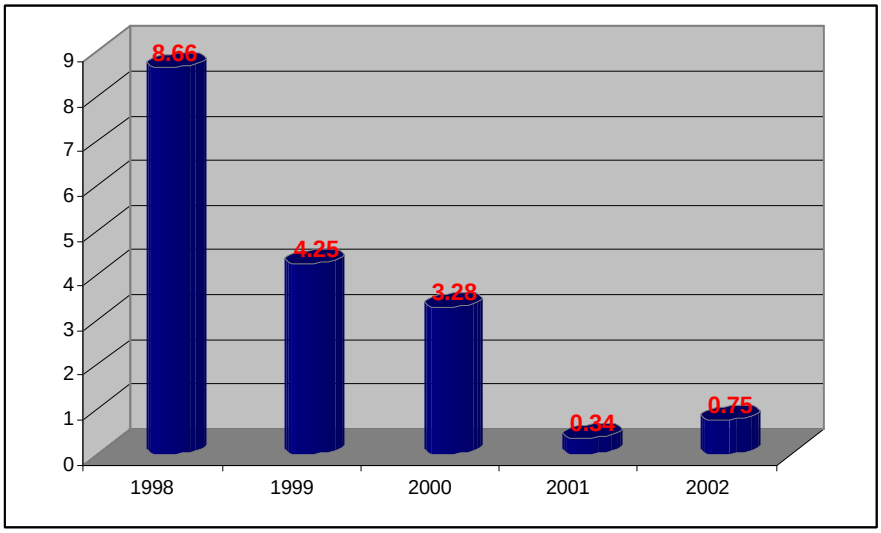
2.2.1 Gross Domestic Product

Since 1998, Panama has seen a dramatic decline in economic performance and although there are some recent signs of recovery, year 2002 performance remains far below its 1998 level as can be seen in Table 2.2.1 and Figure 2.2.1.

Table 2.2.1 GDP Annual Growth for Panama

Growth rate	1998	1999	2000	2001	2002
GDP Growth (annual %)	8.66	4.25	3.28	0.34	0.75
GDP growth (% change in growth)		-50.9	-22.8	-89.6	119.6

Source: World Bank; 2003 World Development Indicators

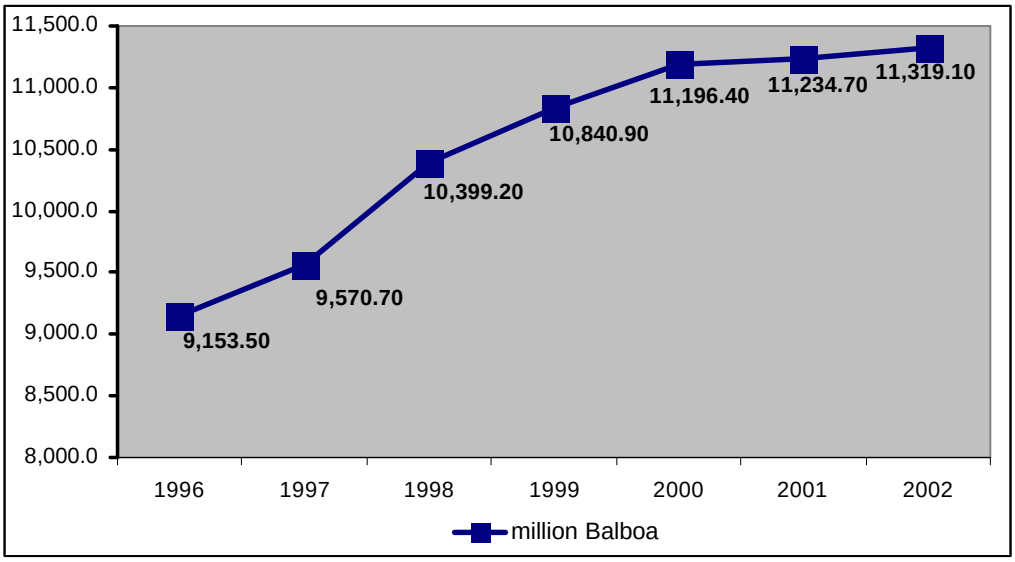


Source: JICA Study Team on the basis of World Development Indicators database

Figure 2.2.1 GDP Annual Growth for Panama (%)

[10] "Panama Poverty Assessment: Priorities and Strategies for Poverty Reduction": International Bank for Reconstruction and Development/ World Bank; 2000; Washington USA, p 16 (LSMS = Panama 1997 Living Standards Measurements Survey) See also: Annex 15 - Patterns of Health Care Use and the Incidence of Public Health Spending in Panama by Kinnon Scott and Roberto Gonzalez.

The growth of the Panamanian economy stagnated over the last years and showed a very low growth during the period 1998 till 2001. Although overall growth remained positive in 2002, the speed of that growth has decreased to 0.75%, although the performance is better than in 2001 when growth was equal to 0.34%. GDP only increased slightly in the year 2002, from 11,234.70 million Balboa in 2001 to 11,319.10 million Balboa in 2002 (see Figure 2.2.2).



Source: Contraloría General de la Republica; Dirección de Estadística y Censo

Figure 2.2.2 GDP Growth in Panama (million Balboa)

The recorded GDP growth differs from the growth estimations of the Inter-American Development Bank (IDB) in its 2001 Country Report[11], where growth for the year 2001 was estimated at 4%[12].

The overall performance in GDP growth of services, agriculture, industry and manufacturing is summarized in next Table 2.2.2.

Table 2.2.2 Average Annual Growth in Output (%)

GDP		***Agriculture***		***Industry***		***Manufacturing***		***Services***	
1980-90	1990-2001	1980-90	1990-2001	1980-90	1990-2001	1980-90	1990-2001	1980-90	1990-2001
0.5	3.8	2.5	2.2	-1.3	4.7	0.4	1.8	0.7	3.8

Source: World Bank: 2003 World Development Indicators

Table 2.2.2 shows that average growth of GDP during the period 1980-1990 was 0.5%, a growth predominantly carried by the performance of the Agricultural sector. Industrial performance was negative (-1.3%) during that same period, while performance of manufacturing and services remained low. The relationship between the sectors changed in the ten years that followed and the

[11] "*Country Paper April 2001: Panama*"; Document of the Inter-American Development Bank, Regional Operations Department 2, Country Division 2; Part II p. 2

[12] IDB has adjusted its forecast for Panama, estimating GDP growth at 0.5% for 2002, see "Panama: Situación Económica y Perspectivas", IDB, October 2002, pp 79-84

increase of GDP jumped to 3.8% average growth during the period 1990-2001, predominantly thanks to the performance of the industrial and service sector, with an average annual growth of 4.7% and 3.8% respectively.

The World Bank's main economic performance indicators for Panama are summarized in Table 2.2.3. The Table 2.2.3 also forecasts a growth in GDP of 3.4% for the period 2001-2005 and an increase of 1.9% in GDP per capita. According to the World Bank experts, this increase is triggered by a strong augmentation of exports that will grow with 4.5% during the period 2001 till 2005.

Table 2.2.3 Key Economic Indicators and Long-Term Trends

ECONOMIC PERFORMANCE		**1981**	**1991**	**2000**	**2001**
GDP *(USD billions)*		4.3	5.8	10.0	10.2
Gross Domestic investment/GDP		28.4	19.2	28.7	28.8
Exports of goods and services/GDP		46.2	36.2	33.8	33.4
Gross Domestic savings/GDP		27.9	18.7	23.7	26.5
Gross National savings/GDP		16.8	15.9	19.4	23.1
Current account balance/GDP		..	-3.3	-9.3	-4.9
Interest payments/GDP		6.5	..	3.6	4.0
Total debt/GDP		78.0	95.0	56.5	81.1
Total debt service/export		..	2.2	15.2	19.8
Present value of debt/GDP		..	..	72.7	..
Present value of debt/exports		..	..	146.1	..
(Average annual growth)	**1981-91**	**1991-01**	**2000**	**2001**	**2001-05**
GDP	0.4	3.5	2.5	0.3	3.4
GDP per capita	-1.6	1.7	0.8	-1.3	1.9
Exports of goods and services	0.2	0.6	3.7	-1.1	4.5

Source: "Panama at a glance"; World Bank; Country Unit Staff Report 24 September 2002

In its latest country report[13], the IDB forecasted similar growth levels for the country, in spite of the "reform fatigue" and the need to make public policies more equitable and reduce poverty. IDB estimated that future growth of GDP during the period 2002 – 2004 will be at 5%, see Table 2.2.4. The IDB forecast differs slightly from the forecast of the World Bank, but shows similar optimism in the economic future of the country.

[13] "*Country Paper April 2001: Panama*"; Document of the Inter-American Development Bank, Regional Operations Department 2, Country Division 2; Part II p. 2

Table 2.2.4 Panama Economic Indicators 1997 – 2004

					Projected			
Indicators	1997	1998	1999	2000(p)	2001	2002	2003	2004
Macro-economic								
Real GDP (% Change)	4.5	4.4	3.0	2.7	4.0	5.0	5.0	5.0
External public debt / GDP (%)	57.8	58.5	58.3	57.9	55.8	51.8	48.0	44.3
Inflation (CPI) (year on year change)	-0.5	1.4	1.4	2.0	1.8	1.5	1.5	1.5
Current account balance (% GDP)	-6.8	-13.1	-14.0	-10.2	-7.4	-6.5	-6.1	-5.3
Open unemployment (% EAP)	13.4	13.6	11.8	13.3	-	-	-	-
Fiscal (% of GDP)								
Nonfinancial Public Sector balance	-0.2	-3.0	-1.4	-1-1	0.0	0.0	0.0	0.0
Revenues and Grants	28.7	28.3	29.2	28.7	29.2	29.7	29.9	30.0
Current expenditure	24.5	25.0	25.9	26.1	25.5	25.6	25.7	25.8
Capital expenditure	4.3	6.4	4.8	3.7	3.7	4.2	4.3	4.3

Source: IDB, Country Paper April 2001: Panama p. 16

Compared to the other Central American countries (except Mexico) the overall economic performance of Panama is moderate as demonstrated in Table 2.2.5.

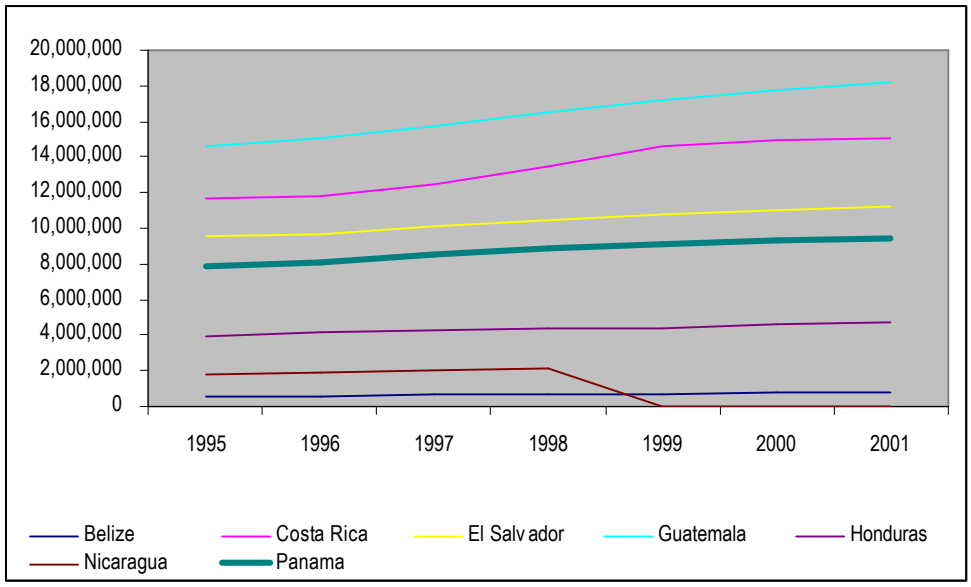
Table 2.2.5 Economic Indicators for Selective Countries 1995 – 2001 (Constant 1995 USD)

Annual GDP	1995	1996	1997	1998	1999	2000	2001
Belize	591,974	603,777	625,715	647,247	674,740	749,971	788,049
Costa Rica	11,715,887	11,819,759	12,479,087	13,527,062	14,639,283	14,965,977	15,103,937
El Salvador	9,495,522	9,657,517	10,067,593	10,445,098	10,805,303	11,040,619	11,242,572
Guatemala	14,656,161	15,089,658	15,748,185	16,534,574	17,170,669	17,786,546	18,160,064
Honduras	3,960,196	4,101,908	4,306,746	4,431,710	4,347,971	4,562,471	4,680,349
Nicaragua	1,836,209	1,923,801	2,022,004	2,104,205	..	..	..
Panama	7,906,100	8,128,308	8,492,233	8,861,771	9,145,845	9,370,093	9,394,967
Annual GDP Change	1995	1996	1997	1998	1999	2000	2001
Belize	3.29	1.99	3.63	3.44	4.25	11.15	5.08
Costa Rica	3.92	0.89	5.58	8.40	8.22	2.23	0.92
El Salvador	6.40	1.71	4.25	3.75	3.45	2.18	1.83
Guatemala	4.95	2.96	4.36	4.99	3.85	3.59	2.10
Honduras	4.08	3.58	4.99	2.90	(1.89)	4.93	2.58
Nicaragua	4.32	4.77	5.10	4.07	..	..	..
Panama	1.75	2.81	4.48	4.35	3.21	2.45	0.27
GDP per Capita	1995	1996	1997	1998	1999	2000	2001
Belize	2,916	2,876	2,883	2,884	2,907	3,125	3,189
Costa Rica	3,416	3,375	3,489	3,703	3,924	3,928	3,900
El Salvador	1,675	1,669	1,703	1,731	1,756	1,759	1,757
Guatemala	1,469	1,473	1,497	1,531	1,549	1,562	1,554
Honduras	704	710	726	727	695	711	711
Nicaragua	415	423	432	437	..	..	..
Panama	3,005	3,040	3,123	3,206	3,254	3,283	3,243

Source: World Bank: 2003 World Development Indicators

Total annual GDP of Panama is exactly in the middle of the selected countries, a position that does not change between 1995 and 2001. The economic performance of Panama is better than Honduras, Nicaragua and Belize, but below the economic performance of El Salvador, Costa Rica and Guatemala. This medium position is clearly demonstrated in next Figure 2.2.3. The economic indicators also demonstrate that both Costa Rica and Guatemala show a higher than average economic growth since 1998 while growth levels in the other countries, including Panama, remain relatively even with a tendency to decrease. A remarkable case is Belize. Although this country is a low economic performer in terms of total economic output, its average economic growth was stable and knew a spectacular boost since 1999.

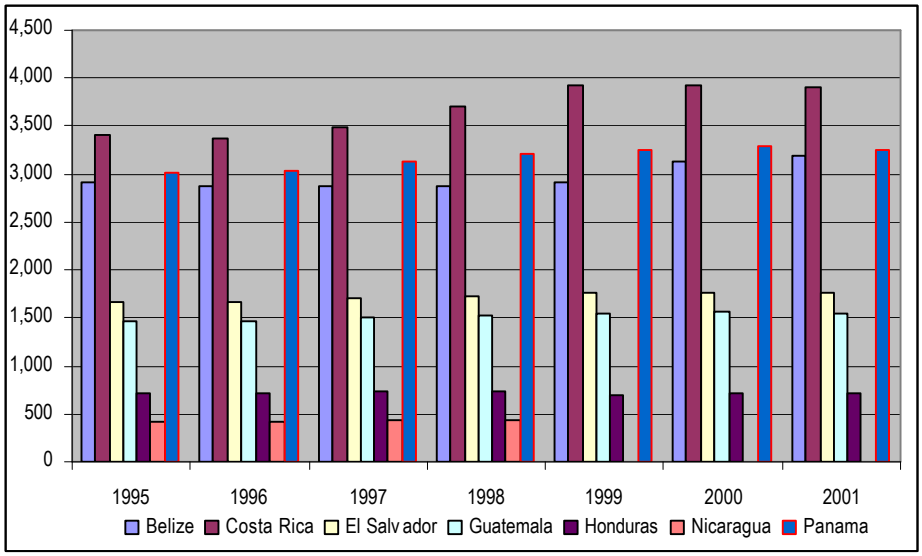
A good indicator to evaluate the economic wealth and take into consideration population density of a country is the GDP per capita. It should be noted, however, that the value is a theoretical value and does not reflect the distribution of wealth in a country. In other words, a country with a high GDP per capita still can have a high proportion of its population living in poverty.



Source: World Bank: 2003 World Development Indicators

Figure 2.2.3 GDP Growth in Central America (constant 1995 USD)

In terms of GDP per capita, Panama is the second best performer, and was until recently the only country together with Costa Rica that had a GDP per capita above 3000 USD see Figure 2.2.4.



Source: World Bank: 2003 World Development Indicators

Figure 2.2.4 GDP per Capita in Central America (constant 1995 USD)

Since 1999, the GDP per capita of Costa Rica has been growing more rapidly than the one of Panama. The former grew with 484 USD while the GDP per capita of the latter grew with 238 USD, half that value. Given the recent good economic performance of Belize, this country is closing in on Panama (3,189 USD for Belize against 3,243 USD for Panama in 2001).

Based upon the most recent available statistics, the forecasted positive rebound of the Panamanian economy seems to be confirmed. Year 2002 GDP remained positive with a 0.8% growth and the estimated growth (based upon half year performance) suggests that the economy will grow with at least 2.4% in 2003 to reach 12,726.9 million nominal USD, see Table 2.2.6.

Table 2.2.6 Selected Economic Indicators (million USD)

Indicators	1999	2000	2001	2002	2003 (est)
GDP (nominal millions of USD)	11,390.7	11,938.3	12,059.4	12,295.8	12,726.2
GDP (1996 million USD at constant prices)	10,840.9	11,196.4	11,234.7	11,319.1	-
GDP % change (constant USD)	4.2%	3.3%	0.3%	0.8%	2.4%
Service sector % change	4.2%	5.2%	1.6%	2.1%	-
Other sectors % change	2.9%	3.1%	-6.9%	-5.0%	-
GDP per capita (USD of 1996)	3,749	3.790	3.740	3.699	-

Source: "Economic Statistics"; Ministry of Economy and Finance; Directorate of Analysis and Economic Policies; Economic and Statistical Information Department, June 2003

Although accurate data for the entire year 2003 are not yet available and the data for 2002 still remain estimates, following Table 2.2.7 suggests that the recovery of the Panamanian economy might not be driven by the service sector. In 2002, primary and secondary sector activity has increased in strength. The primary sector will account for 8.8% of GDP (compared to 7.5% in

2001) and the secondary sector for 13.6% (up 1.4% from 12.2% in 2001). The service sector will see its year 2003 performance decline with nearly 4% from 76% in 2001 to 72.3% in 2002. But it should be noted that all information is not yet available to consolidate the estimated share of the service sector.

Table 2.2.7 Selected Economic Indicators (% share in GDP)

	1996	1997	1998	1999	2000	2001	2002
Primary activities							
Agriculture(1)	7.1	7.0	6.5	6.6	6.9	6.9	8.0
Mining	0.3	0.6	0.7	0.8	0.7	0.7	0.8
Total	**7.4**	**7.6**	**7.1**	**7.4**	**7.6**	**7.5**	**8.8**
Secondary activities							
Manufacturing	10.6	10.5	10.1	9.3	8.4	7.7	8.7
Construction	3.6	3.8	4.3	4.7	5.3	4.6	4.9
Total	**14.2**	**14.3**	**14.4**	**14.0**	**13.7**	**12.2**	**13.6**
Services							
Public Utilities	3.2	3.2	2.8	2.6	2.8	2.8	3.6
Commerce, Restaurants, and Hotels	10.0	10.4	10.2	10.2	9.7	9.6	...
Transportation and Communications	7.4	8.0	9.1	10.5	11.7	12.1	15.0
Colon Free Zone	7.5	6.6	6.7	7.2	6.3	6.9	...
Panama Canal Commission	5.0	4.9	4.9	4.7	4.3	4.1	5.0
Financial Intermediation	8.9	9.1	9.1	9.3	10.4	10.2	12.1
Real Estate	16.3	15.9	15.3	15.0	15.1	15.0	17.7
Public Administration	11.2	10.6	10.0	9.1	9.5	10.0	12.5
Other Services	4.8	5.2	5.2	5.3	5.0	5.3	6.4
Total	**74.3**	**73.8**	**73.4**	**73.9**	**74.8**	**76.0**	**72.3**
Plus Import Taxes(2)	6.9	7.3	8.0	8.1	7.6	7.5	8.9
Less Imputed Banking Services	-2.9	-2.9	-3.0	-3.4	-3.7	-3.3	-3.6
Gross Domestic Product	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: "Economic Statistics"; Ministry of Economy and Finance; Directorate of Analysis and Economic Policies; Economic and Statistical Information Department, June 2003
(1) including fisheries
(2) including value added tax (ITBM)

The performance of individual economic sectors will be discussed in the next paragraphs.

2.2.2 Sector Performance

Without in-depth and structural changes in the countries economic configuration, the level of future growth will depend upon future performance of the service sector that presently accounts for nearly 77% of annual GDP (see next Table 2.2.8).

Table 2.2.8 GDP Indicators for Different Sectors

ECONOMIC STRUCTURE	**1981**	**1991**	**2000**	**2001**
(% of GDP)				
Agriculture	8.5	9.0	6.8	7.0
Industry	18.5	16.3	16.4	16.1
Manufacturing	9.5	9.6	7.1	7.0
Services	72.9	74.7	76.7	76.9
Private Consumption	55.1	63.8	61.6	58.4
General government consumption	17.0	17.5	14.7	15.1
Imports of goods and services	46.6	36.7	38.8	34.9
(Average annual growth - %)	**1981-91**	**1991-01**	**2000**	**2001**
Agriculture	2.0	2.2	1.6	0.8
Industry	-1	3.9	1.1	-5.1
Manufacturing	0.8	1.0	-5.3	-5.7
Services	0.5	3.5	2.9	1.5
Private Consumption	1.9	2.8	4.0	-5.5
General Government consumption	0.1	2.7	5.5	3.9
Gross domestic investment	-5.7	8.4	-9.6	-2.4
Imports of goods and services	-0.3	3.2	-4.5	-9.9

Source: "Panama at a glance"; World Bank; Country Unit Staff 24 September 2002

The various indicators all clearly demonstrate the high dependence of the Panamanian economy on service sector performance. Over the past 20 years, the share of services in GDP has grown from 72.9% in 1981 to 76.9% in 2001, this at the expense of primary and secondary sector activities. The economic performance of the Panamanian economy is not positive across all sectors as can be seen in Table 2.2.9. On the contrary, many sectors continue demonstrating a low performance trough the year 2002.

Table 2.2.9 Economic Performance for Different Sectors

Agricultural Sector					
Indicator	**Years**			**Change %**	
	2000	**2001**	**2002(P)**	**00/01**	**01/02**
Agriculture					
Bananas Exports (thousands of net kilos)	489,225	426,079	403,998	-12.9	-5.2
Sugar Production (thousands of net kilos)	155,981	146,279	149,913	-6.2	2.5
Livestock					
Cattle slaughter (heads)	323,431	281,332	281,641	-13.0	0.1
Hog slaughter (heads)	317,778	269,806	268,362	-15.1	-0.5
Poultry production (thousands of kilos)	71,649	71,960	72,758	0.4	1.1
Milk purchase (thousands of kilos)	145,247	140,378	152,258	-3.4	8.5
Fishing (thousands of net kilos)					
Shrimp Exports	5,864	6,570	5,732	12.0	-12.8
Shrimp larvas exports	1,235	1,317	953	6.6	-27.6
Fishmeal and fish oil exports	41,871	40,259	18,761	-3.8	-53.4
Fresh or refrigerated fish	16,720	14,365	14,709	-14.1	2.4
Congealed tuna (yellow fin)	5,645	9,482	12,511	68.0	31.9
Fresh and congealed fish filet	10,452	17,571	18,590	68.1	5.8
Other fresh and congealed fish filets	2,446	1,350	1,278	-44.8	-5.3
Congealed lobsters	614	799	679	30.2	-15.1
Industrial Sector					
Indicator	**Years**			**Change %**	
	2000	**2001**	**2002(P)**	**00/01**	**01/02**
Manufacturing					
Global index of physical production (average)	111.1	103.7	99.8	-6.7	-3.8
Industrial energy consumption (thousands of KWh)	503,517	479,317	378,312	-4.8	-21.1
Tomato processed products (thousands of kilos)	10,414	10,081	9,772	-3.2	-3.1
Beer production (thousands of liters)	139,886	126,685	134,724	-9.4	6.3
Production of beverages (thousands of liters)	12,223	12,150	12,848	-0.6	5.7
Construction					
Construction permits (thousands of USD)	509,254	397,107	352,692	-22.0	-11.2
District of Panama	363,668	293,154	231,112	-19.4	-21.2
Other Districts	145,586	103,953	121,580	-28.6	17.0
Production of Concrete (cubic meters)	624,104	485,420	508,390	-22.2	4.7
Electricity and Water					
Generation of electricity (millions of KWh)	4,669,439	4,858,133	4,996,319	4.0	2.8
Hydro energy	3,399,010	2,551,961	3,278,482	-24.9	28.5
Thermal energy	1,270,429	2,306,172	1,717,837	81.5	-25.5
Water billing (millions of gallons)	62,807	63,120	62,747	0.5	-0.6
Commerce and Services					
Indicator	**Years**			**Change %**	
	2000	**2001**	**2002(P)**	**00/01**	**01/02**
Wholesale Commerce					
Personnel employed (average)	17,883	17,510	16,826	-2.1	-3.9
Wages paid (thousands of USD)	173,696	170,432	169,063	-1.9	-0.8
Total revenues (thousands of USD)	2,585,496	2,532,483	2,539,098	-2.1	0.3

Retail Commerce					
Personnel employed (average)	24,713	21,724	21,772	-12.1	0.2
Wages paid (thousands of USD)	161,710	143,980	143,485	-11.0	-0.3
Total revenues (thousands of USD)	2,107,146	1,819,535	1,827,125	-13.6	0.4
Hotels and Restaurants					
Personnel employed (average)	9,561	9,036	7,913	-5.5	-12.4
Wages paid (thousands of USD)	51,966	51,561	44,923	-0.8	-12.9
Total revenues (thousands of USD)	228,275	203,027	181,284	-11.1	-10.7
Daily Average of Occupied Rooms (units)	1,941	1,833	1,933	-5.6	5.5
Daily Average of Lodged Persons (units)	3,181	2,872	2,832	-9.7	-1.4
Sales Tax (in thousands of dollars)	69,013	66,718	65,681	-3.3	-1.6
Transportation, Warehousing, and Communications					
National Port System					
Container Movements (Teu's)	1,359,640	1,591,472	1,672,315	17.1	5.1
Load Movement (metric tons)	20,669,318	23,434,771	21,541,304	13.4	-8.1
Load Transported through the Canal (thousands of long tons)	195,850	190,323	187,348	-2.8	-1.6
Transit of ships through the Canal (units)	13,774	13,282	13,214	-3.6	-0.5
Banking System					
Domestic loans balance (millions of USD)	11,552	12,222	11,392	5.8	-6.8
Foreign loans balance (millions of USD)	9,943	9,825	7,246	-1.2	-26.2
Interest rate - commercial loans (percentage)	10.04	9.91	8.70	-1.3	-12.2
Interest rate - consumer loans (percentage)	13.49	12.42	12.00	-7.9	-3.4

Source: "Economic Statistics"; Ministry of Economy and Finance; Directorate of Analysis and Economic Policies; Economic and Statistical Information Department, June 2003

Agriculture saw its overall performance drop from 8.5% in 1981 to 7.0% in 2001. The agricultural sector continues growing each year although the level of this growth decreased from 2% annual growth between 1981 and 1991 to 0.8% annual growth in 2001, which constituted a 50% reduction in annual growth as compared to the previous year 2000, when the increase of the agricultural sector was still 1.6%. In the year 2002, the decrease continued as the sector was especially hard hit by the 2001 drought and banana strikes[14], by the "White Spot" virus that devastated the shrimp farming sector while at that time, it was still recovering from the negative performance during previous years. Consequently in 2003, export performance of the agricultural sector remains low and continues to decrease[15]. But recent export performance suggests that improvement is in sight, as will be demonstrated in the next paragraph. Over the last 20 years, the industrial sector's share in the economy decreased from 18.5% of GDP in 1981 to 16.2% of GDP in 2001. The sector at present does not show any major signs of recovery, given the continuation of the decline with 6.6% in the export of industrial products registered during the first quarter of 2003[16]. The worst long-term performance can be noted for the manufacturing sector. Manufacturing demonstrated moderate growth of 0.8% during the period 1981 – 1991, slightly increasing to a 1.0% during the period 1991 – 2001. But with the turn of the century, the

[14] "Panama: Situación Económica y Perspectivas", IDB, October 2002, p 80
[15] "Balanza de pagos de Panamá año 2003"; Controlaría General de la República de Panamá, Departamento de Relaciones Públicas, May 2003
[16] "Balanza de pagos de Panamá año 2003"; Controlaría General de la República de Panamá, Departamento de Relaciones Públicas, May 2003 and "Panama: Situación Económica y Perspectivas", IDB, October 2002, p80

performance of the manufacturing sector dropped with 5.3% in the year 2000 and with 5.7% in 2001. Also for the manufacturing and intermediate sector, the decrease continues during 2002 and 2003, generated by an important decline in textile and low consumer confidence, particularly affecting national consumption. The growth in the service sector has peaked with 3.5% growth during the period 1991 – 2001 but since 2000, slowed down to 2.9% in the year 2000 and 1.5% in the year 2001. Industrial production decreased from 18.5% in 1981 to 16.1% in 2001 and manufacturing shrunk from 9.5% in 1981 to 7.0% in 2001. Industrial performance remained positive until 2001, but knew a spectacular decrease of 5.7% in that year. The next Table 2.2.10 details the share in GDP of different economic actors during the last five years.

Table 2.2.10 GDP Performance per Economic Activity (million Balboa)

1996 prices - million balboa	**GDP at purchase prices**						
Description	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002(Est)**
1. Agriculture, cattle, hunting and silviculture	533	548.5	551.5	592.6	593.1	544.2	542.6
2. Fishing	115.3	119.6	120.5	119.6	180.1	226.5	213.5
3. Quarry and Mines Exploitation	31.8	55.9	69.6	86.5	77.5	76.7	72.1
4. Manufacturing Industries	969	1,007.20	1,051.20	1,011.80	938.4	863	820.5
5. Electricity, gas and water supply	295.4	303	294.4	284.1	310.8	315.8	340.1
6. Construction	333.3	363.3	449.3	510.6	593	512.9	461.6
7. Wholesale and retail Commerce; motor vehicle repairs, motorcycle, personal effects and domestic equipment.	1,419.70	1,407.60	1,551.50	1,657.49	1,556.90	1,576.50	1,601.10
8. Hotels and Restaurants	187.8	214.1	215.9	228.2	241.1	275	323
9. Transportation, storage and communication	1,131.40	1,233.00	1,457.00	1,642.90	1,786.40	1,818.90	1,879.50
10. Financing intermediary	812.7	867.2	948.4	1,002.80	1,166.30	1,144.50	1,136.80
11. Real Estate Activity, enterprises and rentals	1,492.60	1,519.30	1,591.50	1,624.40	1,686.40	1,684.10	1,662.30
12. Private teaching	72.1	91.9	93.2	93.7	106	115	119.4
13. Social Services Activities and private health	52	62.3	65.1	74.3	73.1	71.6	77.8
14. Other community activities, social and personal services	240.5	268.4	299.1	332.5	305.1	326.8	314.3
15. Minus: Financing intermediate services indirect measures (SIFMI) pointed to internal consumption	265.2	279.7	312.8	364.6	416.4	375	340
Subtotal Industries	**7,421.40**	**7,781.50**	**8,445.50**	**8,896.90**	**9,197.70**	**9,176.50**	**9,224.60**
1. Government services producers	1,023.10	1,014.00	1,038.70	991.7	1,066.90	1,128.70	1,171.30
2. Private home with domestic services	74.3	78.8	80	77.4	80.3	82.4	90.1
Gross Value Added	**8,518.80**	**8,874.30**	**9,564.20**	**9,966.00**	**10,344.90**	**10,387.60**	**10,486.00**
Gross Domestic Product - Purchase Prices	**9,153.50**	**9,570.70**	**10,399.20**	**10,840.90**	**11,196.40**	**11,234.70**	**11,319.10**

Source: Contraloría General de la Republica; Dirección de Estadística y Censo
SIFMI = Servicios de Intermediación Financiera Medidos Indirectamente

In the dual economy of Panama, the domination of the service sector continues while other economic activities such as agriculture, fishing and manufacturing have trouble competing on the global market[17]. Table 2.2.11 visualizes the role of the individual sectors in the GDP and its evolution over the last 5 years.

Table 2.2.11 % Change in Economic Performance

	Annual Percentage variation from Gross Domestic Product					
Description	**1996-96**	**1998-97**	**1999-98**	**2000-99**	**2001-00**	**2002-01(Est)**
1. Agricultural, cattle, hunting and silviculture	2.9	0.5	7.5	0.1	-8.2	-0.3
2. Fishing	3.7	0.7	-0.7	50.5	25.8	-5.7
3. Quarry and Mines Exploitation	76.0	24.5	24.2	-10.4	-1.0	-6.0
4. Manufacturing Industries	3.9	4.4	-3.7	-7.3	-8.0	-4.9
5. Electricity, gas and water supply	2.6	-2.8	-3.5	9.4	1.6	7.7
6. Construction	9.0	23.7	13.6	16.1	-13.5	-10.0
7. Wholesale and retail Commerce; motor vehicle repairs, motorcycle, personal effects and domestic equipment.						
8. Hotels and Restaurants	-0.9	10.2	6.8	-6.1	1.3	1.6
9. Transportation, storage and communication	14.0	0.8	5.7	5.7	14.1	17.5
10. Financing intermediary	9.0	18.2	12.8	8.7	1.8	3.3
11. Real Estate Activity, enterprises and rentals	6.7	9.4	5.7	16.3	-1.9	-0.7
12. Private teaching	1.8	4.8	2.1	3.8	-0.1	-1.3
13. Social Services Activities and private health	27.5	1.5	0.5	13.1	8.5	3.8
14. Other community activities, social and personal services	19.8	4.5	14.1	-1.6	-2.1	8.6
15. Minus: Financing intermediate services indirect measures (SIFMI) pointed to internal consumption	11.6	11.4	11.2	-8.2	7.1	-3.8
Subtotal Industries	5.5	11.8	16.6	14.2	-9.9	-9.3
1. Government services producers						
2. Private home with domestic services	**4.9**	**8.5**	**5.3**	**3.4**	**-0.2**	**0.5**
Gross Value Added	-0.9	2.4	-4.5	7.6	5.8	3.8
Gross Domestic Product at Purchase Prices	6.1	1.5	-3.3	3.7	2.7	9.3
	4.2	**7.8**	**4.2**	**3.8**	**0.4**	**0.9**
	4.6	**8.7**	**4.2**	**3.3**	**0.3**	**0.8**

Source: Contraloría General de la Republica; Dirección de Estadística y Censo

Sectors that demonstrated growth in 2002 were all service-based and include[18]:

1) Hotels and restaurants (+17.5%)
2) Electricity, gas and water supply (+7.7%)
3) Government services (+3.8%)
4) Transport and communications (3.3%)

Hotels and restaurants saw their total added value increase with 17.5% in 2002, in particular in the Interior area where restaurants benefit from the spending by a growing number of tourists that arrive in Panama on cruise ships. Transportation, storage and communication grew with 3.3%, explained by a further boost in port operations (+5.1%), especially in the private terminals and the growth in revenues of the Panama Canal (+3.0%). Driven by new technologies, telecommunications boosted its activities with 5.0% in 2002.

[17] "*Country Paper April 2001: Panama*"; Document of the Inter-American Development Bank, Regional Operations Department 2, Country Division 2; Part II p. 7

[18] "*Resultados Preliminares de la serie del producto interno bruto a precios constantes: años 1996-2002; dentro de las labores del cambio de base de las cuentas nacionales al año 1996"*; Contraloría General de la Republica; Dirección de Estadística y Censo; Panamá, 19 de junio de 2003

The weak economic performance in 2002 was predominantly visible in the non-service sector that demonstrated a decline between 10% (construction) and 0.3% (agriculture). But also the service sector was affected, in particular Colon Free Zone and financial mediation:

1) Construction (-10%)
2) Mining (-6%)
3) Fishing (-5.7%)
4) Manufacturing (-4.9%)
5) Colon Free Zone (-1.3%)
6) Financial mediation (-0.7%)
7) Agriculture (-0.3%)

Construction declined with 10% and mining activity diminished with 6.0%. Both sectors were affected by the termination in 2001-2002 of several large-scale infrastructure road and port projects, and the construction of residential and commercial buildings that fell by 10% and the consequent low production of stone, sand and clay. Manufacturing shrunk with 4.9%, led by a reduced production of consumption goods, food stuff, alcoholic beverages and others. Fishing continues to slow down in 2002. Industrial fishing, representing nearly 60% of total production, registered a decrease of 5.7% as compared to 2001, affected by diminished exports of several species and weakened performance of shrimps and shrimps larva, including the aquaculture of shrimps. Agricultural productivity slightly decreased in 2002 with 0.3% as a consequence of continued low banana exports (reducing in 2002 with 5.3%), causing several farms to stop operations and growing labor conflicts and increasing commercialization problems in Europe. Agricultural production was further affected by an adverse climate, causing a decline in corn production, coffee production and rice production. But contrary to the evolution of traditional crops, several new crops (watermelon, pineapple and others) show an encouraging growth and open new markets. Also improved performance of some cattle products minimized sector deceleration.

As compared to other Central American countries, the differentiation between the three economic sectors is more explicit in Panama, as can be seen in Table 2.2.12.

Table 2.2.12 % Share per Sector in GDP for Selected Countries (1995 & 2001)

	1995			2001		
	Agriculture	Industry	Services	Agriculture	Industry	Services
Belize	20.31	26.35	53.34	22.67	25.00	52.33
Costa Rica	13.70	29.60	56.70	9.12	28.57	62.30
El Salvador	13.37	27.39	59.23	9.48	29.67	60.85
Guatemala	24.15	19.66	56.19	22.62	19.47	57.91
Honduras	21.53	30.70	47.77	13.70	31.55	54.74
Nicaragua	32.65	22.06	45.30	NA	NA	NA
Panama	**7.62**	**17.07**	**75.32**	**7.00**	**16.10**	**76.90**

Source: World Bank: 2003 World Development Indicators

From all the Central American countries, Panama is the country with the lowest agricultural production. The share of the primary sector in national GDP was 7.62% in 1995, a difference of 5.75% compared to the share of the agricultural sector in El Salvador, the country with the second lowest share. The secondary sector in Panama also has the second lowest share in total GDP, with 17.07% trailing Guatemala with 2.59%, the country with the second lowest share (19.66%). This result is a direct consequence of the very high share of the service sector in the Panamanian economy. With 75.32% of GDP, the share of the service sector in Panama is 16.08% higher than the share of the service sector in El Salvador where it is the second highest (59.23%).

Although the differences are slightly reduced in 2001, the overall balance remains relatively similar. More important, however, than the percentage numbers is the evolutions of sector performance in the different countries. With the exception of Belize where the share of agriculture increases, all countries see a decline between 2% to 4% of the share of agriculture in GDP, with Honduras showing the most spectacular decline of nearly 8%. Panama does not have this drastic change and the share in GDP of the primary sector remains relatively stable around 7% (a decline of only 0.62% over the last 5 years). The continued growing impact of the service sector in the Panamanian economy, increasing from 75.32% in 1995 to 76.9% in 2001, is mainly to the detriment of industrial activity. The impact on the economy of the latter declined with approximately 1% over the last 5 years. Panama is, together with Costa Rica the only country where the decline of the primary sector is coinciding with a simultaneous important decrease of industrial performance with approximately 1%. Although also Belize demonstrates the same level of decline in its industrial performance, this decrease coincides with a reduced impact of the service sector to benefit the primary sector, a trend that is contrary to the evolution in Costa Rica and Panama. All other countries see their industrial activity rise between 1995 and 2001 with around 1% to 2% or remain relatively stable.

In most Central American countries, the share of the primary sector sees a notable decline and the importance of services is growing in all Central American countries, with the exception of Belize where its share reduces. Although its GDP distribution remains the most stable of all Central American countries and the variation over the last 5 years the most moderate, Panama continues to have a service sector with an exceptionally high share in its economy, in 2001 still nearly 14% higher than Costa Rica.

The latest statistics, provided by the Ministry of Economy and Finances suggests that the recovery that started in 2002 has strengthened in 2003[19]. The increase in GDP during the second quarter of 2003 was equal to 2.4%, a strengthening that was notable in various sectors of the Panamanian economy. The primary sector registered an increase of 7.8% as a result of positive results in the agriculture (+1.2%), fishing (+21.8%) and mining (+15.9%). The economic growth of the secondary sector was also positive (+5.5%), with construction growing with 24.0% and

[19] "Informe de Coyuntura Económica: Segundo Trimestre 2003"; Ministerio de Economía y Finanzas; Dirección de Análisis y Políticas Económicas; 2003

transport and communications with 5.5%. But industrial activity and the energy sector noted a decline of 2.3% and 4.3% respectively. The performance of the service sector remains mixed. While real estate and the activities of Colon Free Zone continue to decline with 3.0% and 6.9% respectively, commercial services grew with 4.2% and the activities of the hotel and restaurant sector and the tourist relations increased with 5.3%.

The next Table 2.2.13 provides a detailed overview of the year-on-year economic performance of selected sectors in Panama.

Table 2.2.13 Real Increase in GDP Second Quarter 2003 Compared to Second Quarter 2002

Sector	Level of increase (%)
Primary sector	**7.8**
Agriculture	1.2
Fishing	21.8
Mining	15.9
Secondary sector and Infrastructure	**5.3**
Industries	-2.3
Electricity and Water	-4.3
Construction	24.0
Transport and Telecommunications	5.5
Autoridad del Canal	2.3
Ports	21.5
Telecommunications	5.0
Commercial and Financial Services	**-0.3**
Commerce	4.2
Colon Free Zone	-6.9
Hotels and Restaurants	5.3
Intermediate Financing	-5.0
Real Estate and Enterprises	3.0
Public and Personal Services	**0.4**
Public Administration	1.1
Private Teaching	3.5
Social Services and Health	3.0
Social, community and personal Activities	-7.2
Services in private homes	8.0
Sector GDP	**2.3**
Global GDP adjusted for SIFMI and Indirect Imp.	**2.4%**

Source: "Informe de Coyuntura Económica: Segundo Trimestre 2003"; Ministerio de Economía y Finanzas; Dirección de Análisis y Políticas Económicas; 2003, p 2

SIFMI = Servicios de Intermediación Financiera Medidos Indirectamente.

Based on the half-year results, the economic projection for 2003 suggests an increase of GDP between 2.3% and 2.8%, which is in line with the estimates made by various international organizations.

2.2.3 Export Performance

The high dependence of Panama on the world economy is clearly demonstrated in the import – export performance indicators. Recent data for Panama on world trade demonstrate a sharp reduction in imports in 2001, lead by a decrease in imports of food stuff and capital goods. This decline is the reason why, in spite of the weak growth in exports of the Panamanian industry, the gap in the trade balance gradually diminishes, see Table 2.2.14.

Table 2.2.14 Trade Balance (1997 – 2001 in '000 USD)

'000 balboa	1997	1998	1999	2000	2001
Sum Exports	659,249.00	706,609.00	706,566.00	770,944.00	809,003.00
Sum Imports	2,990,395.00	3,396,845.00	3,514,633.00	3,377,890.00	2,963,235.00
Gap	2,331,146.00	2,690,236.00	2,808,067.00	2,606,946.00	2,154,232.00

Source: International Trade Center; UNCTAD/WTO, based upon COMTRADE database of the United Nations Statistics Division.

The growth in exports and shrinking of imports had a slightly positive effect on the trade balance of Panama. But in 2003, the positive trend already starts to revert again as imports grew in the first quarter of 2003, led by an important increase in imports of capital goods (+29.8%), food stuff (+11.2%) and intermediate products (+17.6%)[20]. But the export performance is not positive across all export products. Some industries experienced good growth while others have seen an important decrease as can be observed in Table 2.2.15.

Table 2.2.15 Export Performance of Selected Products (1995 – 2000)

Detail (in million USD)	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Agricultural Products						
Bananas	190.36	184.03	179.84	138.75	182.28	148.33
Shrimp	82.87	74.55	96.49	136.87	65.36	59.4
Larva Shrimps	6.03	5.37	9.21	13.76	7.76	8.94
Coffee	33.4	18.79	22.43	24.55	18.54	16.05
Cattle Meat	3.68	5.05	7.22	9.33	11.77	9.54
Fishing	0.52	22.11	36.43	58.95	97.04	154.14
Fruits	13.4	0.55	0.29	26.01	19.32	16.49
Pork meat, poultry, other cattle meats	0.56	0.2	11.86	3.96	23.32	18.9
Lobsters	3.24	3.76	4.4	5.99	6.08	8.29
Mollusks	2.11	1.79	1.76	3.66	2.96	3.14
Other fresh vegetables	1.99	4.03	5.01	5.28	4.75	5.09
Others	41.27	32.33	39.57	34.49	8.92	36.75
Agricultural total products	**379.44**	**352.56**	**414.52**	**461.58**	**448.1**	**485.05**

[20] "Balanza de pagos de Panamá año 2003"; Controlaría General de la República de Panamá, Departamento de Relaciones Públicas, May 2003

Detail (in million USD)	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Adjusted non Agricultural products						
Pure cigars	0.1	0.01	0.41	1.59	7.09	37.68
Sugar	17.97	22.6	28.67	25.55	14.45	19.89
Medicaments	11.46	11.49	12.14	16.46	16.47	10.66
Aluminum wastes	3.21	4.97	6.03	6.96	6.1	7.78
Brooms and brushes	1.16	0.24	1.14	1.54	1.39	4.22
Prepaid shrimps	..	..	..	..	1.38	3.31
Fish food	..	..	..	..	..	0.12
Mops	4.52	4.58	5.31	5.83	5.33	0.11
Pipes and accessories	..	..	..	1.4	4.16	4.49
Aluminum bars	0.41	0.49	1.4	2.48	3.72	4.9
Beers containers	4.22	11.68	10.34	8.45	4.13	4.77
Rum, other alcoholic beverage	3.08	3.57	4.79	5.24	..	4.24
Paper in rolls	..	..	..	3.57	2.47	3.55
Wooden kitchen furniture	..	0.03	0.04	..	0.1	0.35
Prepared sauces + condiments	..	0.01	0.01	..	0.92	2.51
Fish flour	4.99	2.2	..	6.61	..	8.21
Others	141.62	137.99	150.53	168.18	162.74	128.96
Non-Agr. Products totals	**192.75**	**199.87**	**220.8**	**253.86**	**230.45**	**245.74**
EXPORT TOTALS	**572.19**	**552.43**	**635.32**	**715.44**	**678.55**	**730.79**

Source: «Plan de Desarrollo Económico, Social y Financiero con Inversión en Capital Humano (2001)»; Octubre 2001; Ministro de Economía y Finanzas, Republica de Panamá; p 13

In spite of the decline of banana and sugar exports since 1998, total agricultural export has constantly grown since 1995, in particular exports of some non-traditional farming products and an excellent long-term performance of the fishing sector. Until 1999, the growth of the fishing sector was led by an important increase in the export of shrimps and related products. But the "White-Spot" virus outbreak in 1999 caused losses of up to 90% of stocks in many farms. The sector has been struggling ever since and still has to recover from the devastating effects of the disease.

The export of non-agricultural products (manufacturing and non-agricultural production) reveals a different picture, most products showing a decline in export levels. The performance is volatile, suggesting that many products are particularly sensitive to changes in the international markets. Because many export products are also linked to small scale production, sometimes by a single company, micro-economic changes could also have a direct impact on export performance of particular products. The situation has not substantially changed during the last two years, as can be seen in Table 2.2.16.

Table 2.2.16 Export Performance of Selected Products (2000 – 2002)

Indicator	Years			Change %	
	2000	2001	2002(P)	00/01	01/02
Export of Goods F.O.B. (thousands of USD)	771,515	809,537	755,748	4.9	-6.6
Petroleum derived products (1)	52,066	57,176	46,678	9.8	-18.4
Bananas	148,329	122,158	109,413	-17.6	-10.4
Shrimps	68,337	79,374	66,023	16.2	-16.8
Coffee	16,045	11,112	9,275	-30.7	-16.5
Clothing	19,472	14,281	13,153	-26.7	-7.9
Cattle Meat	9,535	11,447	14,359	20.1	25.4
Others	457,731	513,989	496,847	12.3	-3.3
Export of Services					
Canal Commission Tolls (thousands of USD)	581,770	573,584	608,296	-1.4	6.1
Entrance of passengers (thousands)	1,148	1,214	1,288	5.7	6.1
Travelers expenditures (thousands of USD)	450,006	484,155	523,917	7.6	8.2
Passengers services (thousands of USD)	158,028	134,341	...	-15.0	...
Total Imports C.I.F. (in thousands of USD)	3,405,005	2,963,584	3,069,912	-13.0	3.6
Capital Goods	688,032	514,702	489,545	-25.2	-4.9
Crude Oil	447,007	425,984	221,682	-4.7	-48.0
Food Products	347,981	317,949	353,233	-8.6	11.1
Others	1,921,985	1,704,949	2,005,452	-11.3	17.6
Colon Free Zone					
Weight of imports (thousands of metric ton)	759.3	788.6	755.4	3.9	-4.2
Weight of re-exports (thousands of metric ton)	700.2	732.5	704.9	4.6	-3.8
Value of imports (millions of USD)	4,630.9	4,759.5	4,451.3	2.8	-6.5
Value of re-exports (millions of USD)	5,300.8	5,410.1	4,820.6	2.1	-10.9
Exported Net Value (millions of USD)	669.9	650.6	369.3	-2.9	-43.2

… Not available.
(P) Preliminary figures.
(1) It does not include sales of oil to ships and aircrafts.
(2) Includes shrimp larvae.

Source: Economic and Statistical Information Department of the Directorate of Analysis and Economic Policies based on figures prepared by the Republic Comptroller General and other Public Institutions, in "Economic Statistics, June 2003".

With the exception of cattle meat and the services, the export volume between 2000 and 2002 continues to decrease for most sectors, in many cases with double-digit numbers. The primary sector, with the exception of cattle meat, is the hardest hit sector. Banana exports continue to show a strong decline in exports but this result is not as dramatic as the performance of coffee over the last two years. Export of coffee decreased with 30% in 2001 and continued to decline in 2002 with 16.5%. Shrimp export was still positive in 2001 with a 16% rise compared to 2000, but this drastically changed in 2002 when the export volume declined with the same level (16%) as a direct consequence of the "White-Spot" virus outbreak in 1999 that reduced shrimp exports with 50%.

If the most recent statistics, reflecting exports during the first quarter of 2003, are considered as a performance indicator for the entire year, it can be expected that recovery is on its way, in particular for the agricultural sector, in particular the export of fish flour and coffee[21].

According to the Ministry of Commerce and Industries, the export of Panama during the first half year of 2003 showed an average increase between 2% and 5%, in particular lead by non-traditional products that showed an increase with on average 15%. The stronger performance during the 2003, as compared to the year 2002, is clearly demonstrated in Table 2.2.17 hereafter.

Table 2.2.17 Export of Goods and Services (year 2002 – 2003 variation)

	Variation %
Exports Net Totals [1/]	**7.8**
Export of goods	**5.2**
Agricultural products	13.8
Fishing	33.8
Other exports	11.6
Export of Services	**8.3**
Autoridad del Canal de Panamá	13.9
Zona Libre de Colón	5.3
Retirement and Pensions	0.0
Tourism	9.6
Banking Services	-17.2
Ports and ferry services	18.0
Other Services	8.2

Source: "Informe de Coyuntura Económica: Segundo Trimestre 2003"; Ministerio de Economía y Finanzas; Dirección de Análisis y Políticas Económicas; 2003

1/ net variation of goods and services combined

Next Table 2.2.18 provides a comparative overview of the export performance of the Central American Countries. As can be noted, Panama once more is situated in the middle of the table, with the forth highest or third lowest export performance in 2001. With the exception of Belize and Honduras (data for Nicaragua not available), Panama has the lowest export performance although it is close behind Guatemala.

[21] Source: "Contraloría General de la República", statistics prepared for « Sección de Análisis Económico VICOMEX" Preliminary results till may 2003 and "Informe de Coyuntura Económica: Segundo Trimestre 2003"; Ministerio de Economía y Finanzas; Dirección de Análisis y Políticas Económicas; 2003

Table 2.2.18 Export Indicators Central American Countries (1995 – 2001)

	1995	1996	1997	1998	1999	2000	2001
Export in constant US dollars							
Belize	294,850,000	295,999,119	336,798,522	341,676,831	409,208,157	434,896,123	434,307,999
Costa Rica	4,399,953,919	4,671,133,319	5,074,680,387	6,430,359,616	7,802,579,945	7,678,836,204	7,184,742,279
El Salvador	2,054,588,445	2,232,716,303	2,687,003,788	3,088,107,614	3,308,340,686	3,877,900,994	4,340,149,999
Guatemala	2,822,636,586	3,067,815,349	3,316,393,506	3,395,798,163	3,552,141,847	3,692,422,322	3,691,449,904
Honduras	1,734,800,000	1,874,655,232	1,899,452,258	1,929,208,691	1,713,970,497	1,839,939,394	1,924,249,285
Nicaragua	583,744,169	679,216,061	830,948,901	786,515,250	..	..	..
Panama	2,927,900,000	3,015,545,075	3,284,036,596	2,921,882,747	3,188,653,095	3,305,412,949	3,268,588,099
Annual growth of export							
Belize	(1.08)	0.39	13.78	1.45	19.76	6.28	(0.14)
Costa Rica	11.07	6.16	8.64	26.71	21.34	(1.59)	(6.43)
El Salvador	13.91	8.67	20.35	14.93	7.13	17.22	11.92
Guatemala	12.56	8.69	8.10	2.39	4.60	3.95	(0.03)
Honduras	13.57	8.06	1.32	1.57	(11.16)	7.35	4.58
Nicaragua	6.39	16.36	22.34	(5.35)	..	..	..
Panama	3.49	2.99	8.90	(11.03)	9.13	3.66	(1.11)

Source: World Bank: 2003 World Development Indicators

The table clearly demonstrates that the international competitive position of Panama, as compared to the other Central American countries has weakened since 1995. In 1995, Panama was the second biggest exporter after Costa Rica but as can be noted in the annual growth of the individual countries, it quickly lost that position as a consequence of the explosive growth of El Salvador and an export increase of Guatemala that was higher than the one of Panama. Also Costa Rica performed until 2000 much better than Panama, therewith maintaining its lead over the other countries.

2.3 Industry Scan

2.3.1 Agriculture Sector

The agriculture sector is a very important activity in Panama, as shown in Table 2.3.1. Production is concentrated in Panama province with 4,878 production sites on a total of 12,228 sites, followed by Chiriqui with 2,576 sites, Coclé with 1,156 sites, Los Santos and Herrera with 1,313 sites and 1,040 sites respectively. Darién (149 sites) and Bocas del Toro (70 sites) have a lower than average agricultural production.

Table 2.3.1 Land Exploitation in Panama

Production type	Performance
Agricultural producers	207, 847 units
Number of exploitations	231,895 units
Total exploited surface	2,941,582.77 hectares (ha)
With temporary cultivation	270,098.91 ha
With permanent cultivation	155,112.60 ha
Not cultivated (in rest)	229,211.68 ha
With sowed pasture	1,303,212.69 ha
With natural pasture	167,346.36 ha
With woods and scrubland	709,895.80 ha
Other lands	106,704.73 ha

Source: Boletin Estadistico 2002, MIDA; VI Censo Agropecuario

In spite of its importance for many households, the performance of the agricultural sector and in particular traditional production such as bananas and coffee is gradually declining and reduced over time the share of the primary sector in GDP (see Table 2.3.2).

Table 2.3.2 Share of Agricultural Production in GDP

Values in millions of Balboa

ACTIVITY	GROSS DOMESTIC PRODUCT						
Industries	1996	1997	1998	1999	2000	2001	2002
Agriculture, livestock, Hunting, fishery	533.0	548.5	551.5	592.7	593.2	544.2	542.6
Cereal and other crops	102.2	84.9	98.4	97.6	99.0	92.8	92.8
Rice	41.7	25.8	38.8	40.4	41.9	42.0	40.6
Corn	15.0	12.6	13.9	12.0	14.3	13.3	12.7
Sugar Cane	35.9	38.8	38.6	36.8	34.6	28.3	30.4
Sorghum	2.7	2.5	2.3	1.9	2.6	2.1	2.0
Kidney-beans	2.4	1.8	1.9	1.5	1.6	1.5	1.4
Others	4.5	3.4	2.9	5.0	4.0	5.6	5.7
Cultivation of Vegetables, especial Horticulture and Green house	38.7	44.6	42.6	45.2	49.8	51.5	50.5
Cultivation of fruits, nuts and plants used in the Production of drinks and spices	165.7	167.3	142.4	176.5	155.0	135.0	129.6
Banana	130.8	124.1	89.9	128.8	108.0	88.6	83.9
Others	34.9	43.2	52.5	47.7	47.0	46.4	45.7
Livestock breeding	96.8	118.0	117.1	118.0	121.0	101.0	104.7
Pork breeding	21.2	22.0	30.5	31.5	32.8	26.5	27.2
Poultry and byproducts	56.6	70.8	78.3	84.2	85.1	86.2	88.1
Agricultural and cattle breeding services, except veterinary activities	24.9	23.9	20.8	22.7	23.5	22.9	21.2

Source: Contraloria General de la Republica, Dirección de Estadística y Censo

After a temporarily slow down in the decline in 1998 when crop production in general benefited from the exit of El Nino and greater than normal rainfall, most traditional agriculture continued to decrease after 1999 – 2000 to bring several products to its lowest ever level of production in 2002.

But in 2003, the slowing down of the decline suggests that the sector started to recover, as can be seen in Table 2.3.3 and Table 2.3.4, where sector year-on-year performance is compared for the second and third quarters respectively[22].

Table 2.3.3 Economic Indicators Agricultural Sector Second Quarter

	Segundo Trimestre			Variación %	
Indicador	**2001**	**2002**	**2003 (P)**	**2002/01**	**2003/02**
Agricultura					
Exportación de Bananos (en miles de kilos netos)	129,544	103,533	94,008	-20.1	-9.2
Producción de Azúcar (en toneladas métricas)	146,280	149,920	146,526	2.5	-2.3
Ganadería					
Sacrificio de Ganado Vacuno (cabezas)	74,180	73,311	69,175	-1.2	-5.6
Sacrificio de Ganado Porcino (cabezas)	68,217	66,748	65,246	-2.2	-2.3
Producción de Carne de Pollo (en miles de kilos)	17,452	19,170	17,793	9.8	-7.2
Compra de Leche Natural (en miles de kilos)	28,879	33,741	35,881	16.8	6.3

Source: "Informe de Coyuntura Económica: Segundo Trimestre 2003"; Ministerio de Economía y Finanzas; Dirección de Análisis y Políticas Económicas; 2003, p 43

Table 2.3.4 Economic Indicators Agricultural Sector Third Quarter

	Tercer Trimestre			Variación%	
Indicador	**2001**	**2002**	**2003 (P)**	**2001/02**	**2002/03**
Agricultura					
Exportación de Bananos (en miles de kilos netos)	103,152	101,879	98,781	-1.2	-3.0
Producción de Azúcar (en toneladas métricas)	146,280	149,920	146,526	2.5	-2.3
Ganadería					
Sacrificio de Ganado Vacuno (cabezas)	68,265	71,108	66,999	4.2	-5.8
Sacrificio de Ganado Porcino (cabezas)	65,201	70,079	76,271	7.5	8.8
Producción de Carne de Pollo (en miles de kilos)	18,186	18,059	17,556	-0.7	-2.8
Compra de Leche Natural (en miles de kilos)	41,604	43,256	44,018	4.0	1.8

Source: "Informe de Coyuntura Económica: Segundo Trimestre 2003"; Ministerio de Economía y Finanzas;Dirección de Análisis y Políticas Económicas; 2003, p 44

One of the most promising groups of primary sector activities is the non-traditional agriculture, which has shown a spectacular rise in export production, as can be seen in Table 2.3.5. Export volumes for non-traditional agriculture soared between 1995 and 2002, from 41.3 million kg to almost 126 million kg. This growth was in particular due to a growth in exports of wood and wood-related products, yam and plantain and to a lesser extent pineapples, watermelons and pumpkins. The bad meteorological conditions (floods, hurricanes) during 1998 had a serious impact on export performance of the (non-traditional) agricultural sector in 1999, reducing exports to half the 1998 volume.

[22] "Economic Statistics: FIRST QUARTER 2003"; Ministry of Economy and Finance; Directorate of Analysis and Economic Policies; Economic and Statistical Information Department, June 2003; p 5

Table 2.3.5 Export Volume for Selected Agricultural Products (1995-2002 – in KG)

Products	1995	1996	1997	1998	1999	2000	2001	2002
Non-traditional agriculture								
Pineapple	181,439	1,194,000	493,731	532,660	98,095	290,491	670,273	455,691
Melons & Watermelons	27,979,623	18,199,140	49,655,077	…	…	…	…	…
Melons	…	…	…	41,022,462	24,399,575	22,956,345	25,630,145	35,316,222
Watermelons	…	…	…	13,979,798	9,981,194	11,361,288	24,148,078	24,681,822
Pumpkin	9,100,630	17,586,691	21,417,308	20,211,254	17,163,821	16,561,809	18,226,341	21,045,532
Whitened rice	…	606,238	43,813	1,101,356	62,136	459,381	…	…
Broken rice	…	45,359	179,339	…	…	…	20,412	
Plantain	10,199	320,951	286,556	1,646,360	3,535,665	520,512	936,147	1,956,808
Yam	183,704	39,393	128,315	368,773	162,848	360,068	2,756,260	6,200,938
Yucca	19,008	455	150,574	1,402,289	347,855	121,579	659,833	293,112
Tania	1,077,619	2,843,455	2,138,898	2,970,084	1,826,766	1,870,828	2,618,900	2,926,238
Flowers	572,245	556,618	672,210	615,524	1,254,108	488,477	579,709	6,785
Woods	2,218,836	3,949,912	2,538,512	4,767,315	3,338,228	6,257,625	11,263,044	32,941,251
Total	**41,343,303**	**45,342,212**	**77,714,333**	**88,617,875**	**62,170,291**	**61,248,403**	**87,509,142**	**125,824,399**
Traditional agriculture								
Coffee	10,944,681	8,412,405	7,537,512	8,465,221	7,894,593	7,423,553	7,006,306	5,415,406
Bananas	690,017,271	631,950,857	607,953,989	462,415,257	593,364,002	489,248,067	426,080,599	403,923,380
Cacao	102,056	321,152	99,404	316,993	285,059	314,209	141,243	16,259,602
Total	**701,064,008**	**640,684,414**	**615,590,905**	**471,197,471**	**601,543,654**	**497,021,829**	**433,228,148**	**425,598,388**
Others	1,532,168	71,133,442	2,407,592	400,954	442,243	20,587,430	25,591,903	1,450,885
Grand Total	**743,939,479**	**757,160,068**	**695,712,830**	**560,216,300**	**664,156,188**	**578,857,662**	**546,329,193**	**552,873,672**

Source: "Boletín Estadístico 2002"; MIDA, based upon "Anuario de Comercio Exterior, - Contraloría General de la Republica

This picture is in clear contrast with the export performance of the traditional agriculture. With the exception of cacao that made a strong come-back in 2002, the total export of traditional agriculture products knew a decline from slightly over 700 million kg. in 1995 to 425 million kg. in 2002. The share of non-traditional agriculture in total export of the agricultural sector combined soared from 5.56% in 1995 to 22.76% in 2002, see Table 2.3.6.

But the table also indicates that the traditional crops remain responsible for over 75% of the export volume of the Panamanian cultivated crops and should therefore not be neglected as an important contributor to the economic growth and a strong employment supplier. Its role is and will also in the future remain therefore very important.

Table 2.3.6 Share in Total Export Volume for Selected Agricultural Products (1995-2002)

%	1995	1996	1997	1998	1999	2000	2001	2002
Non-traditional agriculture								
Pineapple	0.02	0.16	0.07	0.10	0.01	0.05	0.12	0.08
Melons & Watermelons	3.76	2.40	7.14	…	…	…	…	…
Melons	…	…	…	7.32	3.67	3.97	4.69	6.39
Watermelons	…	…	…	2.50	1.50	1.96	4.42	4.46
Pumpkin	1.22	2.32	3.08	3.61	2.58	2.86	3.34	3.81
Whitened rice	…	0.08	0.01	0.20	0.01	0.08	…	…
Broken rice	…	0.01	0.03	…	…	…	0.00	0.00
Plantain	0.00	0.04	0.04	0.29	0.53	0.09	0.17	0.35
Yam	0.02	0.01	0.02	0.07	0.02	0.06	0.50	1.12
Yucca	0.00	0.00	0.02	0.25	0.05	0.02	0.12	0.05
Tania	0.14	0.38	0.31	0.53	0.28	0.32	0.48	0.53
Flowers	0.08	0.07	0.10	0.11	0.19	0.08	0.11	0.00
Woods	0.30	0.52	0.36	0.85	0.50	1.08	2.06	5.96
Total	**5.56**	**5.99**	**11.17**	**15.82**	**9.36**	**10.58**	**16.02**	**22.76**
Traditional agriculture								
Coffee	1.47	1.11	1.08	1.51	1.19	1.28	1.28	0.98
Bananas	92.75	83.46	87.39	82.54	89.34	84.52	77.99	73.06
Cacao	0.01	0.04	0.01	0.06	0.04	0.05	0.03	2.94
Total	**94.24**	**84.62**	**88.48**	**84.11**	**90.57**	**85.86**	**79.30**	**76.98**
Others	0.21	9.39	0.35	0.07	0.07	3.56	4.68	0.26
Grand Total	100	100	100	100	100	100	100	100

Source: JICA Study Team, on the basis of "Boletín Estadístico 2002"; MIDA, based upon "Anuario de Comercio Exterior, - Contraloría General de la Republica (Table 2.3.5)

Crop cultivation

The banana production, Panama's largest export crop product, decreased since the beginning of the nineties, partly due to the Banana Framework Agreement that restricts entry of Latin American bananas into Europe, a prominent market for Panama. The largest banana producers / exporters all have reduced their cultivated land, see Table 2.3.7.

Table 2.3.7 Banana Cultivation in Panama (Tons)

Producer / year	1995	2000	2001
Total Pacific	**7,316.05**	**6,059.91**	**6,202.48**
Chiquita	1,559.14	657.55	998.74
Doles / Del Monte	1,052.82	963.75	950.79
Chiriquí Land Co./Armuelles	4,704.09	4,136.79	3,612.35
PABACO / CAFCO / PPFF		301.82	640.60
Total Atlantic	**7,434.43**	**6,990.97**	**6,976.44**
Products Chiquita	925.30	1,306.85	1,278.34
Products Doles / Del Monte	305.95	0.00	0.00
COBANA	551.12	551.12	546.27
Chiriquí Land Co./Bocas	5,652.06	5,133.00	5,151.83

Producer / year	**1995**	**2000**	**2001**
Total country	**14,750.48**	**13,050.88**	**13,178.92**
Products Chiquita	2,484.44	1,964.40	2,277.08
COBANA	551.12	551.12	546.27
Chiriquí Land Co.	10,356.15	9,269.79	8,764.18
Products Doles	1,358.77	963.75	950.79
PABACO / CAFCO / PPFF		301.82	640.60

Source: 2002 Statistical Bulletin of MEDA, on the basis of Dirección Nacional del Banano

Also other traditional products such as sugar and coffee knew a constant decline over the last years. The numbers in Table 2.3.6 suggest that this trend will continue also in the near future because international markets are unfavorable for Panamanian exporters.

The decline in coffee exports is not due to decreased national production or a decrease in productivity because the coffee sector in Panama underwent an in-depth restructuring process, generating much higher productivity per ha. The number of producers was reduced in half, but the productive surface remained stable and production increased during the same period. Although increased efficiency could be observed, export dropped dramatically from 171,944 tons in 1991 to 83,645 in 2002, dragging down revenues from 13,702,125 Balboa in 1991 to 6,066,578 Balboa in 2002 (Table 2.3.8).

Table 2.3.8 Coffee Production – Exports

Year	Number of producers	Surface	Production	Productivity	Exports	
					Quantity	Value (FOB)
	Units	*hectares*	*qq*	*qq/ha*	*qq*	*Balboa*
1990/91	15,000	23,906.00	262,415.00	10.98	171,944	13,702,125
1991/92	15,000	23,906.00	274,780.00	11.49	138,493	9,710,541
1992/93	10,750	23,400.00	265,300.00	11.34	206,574	12,723,819
1993/94	8,689	22,350.00	233,436.00	10.44	125,463	9,902,015
1994/95	8,689	22,300.00	258,457.00	11.59	200,619	32,400,551
1995/96 **	8,689	21,215.00	245,262.00	11.56	200,011	21,395,517
1996/97	8,613	21,715.00	291,187.00	13.41	157,975	19,191,892
1997/98(A)	8,613	21,165.00	281,918.00	13.32	187,638	25,949,398
1998/99(B)	8,613	21,465.00	236,327.00	11.01	194,440	20,053,062
1999/00(C)	8,613	21,565.00	207,981.00	9.64	102,661	10,515,326
2000/01	8,613	21,465.00	261,710.00	12.19	105,366	8,380,994
2001/02(P)	8,613	21,465.00	254,815.00	11.87	83,645	6,066,578

Source: Contraloría General, Comisión Nacional Del Café, Viceministerio de Comercio Exterior y Direcciones Ejecutivas Regionales del MIDA.
** Strong floods in Chiriquí affected production
(A) Influenced by " Fenómeno del Niño".
(B) Hurricane. Mitch affected production in Chiriquí.
(C) Floods in the entire country affected production.
(P) Preliminary numbers

Contrary to the export performance of traditional products, production and consequent exports of non-traditional products increased, some crops tripling its export volume since 1995. Growth of non-agricultural exports was especially strong between 2000 and 2002 as can be seen in next Table 2.3.9, as can be estimated on the number of hectares productive land used to grow crops destined for export. These new crops demonstrate a true potential for further growth if the sector steps out of its present small scale approach and benefits from the highly necessary capital investments. Therefore, more attention should be devoted to for example, ornamentals vegetables, potato, onion, flowers, plants, melon, watermelon and other fruits for which an evident production and related export potential exists, until now little operated or that not at all been taking into account[23].

Table 2.3.9 Production and Export of Non-Traditional Crops

Product	Nº of producers	Productive land (hectare)			Export volume (hectare)		
		2000/01	2001/02	% variation	2000/01	2001/02	% variation
Melon	112	546	1,021	87	85	178	109
Watermelon	472	926	1,347	45	93	145	56
Pumpkin	393	1,173	1,360	16	61	67	9
Yucca	86	48	218	354	3	7	175
Yam	135	213	330	55	5	41	675
Tania	62	57	100	75	2	8	278
Pineapple	20	120	120	0	3	6	133
Plantain	50	120	120	0	8	7	-9
Chayote	3	0	3	0	0	1	0
Total	**1,333**	**3,203**	**4,619**	**44**	**260**	**460**	**77**

Source: MIDA, on the basis of information provided by Instituto de Mercadeo Agropecario, Dirección de Agricultura, GANTRAP

MEF experts argue that the agro-industrial sector has a future tied to the development of demand in the Metropolitan Region and the world-wide economy[24]. However, dramatic changes are required if Panamanian agriculture would like to increase the export of it products[25]:

1. Stabilize the internal market and ensure
   a. Good production processes of foods,
   b. Increased stability in the flow between producer / supplier and consumer / market,
   c. Increased purchase power of the population, with emphasis in the poorest segments,

2. Transform the approach to agro-industrial production and increase productivity and business perception. Both internal production and external factors (energy, transports, norms and rules etc…) have to be integrated to achieve competitiveness and effectiveness

[23] "*FY 2000 Country Commercial Guide: Panama*" U.S. Embassy Panama City; Bureau of Economic and Business in July 1999 for Fiscal Year 2000; U.S. Department of State, 1999; p 8
[24] Information provided by the Ministry of Economy and Financing (MEF), Department of Regional Planning
[25] Information provided by MEF, Department of Regional Planning

of the productive process. Maximum productivity will be achieved through the optimal use of all the factors in global form.

According to government, any future development should be guided along the principle of sustainable development, implying that the commercialization of the Interior area cannot violate the capacities of the natural resources in the long term, nor the norms of environmental quality and social fairness[26].

Farming

Farming activity in Panama has been growing constantly since the last ten years, as can be seen in Table 2.3.10. Farming has see an overall growth over the last 10 years. According to the results from the VI National Farming Census of 2001, farming operations in the country increased with respect to the data collected in the V National Farming Census of 1991. Farming grew since 1991 with 16.6%, going in absolute values from 220,154 to 256,674 operational farms, concentrating in the provinces of Panama, Chiriqui and Veraguas, that combined generate 57.1% of total farming activities. Farming is also important for the provinces of Bocas del Toro, Los Santos and also Darién.

Although also farming production has slowed down since the year 2000, the decline was not as dramatic as for the agricultural sector and poultry production as well as milk has rebounded into positive territory since 2002, see Table 2.3.10.

Table 2.3.10 Production of Selected Farming Activities

	Years			Change %	
	2000	**2001**	**2002(P)**	**00/01**	**01/02**
Cattle slaughter (heads)	323,431	281,332	281,641	-13.0	0.1
Hog slaughter (heads)	317,778	269,806	268,362	-15.1	-0.5
Poultry production (thousands of kilos)	71,649	71,960	72,758	0.4	1.1
Milk purchase (thousands of kilos)	145,247	140,378	152,258	-3.4	8.5

Source: "Economic Statistics: FIRST QUARTER 2003"; Ministry of Economy and Finance, Directorate of Analysis and Economic Policies Economic and Statistical Information Department, 20/06/03 p 5

By the end of the nineties, the growth of the farming sector was driven by the export of beef, profiting from stronger prices and the opening of new export markets in Colombia, Ecuador, Japan, and the Dominican Republic. Also chicken and chicken byproduct output rose thanks to a high domestic consumption and the opening of new export routes to Central America and the Caribbean[27]. Livestock export, although not growing strongly during the last years, remains a strong export product. See Table 2.3.11.

[26] Information provided by the Ministry of Economy and Financing (MEF), Department of Regional Planning
[27] "*FY 2000 Country Commercial Guide: Panama*" U.S. Embassy Panama City; Bureau of Economic and Business in July 1999 for Fiscal Year 2000; U.S. Department of State, 1999; p 8

Table 2.3.11 Livestock Exports

Year and semester	Weight (kg)		Fob value	% of total
	Gross	Net	(Balboa)	Exports
1996	**4,886,112**	**4,680,546**	**10,106,612**	**0.9**
First Semester	2,815,890	2,696,298	5,879,580	
Second Semester	2,070,222	1,984,248	4,227,032	
1997	**3,234,376**	**3,096,537**	**7,220,313**	**1.1**
First Semester	1,293,727	1,239,674	3,202,265	
Second Semester	1,940,649	1,856,863	4,018,048	
1998	**4,357,255**	**4,551,412**	**9,338,675**	**1.3**
First Semester	1,568,726	1,635,108	3,444,570	
Second Semester	2,788,529	2,916,304	5,894,105	
1999	**4,181,112**	**4,014,922**	**11,936,161**	**1.7**
First Semester	2,063,150	1,980,179	6,308,784	
Second Semester	2,117,962	2,034,743	5,627,377	
2000	**3,673,288**	**3,540,715**	**9,536,200**	**1.2**
First Semester	1,957,127	1,885,944	5,104,560	
Second Semester	1,716,161	1,654,771	4,431,640	

Source: JICA Study Team, compiled from information from the Contraloria General de la Republica, Dirección de Estadística y Censo

In 2003, farming returned to a strong growth, thanks to the strong performance in cattle breeding and therewith related exports. Cattle breeding performance increased with 143% during the third quarter of 2003 and the exported volume increased with 8.8% during the same period. Export was predominantly oriented towards Nicaragua, Mexico, Guatemala and El Salvador.

2.3.2 Mining and Forestry

Mining

Mining in Panama consist in particular of copper, silver, gold and manganese. The country has two of the largest undeveloped copper deposits in the world. But until 1990, the share in the national economy of the mining sector remained limited, because of the prevailing policy that prevented the participation of private companies in the mining operations.

According to the Inter-American Development Bank, the introduction of a modern regulatory framework for the mining industry created "…a new sector of sustainable economic activity with a controlled environmental impact"[28]. After the reforms in the mining policy, the sector's performance has tripled since 1996 although it presently shows a relative deceleration in that growth, as demonstrated in Table 2.3.12.

[28] "*Country Paper April 2001 : Panama*"; Document of the Inter-American Development Bank, Regional Operations Department 2, Country Division 2, p. 27

Table 2.3.12 Growth of Mining Activities in GDP

Activity	**Gross Domestic Product**						
Millions of Balboa	1996	1997	1998	1999	2000	2001	2002
Mines & quarry exploitation	31.8	55.9	69.6	86.5	77.5	76.7	72.1

Source: JICA Study Team, compiled from information from the Contraloria General de la Republica, Dirección de Estadística y Censo

Panama's mining sector has a potential for substantial growth and it is a promising new area of the economy, now that a favorable mining law encourages foreign investment. There are many unexploited properties and local groups looking for partners. It is estimated that 45% of the national territory are under exploration or have mining operations, generating pre-occupations because many of the explorations and concessions are within natural conservation areas, in indigenous regions where the local population is opposed or in zones of tourist interest[29]. The estimated annual production, once international markets improve and the government further ameliorates the regulatory environment, could be around 350 million pounds of copper and 350,000 ounces of gold[30].

Mining in Panama includes following activities[31]:

- *Metallic mining*: Several mines are or have been until recently operational, among which Cerro Colorado, Petaquilla and Cerro Quema. The mines of Remance and Santa Rosa, although scheduled to operate during a period of at least ten years, have been closed down in 1999. An overview of the major sites is provided in Table 2.3.13.

Table 2.3.13 Metallic Mining in Panama

Company	**Location**	**Exploitation**
Santa Rosa	Veraguas (Cañazas)	Gold and Silver (open pit)
Remance	Veraguas (San Francisco)	Gold and Silver (underground) will change to open pit
Cerro Quema	Los Santos	Suspended by fall in prices
Cerro Colorado	Chiriqui	Copper
Petaquilla	Colon	Copper, Gold and silver
Caña	Darien	Closed
Cerro Viejo	Colon (Costa Arriba)	Closed, manganese
Rio Concepcion	Veraguas (North)	Gold alluvium
Cuango	Colon (Costa Arriba)	Gold alluvium

Source: Ministry of Economy and Financing (MEF), Department of Regional Planning

- *Mining of artisan type*: Small productions exist north of Colon in the rivers Culebra and affluent of the Cuango River; along Pito River in the Kuna Yala Region and in the province of the Darien in the high river basin of Balsas River and in the high parts of the

[29] Information provided by the Ministry of Economy and Financing (MEF), Department of Regional Planning
[30] Information provided by the Ministry of Economy and Financing (MEF), Department of Regional Planning
[31] Information provided by the Ministry of Economy and Financing (MEF), Department of Regional Planning

Tuira and Chucunaque Rivers. Although artisan in its approach, this semi-precious stone extraction has some national importance, given that in 1995, the number of people who were engaged in artisan mining was between 2,700 and 4,600 persons.

- *Nonmetallic mining*: predominantly for the national construction sector, nonmetallic mining includes excavation of rock deposits in the Interior, and of deposits in the beds of the rivers, of marine areas along the coastlines, in the submarine area and the continental area. The geographic dispersion of this type of operation is elevated and difficult to assess or control.

At present, important mines sites include Cerro Petaquilla, Cerro Colorado, El Remance, Cerro Quema, Minas Santa Rosa, Cerro Viejo, Minas Los Hatillos, Minas de Río Pito.

Until 1999, El Remance and Santa Rosa were active gold mines, exporting around 3 million dollars worth of silver and gold per year. But the mines were shut down after multiple protests by the indigenous population, supported by environmental groups and the gold mining scandals in Indonesia and Canada stock markets in 1996[32] [33]. An other interesting mining project in Panama is the Cerro Colorado project, 250 km west of Panama City near the Gulf of Chiriquí and 40 km. NE of David. Since 1994, the state fully owns Cerro Colorado and wants private mining companies to exploit the richest and most accessible part of the area. The site has a prosperous future, given that there are reserves of 1.4 billion tons grading 0.7 per cent copper and 60 million tons of 0.9% grading. At present, the Canada-based Aur Resources Inc. mining company is active in the Cerro Colorado exploitation[34]. A second important project is Cerro Petaquilla, discovered at the end of the 1960s during a United Nations program and located 120 km west of Panama City. This expanding mining area includes at least eight separate deposits, and rank as the third largest copper and gold ore complex in the world. Petaquilla is at present operated by a consortium, consisting Adrian Resources Corp, Teck Corporation and Inmet Mining Corp of Canada[35]. Adrian Resources Corp. in association with Greenstone Resources Inc. has invested over 100 million USD in mining exploration in Panama during the second half of the nineties.

But overall, foreign investors remain hesitant in spite of the evident opportunity, due on the one hand to a slowdown in the global markets of gold, silver and copper, but on the other hand and more importantly because of excessive bureaucracy in authorizing explorations; opposition by indigenous groups; and slow implementation of the existing mining master plan.

After many years of decline, the mining sector has demonstrated a strong growth in 2003 as compared to the year 2002. The sector knew a growth of 41.9%, therewith contributing strongly to the overall good performance during 2003 of the primary sector that grew with 10%.

[32] "Protests Flare Again Over Gold Mine", Silvio Hernandez; International Press Service – IPS; July 27 1997
[33] BusinessPanama Group (http://www.businesspanama.com) and Raw Materials Group - RMG (http://www.rmg.se)
[34] AMR Research; see http://www.ame.com.au
[35] BusinessPanama Group (http://www.businesspanama.com)

Forestry

Similar to mining, forestry activities are underexploited. But contrary to the decline in the mining sector, productivity of forestry is growing.

As demonstrated in next Table 2.3.14, forestry products and derivates are good export performers. Examples that can be found in next table are rough wood, simply worked wood and wood manufactures. Also pulp and waste paper and paper and paperboard grew over that period.

Table 2.3.14 Evolution of Exports for Selection of Forestry Products (1997 – 2001)

Product group	Value 1997 USD '000	Value 1998 USD '000	Value 1999 USD '000	Value 2000 USD '000	Value 2001 USD '000
Wood in rough/squared	57	200	155	324	539
Wood simply worked	150	226	101	166	1,566
Pulp and waste paper	33	98	34	444	588
Wood manufactures n.e.s.	1,719	2,274	4,101	5,842	6,551
Paper/paperboard	3,197	6,334	5,341	5,387	4,839
Cut paper/board/articles	10,257	8,457	6,422	9,997	5,880

Source: International Trade Center; UNCTAD/WTO, based upon COMTRADE database of the United Nations Statistics Division.

The wood sector has a positive international appreciation because of the abundant availability of natural resources. But this availability does not mean that they are fully exploited or that their future exploitation will be easy. It is also one of the main reasons why forestry products are imported in large quantities, as demonstrated in next Table 2.3.15.

Table 2.3.15 Evolution of Imports for Selection of Forestry Products (1997 – 2001)

Product group	Value 1997 USD '000	Value 1998 USD '000	Value 1999 USD '000	Value 2000 USD '000	Value 2001 USD '000
Wood in rough/squared	57	200	155	324	539
Wood simply worked	150	226	101	166	1,566
Pulp and waste paper	33	98	34	444	588
Wood manufactures n.e.s.	1,719	2,274	4,101	5,842	6,551
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Cut paper/board/articles	10,257	8,457	6,422	9,997	5,880

Source: International Trade Center; UNCTAD/WTO, based upon COMTRADE database of the United Nations Statistics Division.

Careful attention will have to be devoted to the conservation of the natural resources, given the important decline in forest coverage. According to the FAO, 51,899 hectares (1.6% of total forest cover) of forest have been destroyed each year in the period between 1990 and 2000[36].

[36] FAO - Global Forest Resources Assessment 2000

Non-productive forests make over 50% of the total covered area in Panama and if the non classified forests are included in this calculation, total non-productive forest equals 2/3rd of the total coverage (see Table 2.3.16).

Table 2.3.16 Land Cover According to Local Classification

Classes	Panama
Production forests	350,000.00
Protected forests	1,584,682.00
Mangrove forests	170,827.00
Non-classified forest coverage	946,795.00

Source: FAO on the basis of: Gutiérrez R. Diaz I. 1999. Memoria de las Estadísticas de los Recursos Forestales de Panamá. Taller FRA CATIE.

According to FAO statistics, the number of plantations grows with an annual volume of 3,300 ha per year, in many cases to the expense of the protected areas that should not be considered as un-productive. The fact that over 1.5 million ha are protected, does not explicitly excludes these areas from being of economic interest. They are particularly relevant for the tourism sector, where eco-tourism (bird watching, hiking etc…) is becoming an increasingly important segment in the leisure sector.

The 2001 trade balance for forest products shows that imports valued 62 million dollar while exports only account for 7.6 million USD[37]. However, these figures are heavily influenced by paper and paperboard, accounting for 75% of total wood imports and 64% of exports. Important export products for Panama are sawn wood that is responsible for 21% of total exports against 1.8% imports.

2.3.3 Fishing Sector

(1) The Outline of the Fish Industry

Panama fisheries can be largely divided into Industrial Fishery, Artisanal Fishery and Aquaculture. Fish Industry is an important industry which constituted 40% of the total export production amount in 2001 (Table 2.3.17). Fishery is done mainly in the Pacific Ocean and the Caribbean Sea. While the Pacific Ocean offers fishing of many kinds, Caribbean only offers lobster fishing because of their shallow water coral area. For this reason, industrial fishery, artisanal fishery, and aquaculture are done in the Pacific Ocean and the fishing situation is less developed in the Caribbean region of the country.

[37] See FAO – FAOSTAT database

Table 2.3.17 Total Export Production Amount in 1993-2002(p)

(Unit: Million USD)

Year	Total Value FOB (1)	Export of Marine Products		Export of Shrimp		
		Value FOB (2)	Valuation (2)/(1)	Value FOB (3)	Valuation (3)/(2)	Valuation (3)/(1)
1993	508	93	18.3%	58	62.3%	11.4%
1994	533	110	20.6%	70	63.6%	13.1%
1995	571	122	21.3%	81	66.4%	14.2%
1996	569	115	20.2%	75	65.2%	13.2%
1997	658	160	24.3%	95	59.4%	14.4%
1998	704	239	33.9%	137	57.3%	19.5%
1999	710	193	27.2%	69	35.8%	9.7%
2000	772	252	32.6%	68	27.0%	8.8%
2001	810	320	39.5%	70	21.9%	8.6%
2002(P)	759	329	43.3%	58	17.6%	7.6%

Source: Fishery Organization Section, General Directorate of Marine and Coastal Resources Panama Maritime Authority in 2003

1) Marine Resources

Marine resource is under control of the Panama Maritime Authority (AMP). The closed season of anchovy and herring is from October to March. The closed season of shrimp is February, March, September and October. The minimum catch size of lobster is 12cm of tail length. The female lobster with egg cannot be caught. The marine restricted and preserved areas are shown in Figure 2.3.1.

At present the marine resource survey is not done. AMP is now planning to organize a surveying committee in collaboration with the University of Panama and the Smithsonian Tropical Research Institute Center in Panama.

According to Law 210 of October 25, 1975, except for artisanal fishermen, industrial fishery can not catch any marine products in the restricted areas. In addition to this law, Law 124 of November 8, 1990 prescribes the prohibition of fishing for artisanal fishermen in the province of Los Santos, Panama and Darien.

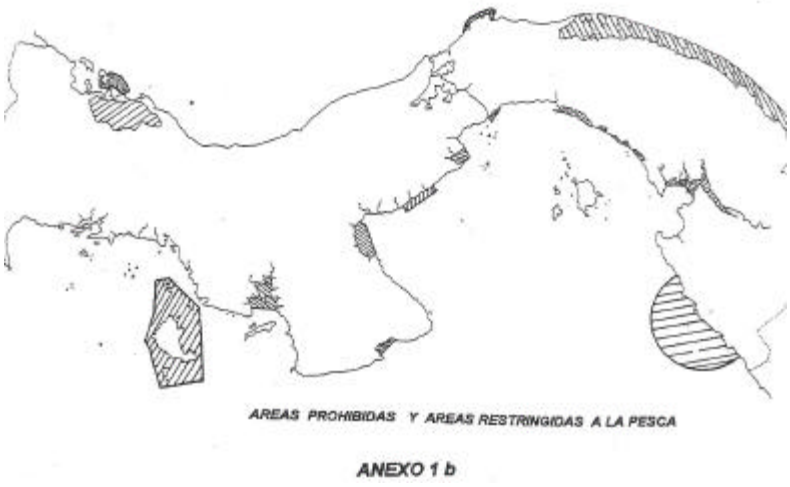


Figure 2.3.1 Restricted and Preserved Areas

On the national level, shrimp fishery is an important part of the fishing activity. The most profitable is white shrimp fishery; however, with the increase of the number of vessels, the production has been in decline. There are older studies (approximately 20 years before) that indicated white shrimp fishery reached its Maximum Sustainable Yield between 1,800 tons and 2,300 tons of shrimp.

Since 1975, artisanal fisheries have been increasing their efforts in the white shrimp fishery, leaving very few small-sized shrimp even in extremely shallow areas. This may be a result of an economical factor rather than a biological factor. Competition in white shrimp fishery is born as a consequence of the steady decline of the average value of the products.

Anchovy and herring fisheries began in the 1950's when they were used mainly as bait for the tuna fishing; later they began to be used as the raw materials of fish meal and oil production. From analysis based on the surveyed data, it was concluded that the Maximum Sustainable Yield is about 250,000 tons. In general, the fishing season takes place from April to September because of the availability of the fish resources. Currently there is no proof that these resources are excessively exploited.

2) Total Marine Products Amount

The total marine products amount through fish brokers and exporters is summed up by AMP. AMP has staff in each region with about 10 persons in total. But the staff is very small in comparison with a rather large number of fish brokers and exporters. Consequently, the total products amount is expected to be much more than the sum made by AMP especially in artisanal fishery.

Table 2.3.18 Total Marine Products Amount

(Unit: tons)

	1995	1996	1997	1998	1999	2000	2001	2002(p)
Total	150,880	116,990	143,721	195,512	103,409	191,443	234,593	275,868
1. Industrial fishing	136,655	103,489	120,612	164,433	79,535	160,356	176,971	218,889
Target fishing	135,911	102,626	119,449	163,402	79,070	159,641	176,465	218,440
1.1 Fish	129,245	93,877	110,470	157,290	73,629	154,313	171,280	215,281
Anchovy	105,640	59,830	77,726	107,730	27,356	86,681	129,147	160,414
Herring	21,173	32,517	26,266	49,472	38,746	63,532	29,033	48,175
Others	2,432	1,530	6,478	88	7,527	4,100	13,100	6,692
1.2 Shrimp	6,666	8,749	8,979	6,112	5,441	5,328	5,185	3,159
White	1,307	1,072	906	1,529	1,116	912	1,022	970
Sea bob	2,515	2,585	2,131	3,012	1,743	1,600	1,791	959
Caribali	100	113	98	83	49	76	82	66
Pink	1,116	649	1,024	655	859	1,079	1,143	818
Fidel	528	388	720	115	241	663	349	147
Cabezon	1,100	3,942	4,100	718	1,433	998	798	199
No-target fishing	744	863	1,163	1,031	465	715	506	449
Fish	696	812	1,089	857	448	638	485	424
Crustacean	3	3	3	2	1	1	2	3
Mollusks	45	48	71	172	16	76	19	22
2. Artisanal fishing	11,702	11,499	18,584	24,530	22,198	30,210	55,677	53,842
(2/Total catch) %	7.9%	9.8%	12.9%	12.5%	21.5%	15.8%	23.7%	19.5%
2.1 Fish	9,600	9,594	16,639	22,324	19,910	27,896	53,071	51,738
2.2 Shrimp	238	221	126	76	143	66	44	207
2.3 Lobster	194	288	306	415	485	612	845	687
2.4 Mollusks	1,670	1,396	1,513	1,715	1,660	1,636	1,717	1,210
3. Shrimp culture	2,523	2,002	4,525	6,549	1,676	877	1,945	3,137

Source: Fishery Organization Section of DGRMC in AMP 2003

3) Number of Fishermen and Vessels

The number of fishermen and vessels are summed up by AMP, too (Table 2.3.19). AMP gives permissions and licenses to the artisanal fishermen and the fishery companies (Table 2.3.20). The fee to artisanal vessels below 10 GRT is USD 4 per year and to industrial vessels is USD 2 x GRT per year. There are many vessels and its number continues to increase. The Province of Panama has the largest artisanal fishing activity sharing 37.4% of the total artisanal fishery vessels (Table 2.3.21 and Table 2.3.22).

According to a fisherman in Coquira fishing is more profitable than agriculture because it is not necessary to wait months for the harvest. In this area one boat with two fishermen catches an average of 300-350 pounds of shrimps in the 5-6 fishing days at a cost of USD 400. The cost of building an FRP boat (6m x 1.6m) with a 40HP outboard motor is USD 8,000. Concerning shrimp resources, five years ago fishermen caught as 1.6-1.7 times fish as at present. With the increase of fishermen, it is more difficult than before to catch shrimp. Maximum catch per day

was 100 pounds in this coastal area. To catch fish it is necessary to use one large size boat of an 8m length with a 75HP outboard motor for four fishermen. They work 7 days in the fishing ground.

Table 2.3.19 Number of Artisanal Fishermen and Vessels

Province	Fishing village	Number of fishermen	Number of vessels
TOTAL *		16,710	6,141
Chiriqui	Total	2,152	715
	Pto. Pedregal	696	203
	Pto. Remedio	241	75
	Pto. Arumuelles	149	54
	Boca Chica	101	40
	Horconcitos	65	25
	Pto. La Estrella	63	21
	Others	837	297
Veraguas	Total	2,843	1,111
	Pto. Mutis	777	244
	Hicaco	353	171
	Santa Catalina	136	44
	Pto. Vidal	124	30
	Gobernadora	113	49
	La Albina	100	47
	Others	1,240	526
Los Santos	Total	999	311
	Bucaro	241	64
	Mensabe	209	66
	El Arena	170	52
	La Concepcion	85	26
	El Rompio	65	26
	Pto. Guarare	63	25
	Others	166	52
Herrera	Total	911	373
	Pto. Boca Parita	487	218
	Pto. El Agallito	386	141
	Others	38	14
Cocle	Total	1,205	451
	Farallon	223	76
	Puerto de Aguadulce	169	71
	Playa el Salado	153	78
	Boca de Rio Hato	125	51
	Pto. Gago	95	40
	Boca Nueva	86	41
	Others	354	94

Province	Fishing village	Number of fishermen	Number of vessels
Panama	Total	7,036	2,458
	Bahia de Panama	1,609	439
	Pto. Caimito	1,043	423
	Pto. Coquira	1,010	307
	Chiman	535	256
	Brujas	365	166
	Boca la Caja	259	93
	Veracruz	239	82
	La Boca	211	60
	Diablo	171	33
	El Cholrrillo	161	40
	Others	1,433	559
Darien	Total	1,568	724
	Garachine	661	293
	Punta Alegre	352	174
	La Palma	227	100
	Taimati	92	49
	La Paz/Rio Congo	79	39
	Pto. Lara	44	23
	Quimba	25	10
	Jaque	24	7
	Others	64	29

* Except Bocas de Toro, Colon and Kuna Yala province
Source: Fishery Organization Section of DGRMC in AMP 2003

Table 2.3.20 Permissions and Licenses in 2002(p)

Division	Quantity	%
Total	7,553	100.00
Domestic Fishery	7,427	98.33
Industrial Fishery,	763	10.10
Tuna	110	1.46
Anchovy, Herring	32	0.42
Shrimp	244	3.23
Cojinova, Cojinua	15	0.20
Doncella, Pajarita	2	0.03
Dorado	139	1.84
Pargo, Mero, Shark	221	2.93
Artisanal Fishery	6,664	88.23
International Fishery	126	1.67

Source: Fishery Organization Section of DGRMC in AMP 2003

Table 2.3.21 Permissions and Licenses in 1997-2002(p)

Division	Year					
	1997	1998	1999	2000	2001	2002(p)
Total	264	305	390	6,206	6,797	7,553
Domestic Fishery	259	256	340	6,120	6,684	7,427
Industrial Fishery,	259	256	340	614	632	763
Tuna	*	*	*	30	30	110
Anchovy, Herring	50	50	45	30	31	32
Shrimp	209	206	240	231	247	244
Cojinova, Cojinua	*	*	*	15	15	15
Doncella, Pajarita	*	*	*	3	3	2
Dorado	*	*	15	108	108	139
Pargo, Mero, Shark	*	*	40	197	198	221
Artisanal Fishery	**	**	**	5,506	6,052	6,664
International Fishery	5	49	50	86	113	126

Source: Fishery Organization Section of DGRMC in AMP 2003
Departamento de Estadisticas Genarales
* No licenses in these years.
** No data in these years.

Table 2.3.22 Distribution of Artisanal Fishery Vessels in 2002(p)

Province	Number	%
Total	6,664	100.0
Panama	2,491	37.4
Veraguas	1,108	16.6
Chiriqui	716	10.7
Darien	708	10.6
Cocle	450	6.8
Herrera	372	5.6
Los Santos	311	4.7
Bocas de Toro	231	3.5
Colon	216	3.2
Kuna Yala	61	0.9

Source: Fishery Organization Section of DGRMC in AMP 2003

4) Consumption of Marine Products

According to the Panama en Cifras Años 1997-2001, the average annual consumption of marine products per capita in Panama was 10.4kg. (Table 2.3.23). This is based only on available figures for consumption of marine products. The actual average annual consumption is considered much higher.

Table 2.3.23 Consumption of Marine Products and Others

(Unit: kg/ capita annual consumption)

Classification	1997	1998	1999	2000	Average
Marine products	13.4	10.4	7.6	10.3	10.4
Fresh fish	(9.9)	(7.7)	(4.8)	(7.2)	(7.4)
Sardine	(1.4)	(1.3)	(1.6)	(1.7)	(1.5)
Shrimp	(1.1)	(0.4)	(0.4)	(0.5)	(0.6)
Crustaceans, Mollusk	(0.3)	(0.4)	(0.1)	(0)	(0.2)
Others	(0.7)	(0.6)	(0.7)	(0.9)	(0.7)
Rice	30.8	50.9	28.7	35.1	36.4
Wheat	11.0	13.6	9.5	11.7	11.5
Meat and entrails	39.0	42.7	42.3	41.5	41.4
Egg	5.6	5.4	4.1	4.0	4.8
Dairy products	44.6	46.6	44.1	46.1	45.4
Fruits	59.4	57.0	60.8	66.3	60.9

Source: Panama en Cifras Años 1997-2001 Direccion de Estadistica y Censo

5) Export and Import of Marine Products

According to the marine products food export and import data, 80% of the imports are supplied as canned or vacuum-packed articles with this amount on the increase (Table2.3.24). Export increased rapidly from 1998, occupying 25% of the total export value and also increasing 150% in processed fish compared to the previous year. It is predicted that the total export value of the marine products will exceed 40% of the total export value which covers the decreased export amount of shrimp (Table2.3.17). Currently, fishery has become the most important export industry in Panama.

Table 2.3.24 Import of Marine Products (Volume)

(Unit: tons)

Classification	Year				
	1998	1999	2000	2001	2002(p)
Total	10,757	7,485	7,178	8,455	9,574
Tuna :canned	647	1,265	2,034	1,399	2,522
Cod: dry	211	307	435	372	425
Sardine: canned	1,801	4,312	3,118	4,838	4,352
Fish: canned	60	252	141	210	293
Shellfish canned	38	146	127	35	75
Shellfish	542	967	772	644	928
Others	7,458	236	551	957	979

Source: Fishery Organization Section of DGRMC in AMP 2003

Table 2.3.25 Import of Marine Products (Value)

(Unit: mil USD)

Classification	Year				
	1998	1999	2000	2001	2002(p)
Total	20,027	15,091	15,806	13,482	16,925
Tuna:canned	1,833	3,272	4,216	2,699	5,240
Cod: dry	852	1,278	1,395	1,206	1,432
Sardine: canned	2,747	6,018	6,288	6,147	5,537
Fish: canned	194	508	324	475	540
Shellfish canned	253	820	545	139	356
Shellfish	1,232	2,281	1,476	1,293	1,884
Others	12,916	914	1,562	1,523	1,936

Source: Fishery Organization Section of DGRMC in AMP 2003

Table 2.3.26 Export of Marine Products (Volume)

(Unit: tons)

Classification	Year				
	1998	1999	2000	2001	2002(p)
Total	63,373	65,650	99,742	110,105	93,854
Fish : fresh, refrigerate frozen	17,507	24,450	36,856	42,059	45,799
Fish : fillet	3,774	7,557	12,968	19,002	20,218
Lobster : fresh, refrigerate	414	462	612	834	678
Shrimp: fresh, refrigerate	14,128	7,565	7,098	6,642	5,724
Mollusk: live, fresh, refrigerate	1,621	1,439	1,792	1,673	1,191
Others	2,021	2,145	1,693	3,614	3,075
Fish meal	14,304	18,032	29,072	23,553	9,256
Fish oil	10,604	4,000	9,651	12,728	7,913

Source: Fishery Organization Section of DGRMC in AMP 2003

Table 2.3.27 Export of Marine Products (Value)

(Unit: mil USD)

Classification	Year				
	1998	1999	2000	2001	2002(p)
Total	239,084	193,240	251,862	319,972	328,707
Fish: fresh, refrigerate frozen	44,842	60,705	98,853	120,386	142,677
Fish: fillet	14,898	26,293	41,171	61,693	66,935
Lobster: fresh, refrigerate	5,959	6,193	8,290	10,930	9,841
Shrimp: fresh, refrigerate	136,730	68,859	68,336	70,182	58,110
Mollusk: live, fresh, refrigerate	3,468	2,964	3,177	3,024	998
Others	21,053	22,542	22,355	43,180	42,524
Fish meal	6,607	5,007	8,210	7,574	4,233
Fish oil	5,527	677	1,470	3,003	3,389

Source: Fishery Organization Section of DGRMC in AMP 2003

Table 2.3.28 Export and Import of Marine Products (Countries)

(Unit: mil USD)

Country		Export Value (FOB)		Import Value (CIF)	
Total		328,707		16,925	
America	Total	295,623	89.9%	11,860	70.1%
	USA	267,913	81.5%	4,388	25.9%
	Venezuela	6,711	2.0%	-	-
	Dominica	3,829	1.2%	-	-
	Nicaragua	3,827	1.2%	-	-
	Honduras	3,696	1.1%	-	-
	Canada	3,108	0.9%	950	5.6%
	Costa Rica	2,688	0.8%	1,542	9.1%
	Peru	0	0	2,468	14.6%
	Ecuador	240	-	1,468	8.7%
	Others	3,611	1.1%	1,044	6.2%
Asia	Total	14,924	4.5%	1,596	9.4%
	Japan	8,176	2.5%	126	0.7%
	Hong Kong	4,020	1.2%	54	-
	Taiwan	2,728	0.8%	115	0.7%
	China	0	0	87	-
	Thailand	0	0	1,214	7.2%
	Others	0	0	0	0
Africa	South Africa	0	0	790	4.7%
Europe	Total	14,045	4.3%	1,739	10.3%
	Spain	9,491	2.9%	442	2.6%
	England	2,020	0.6%	1,297	7.7%
	Germany	1,080	0.3%	0	0
	Norway	0	0	0	0
	Others	1,454	0.4%	0	0
Others	Total	4,115	1.3%	940	5.6%

Source: Fishery Organization Section of DGRMC in AMP 2003

6) Legislation

Eighty five percent of the shrimp caught offshore of Panama are unloaded at Vacamonte Port. In the Province of Panama, shrimp processing is restricted only in Vacamonte.

(2) Industrial Fishery

Fishing for anchovies and herrings by roundhaul and shrimp fishing by trawl net take place. Vacamonte is used as the central point. In 2001, industrial fisheries owned 50 companies, approximately 760 vessels, and produced 5,185 tons in shrimp and 171,000 tons in fish. The amount represents 76% of the total catch. Although the production amount of industrial fisheries have been increasing, anchovies, sardines, and herrings are used mainly for fish meal and oil material leaving a lower contribution and supply for human food.

On the other hand, the production amount of shrimp, the important export product, has been decreasing in recent years from 8,000 to 6,000, and then to 5,000 tons. The predicted production amount of 3,000 tons in 2002 raised concerns about the over-fishing effect on the environment.

It is very important to increase the rate of consumption of sardines, anchovies, and herrings as a source of foods which are massively unloaded, and increase the overall food supply by using them as a canned food source. Some private companies seek support of the Panamanian Government to this end.

(3) Artisanal Fishery

Artisanal fishery grew in production, in particular fish, exceeding 50,000 tons in 2001. This was a 190% increase from 2000. This amount is also five times more in production compared to 1995. On the other hand, shrimp production fell from 238 tons in 1995 to 44 tons in 2001. Although the diminishing of the resources is a matter of concern, it was predicted to recover to 207 tons by the year 2002.

Artisanal small fish-landing sites are located on a natural riverbank, beach and estuary over 400 places nationwide. Most of them are not properly equipped as a fish-landing site. In addition, the big tidal range and wide wetland hamper fish landing, which can be done at an optimum tide only. Provision of a jetty or ramp properly planned at the fish-landing site, therefore, enables many artisanal fishermen to land their catch regardless of the tide. An ice plant at the landing site will maintain quality of catch, regardless they are artisanal or commercial. The higher quality will in turn increase quantity of fish landing. The high quality of fish will attract more brokers to the landing site and this will expand the market for the catch. Along with the expansion of the market, fish process industries may develop at the fish-landing site.

(4) Aquaculture

Shrimp aquaculture targeting export is active in the following provinces: Panama (Pond areas: 460ha; Production: 105 gross tons), Cocle (5,700ha; 2,214 gross tons), Herrera (1,500ha; 648 gross tons), Los Santos (430ha; 369 gross tons), and Veraguas (540ha; 777 gross tons). The total pond area is estimated at 8,630 ha and total production at 4,116 gross tons based on the data of the National Aquiculture Directorate in 2003.

In 2001, due to the acute spread of the white spot virus, the production fell to 1,945 tons, which was only 30% of the maximum production in the past. On the other hand, Tilapia cage culture became active, reaching 900 tons in 2000 with the technical support of the Taiwanese government (FAO 2002).

As for the aquaculture, shrimp production rapidly grew and reached 6,500 tons by 1998. However, due to the spread of the white spot virus, the production rapidly fell to 877 tons by 2000. Although the situation is currently recovering, the production in 2002 was estimated at 3,137 tons. Due to the sustainable yield of natural shrimp production, shrimp aquaculture must be promoted

and white spot virus have to be closely monitored in order to maintain steady production. Proper measures against viruses are a vital issue.

Tilapia aquaculture is an important industry to supplement the diminishment of the natural resources. Because Tilapia production technique is well established, the key to promote the industry lies in making the consumers more accustomed/familiar with the fish, and providing information on how to prepare and cook Tilapia. It is a matter of time for Tilapia aquaculture to start in Panama, since it is very active in the neighboring countries such as Costa Rica and Columbia. Agriculture of clams near the shallow waters provides new types of work at a low cost for those local fishing families that do not use the boat to fish and for those aboriginals without boats in their possession.

(5) Distribution and Processing of Marine Products

1) Distribution

The fish market "Mercado de Mariscos" was reconstructed in Panama City, with assistance from the Japanese Government in 1993/94. Mercado de Mariscos receives sea products that are mainly caught off the coast of Panama, which in turn contributed to expansion of production, distribution and exportation of fishing products. It has become the largest distribution center in the country. Mercado de Mariscos is open every day from 7:00 a.m. to 5:00p.m. It is closed only the first Monday of the month for the purpose of cleaning. Booth rental in the market is USD 30/month. There are 70 booths. There are three jetties for fishing boats for: (1) Semi-industrial fishermen; (2) Artisanal fishermen; and (3) Preparing fishing nets. Generally eighteen Semi-industry fishermen and fifty Artisanal fishermen unload their catches in this market per day. They catch fish offshore of Panama province.

The average amount of Semi-industry landing is 127 – 136 tons/month (4.4 tons/day). Eighty percent of this quantity (3.5 tons) is bought by 15 brokers and 5 exporters on the first jetty before reaching Mercado de Mariscos. The brokers sell these marine products to hotels and markets in other cities of the country. The remaining 20% (0.9 tons/day) is bought by 69 retail stores in this market. The average amount of Artisanal landing is 32-36 tons/month (1.1 tons/day). In addition to these landings, 12-15 buyers bring marine products (1.3 tons/day) by truck from Farallon, Aguadulce, Gorgona Bahia, Chame and Garachime (Darien). The total daily quantity at Mercado de Mariscos quantity is estimated to 3.3 tons/day.

The transactions between fishermen and approximately 15 brokers are made from midnight to early morning. The manager of this market is on duty from 7:00 a.m. to 3:00 p.m., making it difficult to obtain the total amount of transactions. The authorities want to solve this problem by having another manager on duty from midnight.

Table 2.3.29 Origin of Marine Products to Mercado de Mariscos in Panama City

(Unit: tons)

	Total	*Total /day	Chiriqui	Veraguas	Los Santos	Herrera	Cocle	Panama	Darien
1996 Total	2,627	7.5	510	118	1,147	314	214	185	139
Fish	2,390		498	63	1,147	291	208	73	110
Shrimp Lobster	231		12	55	0	22	6	112	24
Mollusks	6		0	0	0	1	0	0	5
1997 Total	3,470	9.9	769	15	1,822	330	22	383	129
Fish	3,363		769	0	1,818	314	19	345	98
Shrimp Lobster	89		0	15	4	16	3	38	13
Mollusks	18		0	0	0	0	0	0	18
1998 Total	3,349	9.6	1,277	10	1,431	296	10	222	103
Fish	3,321		1,277	10	1,425	289	10	222	88
Shrimp Lobster	25		0	0	6	7	0	0	12
Mollusks	3		0	0	0	0	0	0	3
1999 Total	1,590	4.5	498	32	822	44	0	54	140
Fish	1,550		498	32	821	44	0	54	101
Shrimp Lobster	13		0	0	1	0	0	0	12
Mollusks	27		0	0	0	0	0	0	27
2000 Total	822	2.3	9	10	548	15	5	80	155
Fish	724		0	0	547	13	0	53	112
Shrimp Lobster	65		9	10	1	2	5	27	11
Mollusks	32		0	0	0	0	0	0	32
2001 Total	1,193	3.4	0	0	1,039	0	0	49	105
Fish	1,172		0	0	1,038	0	0	49	85
Shrimp Lobster	2		0	0	1	0	0	0	1
Mollusks	19		0	0	0	0	0	0	19
2002 Total	7,778	22.2	0	98	5,828	0	0	1,768	84
Fish	7,521		0	98	5,659	0	0	1,688	76
Shrimp Lobster	215		0	0	166	0	0	49	0
Mollusks	41		0	0	3	0	0	31	7

Source: Fishery Organization Section of DGRMC in AMP 2003

According to the Chief of Mercado de Mariscos, no official research has been conducted to explain the disparities among provinces' annual totals. Instead these four contributing factors were offered:

- Provinces taking fish to another province and not Mercado de Mariscos.
- Fish taken to processing plants in own provinces and then being exported.
- Fish brokers buying fish and then selling it directly to hotels and supermarkets, bypassing Mercado de Mariscos.
- Changes in weather and sea conditions.

2) Processing Plant of Marine Products

There are 55 processing plants and exporters with addresses clearly seen. Over 70% of them are located in the Province of Panama (Table 2.3.30).

Table 2.3.30 Number of Processing Plants and Exporters for Four Provinces in 2002

Articles	David (Chiriqui)	Aguadulce (Cocle)	Chitre (Herrera)	Vacamonte (Panama)	Other Cities (Panama)	Total
Shrimps	*	5	*	10	1	16
Fish	2	*	5	2	8	17
Lobster	*	*	1	2	5	8
Black Conch	*	*	*	*	1	1
Shark	*	*	*	*	2	2
Poliquetos	*	*	*	*	3	3
Nauplios & Post Larvas	*	2	*	*	4	6
Fish Meal & Oil	*	*	*	*	2	2
Total	2	7	6	14	26	55

Source: AMP Staff

Table 2.3.31 Number of Processing Plants and Exporters for Panama in 1998-2002

Articles	Year				
	1998	1999	2000	2001	2002(p)
Total	58	53	61	62	62
Shrimps	16	18	15	15	16
Fish	14	15	22	22	23
Lobster	13	6	10	10	10
Black Conch	1	1	1	1	1
Crab	1	*	*	1	1
Shark	2	2	2	2	2
Poliquetos	3	2	2	2	*
Nauplios & Post Larvas	6	7	7	7	7
Fish Meal & Oil	2	2	2	2	2

Source: AMP

2.3.4 Industrial Production and Manufacturing

Manufacturing presently accounts for approximately 7% of GDP. As shown in Table 2.3.32, the productivity of the sector is gradually declining.

Table 2.3.32 Share of Manufacturing in GDP

Values in millions of Balboa

ACTIVITY	**GROSS DOMESTIC PRODUCT**						
	1996	1997	1998	1999	2000	2001	2002
Manufacturing industries	969.0	1.007.2	1.051.2	1.011.8	938.4	863.0	820.5

Source: JICA Study Team, compiled from information from the Contraloria General de la Republica, Dirección de Estadística y Censo

Manufacturing knew growth at the end of the century, but the trend has reversed since 2000 and export levels have dropped below the 1996 level in fiscal year 2002. Manufacturing is principally focused on the production of processed foods, clothing, chemicals, and construction materials for the domestic market[38], and the export of manufactured products remains low and diversified, as can be seen in Table 2.3.33.

Table 2.3.33 Export of Manufactured Products – Selected Products

Commodity and year	Quantity (thousand ton)	Value FOB (thousand Balboa)	Percentage of total exports
Clothing			
1992	651	22,096	4.6
1993	656	21,434	4.2
1994	597	20,528	3.8
1995	613	22,157	3.8
1996	555	20,182	3.6
1997	719	24,801	3.8
1998	764	25,926	3.7
1999	705	21,871	3.1
2000	589	18,024	2.3
2001	527	15,304	1.9
Hard Liquor			
1992	1,679	2,356	0.5
1993	2,175	3,249	0.6
1994	2,051	3,404	0.6
1995	1,592	3,081	0.5
1996	1,562	3,569	0.6
1997	2,311	4,792	0.7
1998	2,403	5,245	0.7
1999	2,099	4,562	0.6
2000	1,891	3,849	0.5
2001	1,948	3,938	0.5
Condensed and evaporated milk			
1992	2,516	3,725	0.8
1993	3,579	5,215	1.0
1994	4,013	5,530	1.0
1995	4,523	6,266	1.1
1996	5,844	7,990	1.4
1997	7,785	10,585	1.6
1998	6,494	8,834	1.3
1999	5,556	7,746	1.1
2000	5,741	8,234	1.1
2001	6,201	7,044	0.9
Mayonnaise and mustard			
1992	986	2,151	0.4
1993	1,302	3,015	0.6
1994	1,448	3,378	0.6
1995	998	2,578	0.4

[38] "*FY 2000 Country Commercial Guide: Panama*" U.S. Embassy Panama City; Bureau of Economic and Business in July 1999 for Fiscal Year 2000; U.S. Department of State, 1999; p 8

Commodity and year	Quantity (thousand ton)	Value FOB (thousand Balboa)	Percentage of total exports
1996	708	1,991	0.4
1997	682	1,992	0.3
1998	655	1,913	0.3
1999	648	1,687	0.2
2000	657	1,605	0.2
2001	705	1,465	0.2

Source: JICA Study Team, compiled from information from the Contraloria General de la Republica, Dirección de Estadística y Censo

As can be seen in the following Table 2.3.34, industrial concentration is the strongest in the Panama Province. For a total of 3,161 industries, 1,660 (53%) are located in the Panama Province. Chiriqui Province is the second strongest industrial area, with 572 industries (18%). Darién and Bocas del Toro have the lowest industrial concentration, with respectively 1% and 2% of total number of industries located in their region.

Table 2.3.34 Geographical Distribution of Industry

Province	**Pop. Density / km²**	**Number of industries**	**% industries**
Bocas del Toro	19.4	70	2%
Cocle	41.1	156	5%
Colon	41.8	124	4%
Chiriqui	56.9	572	18%
Darien	3.4	26	1%
Herrera	43.8	190	6%
Los Santos	21.9	191	6%
Panama	116.2	1,660	53%
Veraguas	19.6	172	5%
Total		*3,161*	*100%*

Source: Contraloría General de la República: Censos Nacionales de Población Y Vvivienda, 14/05/2000

While manufacturing and industrial production generally decreased during the last 10 years, the performance of foodstuff and liquids of all kind increased. In particular soft drinks and raw milk knew a good growth while other milk-related products remained stable (Table 2.3.35).

Table 2.3.35 Production of Selected Foodstuff in Panama

Values in '000 liter

PERIOD	*CONDENSED, EVAPORATED AND POWDER MILK*	*PASTEURIZED MILK*	*RAW MILK USED IN THE PRODUCTION OF MILK PRODUCTS*	*SOFTDRINK*
1998	29,109	53,661	53,661	10,342
1999	23,834	54,503	151,340	139,443
2000	27,073	63,585	145,247	145,983
2001	26,277	58,950	140,378	144,991
2002	29,650	55,087	152,258	163,950

Source: Contraloria General de la Republica, Dirección de Estadística y Censo

But manufacturing and industrial production is very volatile. An interesting example is the tomato-related production, concentrated in the Central Provinces of Cocle, Herrera and Los Santos. See Table 2.3.36. The sector, as many other manufactured products, shows solid growth for some products while other products have decreased, sometimes reducing output with 50% and more over a 7 year period. As a consequence, tomato production and processing overall decreased.

Table 2.3.36 Production of Tomato and Related Products in Panama by Type

Values in Kg and Liter

Year	Tomato Concentrate	Juices	Pastes	Sauces	Ketchup	Whole tomatoes	Others
1995	2.224.444	204.840	3.597.238	5.344.228	2.888.445	35.371	147.539
1996	2.962.926	223.921	3.230.329	4.249.619	2.804.719	59.266	294.656
1997	2.633.629	143.591	2.888.822	4.137.990	3.008.451	37.625	120.172
1998	827.267	188.971	3.061.971	4.377.154	3.048.923	39.011	52.339
1999	1.049.641	229.729	3.074.958	4.375.862	3.174.090	5.636	78.896
2000	2.084.014	259.487	2.942.989	4.149.047	3.127.269	33.874	94.576
2001	1.846.712	8.372	2.965.966	4.123.375	3.141.705	16.762	27.087
2002	1.446.142	85.113	2.692.635	3.760.643	3.415.275	17.926	15.102

Source: JICA Study Team, compiled from information from the Contraloria General de la Republica, Dirección de Estadística y Censo

Industrial activity in general knew a temporary growth in 1998, led by wood products and construction materials, foodstuff processing and tobacco products. At the same time, other products decreased, such as sawmill production, paint manufacturing, and raw iron and steel production. The decrease was in many cases the consequence of lower tariffs and increased competition from imports.

One of the particularly interesting manufacturing products for the future is forestry products, in particular because of the available reserves in basic materials. The exploitation of the tropical forests could benefit in Panama from a legislation that promotes the exploitation. At the same time, very favorable are the climatic conditions for varieties of relative rapid growth like the theca. Studies indicate that varieties like the theca could yield around 25% annual on the investment during a 20 year period[39]. Also new technologies will allow woods being obtained from very young trees and in their industrial treatment used for floors and furniture. All these activities have a high potential in international markets because many tropical woods are on the way to extinction and cutting is increasingly prohibited at world-wide level if it does not come from commercial plantations.

But because Panama has relatively high labor and electricity costs, it exacerbates the competitive challenges of competing with imported products[40]. The various existing Free Trade Agreements

[39] Information provided by the Ministry of Economy and Financing (MEF), Department of Regional Planning
[40] "*FY 2000 Country Commercial Guide: Panama*" U.S. Embassy Panama City; Bureau of Economic and Business in July 1999 for Fiscal Year 2000; U.S. Department of State, 1999; p 9

and the Agreement under negotiation with the United States and other countries will undoubtedly stimulate exports in the future.

The manufacturing sector also benefited from the year 2003 recovery and knew a strong (3rd Quarter) growth, as can be noted in Table 2.3.37.

Table 2.3.37 Economic Indicators of Industrial Manufacturing (3rd Quarter 2002 – 2003)

	Third quarter			Variation %	
	2001	2002	2003 (P)	2001/02	2002/03
Indice Global de Producción Física (promedio)	96.3	89.4	...	-7.2	
Consumo de Energía Industrial (en miles de KWh)	118,696	108,277	61,982	-8.8	-42.8
Producción de Derivados del Tomate (en miles de kilos)	2,891	3,052	2,849	5.6	-6.7
Producción de Cerveza (en miles de litros)	31,310	31,297	34,742	0.0	11.0
Producción de Bebidas Alcohólicas (en miles de litros)	2,820	3,034	3,091	7.6	1.9

Source: Ministerio De Economia Y Finanzas "Informe De Coyuntura Economica; Tercer Trimestre 2003"

Foodstuff and the production of beer and alcoholic beverages is detailed in Table 2.3.38, demonstrating that the recovery of the sector remains moderate and the trend is not (yet) general for the sector.

Table 2.3.38 Economic Performance of Selected Products (3rd Quarter 2002 – 2003)

	2002	2003	Var. %
	Period		
	III Trimester		2002/2003
Vacuno (sacrificio - cabezas)	71,108	66,999	-5.8
Porcino (sacrificio - cabezas)	70,079	76,271	8.8
Carne de Gallina (miles de Kg.)	18,059	17,556	-2.8
Leche Evaporada, Condensada y en Polvo (miles de Kg)	9,252	9,455	2.2
Leche Pasteurizada (miles de Kg.)	15,141	15,234	0.6
Leche Natural para Elabor. de Prod. Derivados (miles de Kg)	43,256	44,018	1.8
Derivados del Tomate (miles de Kg)	3,052	2,849	-6.7
Cerveza (miles de litros)	31,297	34,742	11.0
Seco (miles de litros)	1,502	1,494	-0.5
Ron (miles de litros)	1,046	1,036	-1.0
Ginebra (miles de litros)	359	450	25.3
Otros Licores [(1)] (miles de litros)	127	111	-12.6
Alcohol Rectificado (miles de litros)	4,191	3,959	-5.5

Source: Ministerio De Economia Y Finanzas "Informe De Coyuntura Economica; Tercer Trimestre 2003"

Industrial manufacturing underwent an in-depth restructuring process over the last years, allowing the sector at present to be more competitive and recapture a part of the national market, presently serviced by imported goods.

2.3.5 Banking Sector

The banking sector is privately owned, except for the Banco Nacional de Panama and the Caja de Ahorros which are state-owned banks. A review in September 2000 demonstrated that 88 operating banks owned a total of USD 38 billion in assets[41].

There are 28 foreign banks that hold an operating license, representing approximately 10 billion USD in assets. In general, banking conditions in Panama are sound and the Panama-based banking system outperforms the overall banking system.

The largest banks operating in Panama are represented in Table 2.3.39. The 10 most important Panama headquartered banks represent 17.7 billion USD in assets, followed by the 10 dominant banks from Europe and North America who represent 8.9 billion USD in assets. While the 10 largest Latin American and Caribbean banks still represent 3 billion USD in assets, there are only 6 banks from Asia and the Middle East operating in Panama that represent 1.7 billion USD in assets.

Table 2.3.39 10 Major Banks per Region of Origin

Values in billion USD

Panama Headquartered banks	*Assets*	*Europe and North America*	*Assets*
Banco Latinoamericano de Exportactiones	5.2	Dresdner Bank (Germany)	2.2
Banco nacional de Panama	3.4	HSBC (UK) – formally Chase Manhattan	1.0
Banco General S.A.	2.3	ABN Amro Bank (Netherlands)	0.9
Banco del Istmo S.A.	1.9	Banco Bilbao Viscaya Argent (Spain)	0.9
Primer Banco de Ahorros S.A.	1.4	Banque Nationale de Paris (France)	0.8
Banco Continental de Panama S.A.	1.3	Citibank (USA)	0.8
Caja de Ahorros	0.8	Banque Sudameris (Italy)	0.7
Global Bank Corporation	0.5	Société Générale (France)	0.7
Banco Internacional de Panama	0.5	HSBC, plc (UK)	0.5
Multicredit Bank Inc.	0.5	Banco Santander, S.A. (Spain)	0.4
Total in assets	**17.7**	**Total in assets**	**8.9**
Latin America and Caribbean banks	*Assets*	*Asia and Middle East*	*Assets*
Banco Internacional (Costa Rica)	0.6	Bank of Tokyo Mitsubishi (Japan)	0.8
Bancolombia (Colombia)	0.4	Dai-Ichi Kangyo Bank (Japan)	0.3
Banco de la Provincia (Argentina)	0.4	International Commercial Bank (Taiwan)	0.2
Banco do Brasil, S.A. (Brazil)	0.4	Korea Exchange Bank (Korea)	0.2
Popular Bank (Dominican Republic)	0.3	Bank Leumi-Le Israel, B.M. (Israel)	0.1
Bancafé (Colombia)	0.2	Bank of China (China)	0.1
Banco Santa Cruz (Bolivia)	0.2		
Banco de Occidente (Colombia)	0.2		
Bancrédito (Dominican Republic)	0.2		
Banco Union (Venezuela)	0.2		
Total in assets	**3.0**	**Total in assets for six banks in region**	**1.7**

Source: IMF Country Report n° 01/41, Feb 2001; International Monetary Fund; table 2 p29

[41] *"IMF Country Report n° 01/41"*, Feb 2001; International Monetary Fund; table 1 p27 .

The attractiveness of Panama for many foreign investors is frequently a consequence of the highly flexible operating structure of a healthy banking sector. "*Panama has a well developed banking system, comprised of established domestic and foreign banks run by experienced management teams. The use of the U.S. dollar as the official currency has limited transfer risks and kept interest rates stable and relatively low. … Bank indicators, especially among Panama headquartered banks, continue to show fundamental soundness in capital adequacy and asset quality, as well as ample liquidity and good profitability*"[42].

But the appreciation of the banking sector is not overall positive and "*… given Panama's bank secrecy tradition, further strengthening of bank oversight will be a difficult but important task. The rapid growth in consumer credit has weakened bank balance sheets. In 1998 and 1999, when the financial system relaxed its lending requirements, consumer lending rose 40% and 36% in respective years. The potential fragility of the banking system warrants further moves to strengthen the Banking Superintendency*"[43].

The sector is loosing its momentum and shows a further decline in 2003 as the economic indicators presented in Table 2.3.40 demonstrate.

Table 2.3.40 Economic Performance of Selected Products (3rd Quarter 2002 – 2003)

	3rd Quarter			% variation	
	2001	2002	2003	01/02	02/03
Créditos Internos Saldos (en millones de USD) Créditos	12,258	11,630	11,875	-5.1	2.1
Externos Saldos (en millones de USD) Tasa de Interés-Cr.	10,208	7,608	6,543	-25.5	-14.0
Comercial Banca Panameña (%) Tasa de Interés-Cr.	10.52	8.89	8.88	-15.5	-0.1
Personal Consumption Banca Panameña	11.96	12.04	11.19	0.7	-7.1

Source: Ministerio De Economia Y Finanzas "Informe De Coyuntura Economica; Tercer Trimestre 2003"

The performance of the sector over the last years was very weak. After a negative growth with -0.7% in 2002, the sector knew a negative result of -9.7%, -5.0% and -2.9% during the first, second and third Quarter of 2003. In spite of the ongoing negative performance, the level of decline reduces, suggesting a possible recovery of the sector.

2.3.6 Colon Free Zone

The Colon Free Zone was created June 17, 1948 and has been for 55 years the biggest free zone of the occidental hemisphere and the second biggest in the world. The Colon Free Zone is located at the Caribbean entrance of the Panama Canal, serving as the biggest distribution center for merchandise in Latin America and the Caribbean.

[42] "*IMF Country Report n° 01/41"*, Feb 2001; International Monetary Fund; p 25
[43] "*Country Paper April 2001 : Panama*"; Inter-American Development Bank, Regional Operations Department 2, Country Division 2; p 6 (introduction)

It started its operations in a 35 hectare segregated area, grew to become a 400 hectares exhibition area (Casco Viejo) and warehouse and storing area (France Field). Colon Free Zone is an autonomous institution with legal status, patrimony and a capacity of more than 500 workers which efficiently attend the commercial movement of the Zone for the social and economic development of the Province of Colon and of the country.

Free Zone sales to distributors within the Republic of Panama are treated as normal imports, and taxed accordingly. Profits from such sales are taxed at a rate ranging from 20% up to USD 30,000 to 50% over USD 500,000 yearly. All other commercial activities in the Free Zone offer highly interesting tax advantages that even increase in proportion to the number of Panamanian nationals employed.

Imports into the CFZ come mainly from the Far East. The largest individual supplier in 2001 was Hong Kong (China) followed by Taiwan, United States, Japan and Italy respectively. These five countries were responsible for nearly 70% of all imports in the Colon Free Zone in that year. Colombia is the largest buyer of merchandise (nearly 25 % of all exports from the zone). Other principal export destinations are Ecuador, Venezuela, Mexico, Brazil, the United States, Chile and Guatemala, buying together approximately 60% of all exports from the free zone[44]. Panama's domestic market is also an important market, in spite of the fact that tax advantages on purchases do not apply.

Deposits made in the Banking Center of Panama from the Colon Free Zone were 416 million USD in 2001 and the credit from the Banking Center was 769 million USD. The impact of the Free Zone on the economy is important and is a very important economic development factor[45]. Colon Free Zone is a major contributor to the national GDP (between 11% and 15% of GDP) and is considered one of the cornerstones of the economy[46]. The Free Zone employs about 14,000 people and its annual commercial transactions generate USD 12 billion in imports and exports. Colon Free Zone stretches over more than 400 hectares, houses 1,800 established companies and receives on average 250,000 visitors a year.

Between 1995 and 2000, the Free Zone was the largest exporter (in USD) of all major exporters of services in Panama, as demonstrated in Table 2.3.41 hereafter.

[44] see Business Panama Group "*Business Environment*" on http://www.businesspanama.com

[45] "*A Lawyer's Guide to Panama*"; Edited by: Julio C. Contreras III ; 1996 Arosemena Noriega & Contreras; Edificio Banco Do Brasil; Panamá Rep. de Panamá; First Printing December 1996, Second Printing May 1999; p 18 and "*FY 2000 Country Commercial Guide: Panama*" U.S. Embassy Panama City; Bureau of Economic and Business in July 1999 for Fiscal Year 2000; U.S. Department of State, 1999., p 4, 11, 35

[46] "*Country Paper April 2001 : Panama*"; Document of the Inter-American Development Bank, Regional Operations Department 2, Country Division 2; p 10 paragraph 2.38

Table 2.3.41 Panama Export Performance of the Service Sector[1]

Values in '000 USD

Year	Total	Services						
		Canal	*Banking*	*ZLC*	*Defense*	*Pensions*	*Tourism*	*Others[2]*
1995	2,164,882	472,648	347,921	682,691	200,900	92,649	306,773	61,300
1996	2,255,468	484,384	331,394	753,605	181,000	93,900	338,905	72,280
1997	2,391,226	512,828	383,725	759,727	183,800	97,400	369,505	84,541
1998	2,352,970	556,886	333,788	787,445	104,500	99,200	372,157	98,994
1999	2,161,335	563,338	299,159	631,006	74,900	103,300	381,507	108,125
2000	2,207,897	581,768	230,904	709,267	0	122,516	450,007	113,435

1. Exporting services excludes a different treatment on the payment balance. It includes re-export (Colon Free Zone and others) and sales of oil derivates (direct and as transportation). Benefits from offshore operations are excluded in Banking
2. From 2000, including performance of port services for cruise lines

Source: «Plan de Desarrollo Economico, Social y Financiero con Inversión en Capital Humano (2001)»; October 2001; Ministro De Economía Y Finanzas, Republica de Panama; table ·

The productivity of Colon Free Zone demonstrates a slight downward trend since the year 2000 as can be noted in Table 2.3.42.

Table 2.3.42 Colon Free Zone Payment Balance

Values in million of Balboa

	1998	1999 (R)	2000 (R)	2001 (P)	2002 (P)
Balance	**134.8**	**167.2**	**76.8**	**102.1**	**-148.5**
Goods	615.7	640.5	596.7	618.3	314.5
Services	-314.8	-302.4	-328.1	-358.0	-333.7
Rent	-139.1	-170.9	-191.8	-158.2	-129.3
Total exports of goods, services & rent	5,528.4	4,464.6	4.829,5	4,951.5	4,361.2
Goods	5.486,8	4,434.9	4,791.1	4,914.8	4,315.1
Services	38.3	24.0	31.5	28.6	35.7
Rent	3.3	5.7	6.9	8.1	10.4
Total imports of goods, services & rent	-5,393.6	-4,297.4	-4,752.7	-4,849.4	-4,509.7
Goods	-4,817.1	-3,794.4	-4,194.4	-4,296.5	-4,000.6
Services	-380.1	-326.4	-359.6	-386.6	-369.4
Rent	-142.4	-176.6	-198.7	-166.3	-139.7

Source: Contraloria General de la Republica, March 2003; (R) = revised numbers; (P) preliminary numbers

Year 2002 performance remained very weak with a decline in economic performance of -9.2% over the entire year. Preliminary year 2003 data seems to indicate, however, that the downward trend is reversed. CFZ knew a 5.2% growth during the 3rd Quarter of 2003, while it was still showing a decline during the first and second Quarter of -7.5% and -6.9% respectively[47].

Colon Free Zone is striving to become more than just a traditional free zone. It wants to become a Global Logistic Center for the world. In the middle of year 2000, the Panamanian Government

[47] Source: Ministerio De Economia Y Finanzas “Informe De Coyuntura Economica; Tercer Trimestre 2003”, p 5 Table 1

approved the future transformation of the Colon Free Zone into a Multimodal Logistics Center, allowing greater access to Latin American consumers and of the Caribbean but also to the worldwide market. The available free zone land is next to the airport, railway and port facilities, optimizing the time of delivery to any of the transportation facilities to be used for the cargo shipment. The development of the Multimodal Logistics Center will make this zone more efficient and competitive, focusing on two components, an International Airport of 288 hectares, whose construction will be coordinated with the Civil Aviation Authority and an Industrial Park with a total area of 214 hectares. The project is still in the design and planning stages. A picture of the planned new layout of the Colon Free Zone is presented in Figure 2.3.2.

Source: Colon Free Zone Administration

Figure 2.3.2 Master Plan Colon Free Zone

2.3.7 The Panama Canal

Ships from all parts of the world transit daily through the Panama Canal. Some 13 to 14 thousand vessels use the Canal every year; see Table 2.3.43.

Table 2.3.43 Overview of Canal Traffic 2000 – 2002

			Traffic Assessed Tolls on Net			Traffic Assessed Tolls on	
Total Traffic			Tonnage Basis			Displacement Tonnage Basis	
Fiscal Year	Number of Transits	Tolls	Long Tons of Cargo	Numbers of Transits	Panama Canal/UMS Net Tonnage	Number of Transits	Displacement Tonnage
LARGE VESSELS TRAFFIC (1)							
2000	12,296	573,020,409	193,714,277	12,205	229,459,659	91	447,130
2001	12,186	578,359,682	193,142,176	12,091	230,736,309	95	520,037
2002	11,853	587,571,947	187,814,958	11,790	234,465,295	63	332,490
LARGE VESSELS FREE TRAFFIC (2)							
2000	7	-	-	-	-	7	11,734
2001	12	-	-	1	583	11	21,112
2002	9	-	-	-	-	9	18,992
LARGE VESSELS TOTAL TRAFFIC (3)							
2000	12,303	573,020,409	193,714,277	12,205	229,459,659	98	458,864
2001	12,198	578,359,682	193,142,176	12,092	230,736,892	106	541,149
2002	11,862	587,571,947	187,814,958	11,790	234,465,295	72	351,482
SMALL VESSELS TRAFFIC (1)							
2000	1,289	1,207,250	7,583	1,264	443,390	25	21,979
2001	1,263	1,154,500	10,763	1,217	428,390	46	37,033
2002	1,316	1,204,500	8,770	1,266	447,717	50	38,614
SMALL VESSELS FREE TRAFFIC (2)							
2000	61	-	2	10	2,813	51	25,409
2001	31	-	1	11	3,785	20	14,325
2002	7	-	-	3	1,749	4	3,843
SMALL VESSELS TOTAL TRAFFIC (4)							
2000	1,350	1,207,250	7,585	1,274	446,203	76	47,388
2001	1,294	1,154,500	10,764	1,228	432,175	66	51,358
2002	1,323	1,204,500	8,770	1,269	449,466	54	42,457
TOTAL PANAMA CANAL TRAFFIC							
2000	13,653	574,227,659	193,721,862	13,479	229,905,862	174	506,252
2001	13,492	579,514,182	193,152,940	13,320	231,169,067	172	592,507
2002	13,185	588,776,447	187,823,728	13,059	234,914,761	126	393,939

* The tonnage measurement system for Panama Canal tolls assessment, the Panama Canal/Universal Measurement System (PC/UMS)
(1) As of January 1, 2000, includes those previously categorized as U.S. Government vessels.
(2) Free traffic includes ships of the Colombian and Panamanian Governments and ships transiting for repairs by the Panama Canal Authority.
(3) Large vessels are those paying tolls greater than the minimum tariffs implemented on June 1, 1998
(4) Vessels assessed minimum toll amounts as established by criteria implemented on June 1, 1998.
Source: ACP

The Panama Canal generates on average 6% of the GDP of Panama and approximately 4% of the world's trade. The USA, as either port of origin or destination, is the largest user of the canal with about 12% of total sea-borne international trade in terms of cargo tonnage, although Asian countries are beginning to close the gap[48].

[48] see Business Panama Group "*Business Environment*" on http://www.businesspanama.com

The Panama Canal is not only an important infrastructure for commercial traffic, but it is also a major tourist destination, attracting a large number of cruise lines. The distribution by market segment of the 2001 – 2002 transit of large vessels demonstrates that approximately 1 cruise line ship passes per day through the Panama Canal throughout the year. See Table 2.3.44.

Table 2.3.44 Panama Canal Traffic by Market Segment

	Nº of transits		**Tolls** *('000 Balboa)*		**% change**	
Market segment	2002	2001	2002	2001	Transits	Toll
Dry bulk	2,676	2,888	144,085	154,955	(7.3)	(7.0)
Reefer cargo	2,135	2,076	39,895	37,929	2.8	5.2
Container	2,012	1,780	165,311	142,294	13	16.2
Tankers	1,802	2,053	73,656	80,736	(12.2)	(8.8)
General cargo	985	1,110	21,098	21,630	(11.3)	(2.5)
Vehicle carriers	773	738	84,158	79,497	4.7	5.9
Passengers	*206*	*235*	*18,814*	*21,374*	*(12.3)*	*(12.0)*
Others	1,273	1,318	40,555	39,944	(3.4)	1.5
Total	**11,862**	**12,198**	**587,572**	**578,360**	**(2.8)**	**1.6**

Source: ACP

Table 2.3.44 also shows that in spite of a decrease in transits, the financial performance of the ACP was positive, growing 1.6% from the 2001 performance. This growth was triggered by the increase of container vessels, refrigerated cargo ships and vehicle carriers.

The Panama Canal is a very important contributor to the economy of Panama. With 581,768,000 USD in turnover in the year 2000, The Panama Canal was the second largest contributor to national GDP. But since 2001, the Canal registered a slight reduction in traffic, basically because of the weak global economic situation[49]. As can be noted in Table 2.3.44, this decline continued in 2002, when both the improved number of vessels and the total revenues further decreased as compared to 2001. With the improved performance of the Panamanian economy in 2003, the result of the Panama Canal improved although only with a fraction and mainly because of an increase in the level of toll charged to the vessels crossing the Canal. The total number of vessels continued to decrease in the third Quarter of 2003, from 3,001 vessels in 2002 to 2,996 in 2003, a year-on-year quarterly decrease of -0.2% (compared to a decrease of -2.5% in the third Quarter of 2002). Total tonnage increased in the third Quarter with only 0.2% to 64,240 million tons in 2003 from 64,162 million tons in 2002. This weak result is in particular a consequence of the important reduction of grains, transported via the Panama Canal, as can be seen in Table 2.3.45.

[49] "Panama: situación económica y perspectivas"; Inter-American Development Bank, October 2002

Table 2.3.45 Principal Commercial Cargo Passing through the Panama Canal (3rd Quarter 2002 – 2003 in million of long tons)

Detail	2002	2003	Var.%
Total	**46.1**	**46.2**	**0.2**
Petroleum and derivates	5.6	5.6	0.0
Containerized cargo	11.2	12.4	10.7
Grains	9.5	7.1	-25.3
Rest	19.8	21.1	6.6

Source: Panama Canal Authorities in: Ministerio De Economia Y Finanzas "Informe De Coyuntura Economica; Tercer Trimestre 2003"

The Panama Canal Authorities (ACP) is presently engaged in a major modernization program that will improve the quality and efficiency of both infrastructure and services.

A first major project is the deepening of Gatun Lake channel. The project started in 2002 and will enable ACP to maintain the existing levels of operational reliability. Approximately 6.7 million cubic meters have to be dredged and the cost of the operation is estimated at 190 million USD. Another important infrastructure project consists of The Culebra Cut Widening Project. The project includes widening the span to 192 meters along straight stretches and to 222 meters in the curves. This project will allow meeting growing transit demands and applying more flexible traffic scheduling. After the widening, two wide-beam Panamax vessels will be able to transit simultaneously in either direction without compromising navigational safety.

Both programs are part of a more comprehensive modernization program that includes not only infrastructure improvements, but also navigational aids, GPS, new equipment and improved services. The total investment for the modernization program is estimated at 1 billion USD and will make it possible to handle the expected increase in the number of PANAMAX ships transiting the waterway from 1/4th of total transits to more than 1/3rd by the year 2010. The modernization program further includes increasing the tugboat fleet, purchasing new and more powerful locks locomotives, modernizing the marine traffic management and locks control systems as well as the replacement of 50,000 feet of locks tow track[50].

2.3.8 Transport Sector

The transport sector is driven by maritime services (flag registration, Panama Canal toll, banking and insurance etc…) and the growing activities of private port operators. The role of rail and road is small, given that railway transport only resumed in 2002 along the Panama Canal and there is only limited road infrastructure available, making several regions in the country only accessible by river.

[50] Source: Autoridad del Canal de Panamá

Port sector

There are both private and state ports. Recent cargo movements, provided in next Table 2.3.46 demonstrate the domination of private ports.

Private ports handle 85% of annual traffic, and demonstrate an average annual increase of 2.4% in port traffic. State ports, on the contrary, knew a regression of 41.3% in traffic; a decrease caused by the dependence of the state ports on local cargo and dedicated services (such as fishing, petroleum, etc…). Bulk cargo through the Panamanian ports decreased during that period with 17.2%, in particular due to the decrease in combustible in Charco Azul and Bahia Las Minas. General cargo increased during 2002 with 3.9%, a traffic that was mainly captured by the ports of Balboa and Cristobal, both administrated by the Panama Port Company. Container traffic continued growing during 2002 with almost 8% as compared to the year 2001.

The large majority of container traffic passes through the private ports (98.6%), with Manzanillo Terminal handling 61% of total container cargo traffic per year, followed by Panama Ports Company with 23.4% and Colon Container Terminal with 14.2% of all containerized traffic[51].

Table 2.3.46 Cargo Movement through the National Port System

Values in metric tons	**January-September 2001**			**January-September 2002**			**1-feb**
	Total	**Disembark**	**Embark**	**Total**	**Disembark**	**Embark**	**% change**
TOTAL	**17,967,535**	**10,678,037**	**7,289,498**	**16,053,477**	**8,839,814**	**7,213,663**	**-10.7**
Private ports	**13,773,775**	**7,081,952**	**6,691,823**	**13,590,289**	**6,740,069**	**6,850,220**	**-1.3**
Almirante	442,801	76,193	366,608	414,386	93,462	320,924	**-6.4**
Colon Container Terminal	853,066	288,614	564,452	1,198,983	320,224	878,759	**40.5**
Colon Port Terminal	46,026	4,082	41,944	12,668	365	12,303	**-72.5**
Charco Azul	2,338,615	1,304,065	1,034,550	912,432	432,272	480,059	**-61.0**
Chiriqui Grande	138,311	35,263	103,048	1,033,653	490,480	543,173	**647.3**
Manzanillo Int. Terminal	4,750,689	2,484,016	2,266,673	5,180,497	2,860,943	2,319,554	**9.0**
Panama Ports Co	5,189,981	2,881,492	2,308,489	4,823,138	2,534,095	2,289,043	**-7.1**
Pedregal	14,286	8,227	6,059	14,532	8,127	6,405	**1.7**
State ports	**4,139,760**	**3,596,085**	**597,675**	**2,463,188**	**2,099,745**	**363,443**	**-41.3**
Aguadulce	62,013	46,676	15,337	44,368	38,391	5,977	**-28.5**
Armuelles	2,612	104	2,508	47	33	14	**-98.2**
Bahia las Minas	4,007,923	3,447,448	560,475	2,315,826	1,995,266	320,560	**-42.2**
Bocas del Toro	10,055	5,252	4,803	10,145	2,606	7,539	**0.9**
Coquira	936	918	18	794	791	3	**-15.2**
La Palma	8,652	2,165	6,487	3,684	1,577	2,107	**-57.4**
Mensabe	404	404	0	408	408	0	**1.0**
Mutis	105	105	0	114	57	57	**8.6**
Panama	8,641	3,084	5,557	11,989	4,497	7,492	**38.7**
Vacamonte	92,419	89,929	2,490	75,870	56,119	19,751	**-17.9**

[51] "General Statistics Department Harbor Maritime Statistical Bulletin, January – September"; Directorate General of Ports and Ancillary Maritime Industry, year 2002

In 2002, state ports did not handle containerized traffic, undoubtedly because of the absence of suitable infrastructure and cargo handling equipment in addition to the competition from the private ports. The data from Table 2.3.46 is in that respect very revealing.

State ports only have very limited traffic throughput per annum as compared to private port activities, as is clearly demonstrated in the table. While the state ports handled approximately 2.5 million metric tons in 2002 (from approximately 4.1 million metric tons in 2001), all private ports combined generated 13.5 million metric tons of traffic (13.7 million metric tons in 2001). The impressive drop in traffic through state ports is spiraled by the 42% drop in volume in the port of Bahia las Minas which accounts for approximately 90% of traffic through the state ports. While this port had over 4 million metric tons of traffic in 2001, this volume dropped to 2.3 million tons in 2002. This regression is mainly due to the termination of the activities at the Texaco refining plant in the port and the therewith related reduced petroleum imports through the port. Petroleum imports have almost completely disappeared at present.

Generally, the state ports show a very low productivity. Most state ports have annual traffic below 20,000 tons and have only a regional function of bringing in supplies and carry persons to and from remote regions, difficult or not at all accessible by road. State ports are used primarily for the export of agricultural products. On the Pacific, Aguadulce is used mainly for the exporting of sugar to international markets, while Puerto Armuelles was until recently geared to banana exports. On the Caribbean, the port of Almirante handles all the banana exports for that sector of the country. The fishing port of Vacamonte on the Pacific, 27 kilometers (17 miles) west of Panama City, serves the shrimp fleet and has special docking facilities for unloading tuna and cold storage installations for handling 3,000 tons.

Private ports can be divided between ports located along the Panama Canal, responsible for the majority of container and general cargo traffic (in many cases transit traffic) and the inland ports which have much less and more diversified traffic. The ports along the Panama Canal are responsible for approximately 10 million of the 13.5 million tons. For the ports outside the Canal corridor, only the ports of Charco Azul and Chiriqui Grande demonstrate some reasonable levels of traffic (over 1 million metric tons), directly related to the petroleum imports and exports by Petro-terminal de Panama S.A. (PTP). After an impressive drop in petroleum traffic when petroleum traffic via the Isthmus pipeline (linking Charco Azul with Chiriqui Grande) was interrupted, Chiriqui Grande was able to maintain and even expand non-petroleum related traffic predominantly thanks to an aggressive price policy for using the general cargo pier, attracting in particular banana exports to Europe in addition to the existing grain transports.

The petroleum sector generates important traffic volumes (including transit traffic) and the volume can again increase in 2004, with the Isthmus pipeline being operational again. In addition, both ports are planning to handle increasing volumes of container traffic.

Ports performed very well during the 3rd Quarter of 2003 and noted a 16.8% increase in containerized traffic and a 30.7% increase in cargo moving through the national port system as can be seen in Table 2.3.47.

Table 2.3.47 Cargo Movement through the National Port System (3rd Quarter 2002 – 2003)

	3rd Quarter			% variation	
	2001	2002	2003	01/02	02/03
National Port System					
Container movement (in TEU)	434,016	429,276	501,607	-1.1	16.8
Cargo movement (metric tons)	5,787,803	5,019,605	6,559,095	-13.3	30.7

Source: Ministerio De Economia Y Finanzas "Informe De Coyuntura Economica; Tercer Trimestre 2003"

Railway Transport

Railways in Panama are operated by private firms and are used to move bananas from the fields around Changuinola to Port Almirante, in Bocas del Toro. The railway in Chiriqui which was used for the transportation of bananas to Puerto Armuelles Port stopped operations as the Chiquita Brands International terminated its operations at that location.

A recent important transport improvement is the introduction of a railway service along the Canal across the Isthmus. The rehabilitation and modernization of the 143-year old transcontinental railroad began in February 2000 and was completed in 2001. Both freight and passenger service began later in the year. The railway service is operated by the Panama Canal Railway Company, the joint venture of Kansas City Southern Railway (KCS) and Lanigan Holdings to which the government of Panama awarded early in 1998 an exclusive 25-year concession to operate the railway[52]. The Panama Canal Railway Company constitutes of

- 42% - KCS through indirect subsidiary
- 42% - Lanigan Holdings, LLC
- 16% - International Finance Corporation

For cargo transport, the 47.6-mile railroad serves as complementary link to the existing (transportation) infrastructure provided by the Panama Canal, the Colon Free Zone and the port terminals at the end points of the Canal. Total cost of the railway rehabilitation was approximately 75 million USD and based on 20 trains per day and a 365-day/year operation.

The railway's first phase transfer capacity will be 1,500 containers per day, or 547,500 containers per year. The final aim is transporting in double-stack configuration over 1 million containers by end of 2003, once the expansion of Balboa terminal is completed. Passenger transport is certainly not considered as a complementary activity of the railway line, given the investment in passenger coaches by the Panarail Tourism Company, a full PCRC's subsidiary[53].

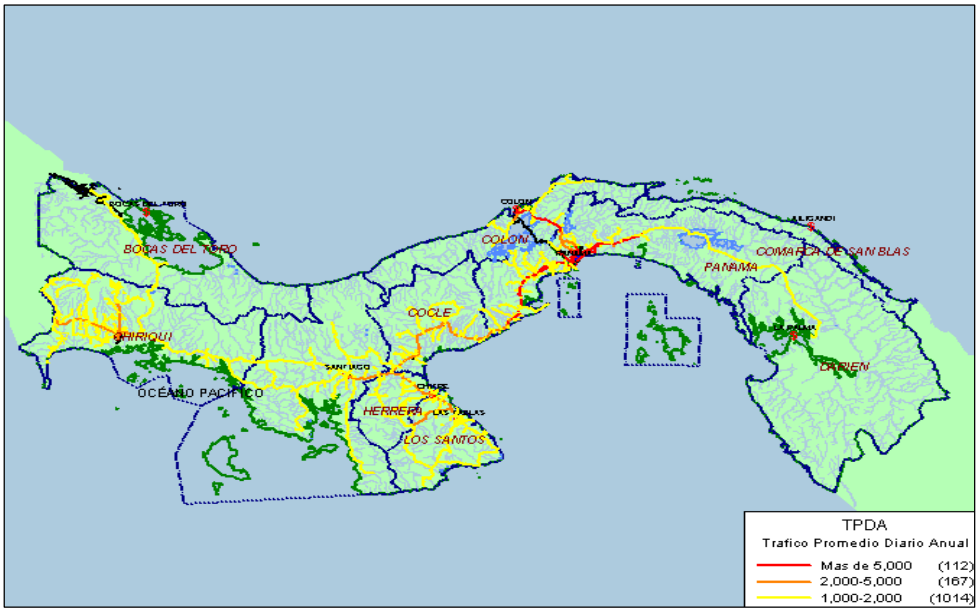
[52] Source: Kansas City Southern Railway (see website http://www.kcsi.com)
[53] The company purchased from Amtrack classic coaches dating back from 1955 for a price of 85,000 USD each. It then re-build each of these coaches for at an additional cost of 415,000 USD,

Road Transport

In 1998, a country assessment by the US Embassy to Panama concluded: "*Panama has relatively well-developed infrastructure. Inter-city highways are generally good, allowing goods and services to move with relative ease. With new and soon-to-be completed roads offering access to Bocas del Toro province, that area should see significant growth in the next few years. Roads remain poor in the sparsely populated Darien province, though an Inter-American Development Bank loan is in place to finance infrastructure development in that remote area. Planned investment in highways … should prove very beneficial*"[54].

Also the Inter-American Development Bank (IDB) believes that Panama has a real potential to become a multimodal platform for Latin America, given its unique maritime and transportation infrastructure and its expanding road infrastructure. But this comparative advantage will only become apparent if an efficient regulatory framework, lower utility prices and a simple, efficient taxation system are put in place[55].

Several important road infrastructure projects have recently been completed. The total road network of Panama is now approximately 11,500 km long of which around 4000 km are paved and around 7,500 km unpaved. The paved road section is shown in Figure 2.3.3.



Source: TDPA

Figure 2.3.3 Paved Roads and Density in Panama

[54] "*FY 2000 Country Commercial Guide: Panama*" U.S. Embassy Panama City; Bureau of Economic and Business in July 1999 for Fiscal Year 2000; U.S. Department of State, 1999; p 13

[55] "*Country Paper April 2001: Panama*"; Document of the Inter-American Development Bank, Regional Operations Department 2, p 25 section 2.40

The paved road network includes a 30 km expressway section of critical importance for present and future economic and social development:

1. The Pan-American Highway
2. The Northern and Southern Corridor
3. The Madden Colon Freeway

The highway that connects the cities of Panama and Colon could complement the logistics service provided by the Panama Canal and the railroad. But the most important ongoing infrastructure investment is the completion in the Darién province of the Pan-American Highway which will open the area for more intense economic development.

2.3.9 Tourism Industry

As a whole, the tourism industry is considered one of the potential future revenue generators in Panama. Its share in service sector exports is constantly growing from roughly 307 million USD in 1995 to 450 million USD in 2000. In 2002, tourism in its largest form[56] accounted for nearly 8% of GDP[57].

Although already a high performer, the tourism sector remains underdeveloped and its potential largely underexploited. A 1998 assessment of the tourism sector clearly identified the concrete problems of the sector: "The number of visitors to Panama in 1998 increased 4.7% to 506,000, while overall visitor spending rose less than 1%. The tourism industry in Panama has substantial growth potential; however, a lack of tourist destinations hampers its development"[58]. Tourism is now declared a public service industry, and elevated to the hierarchy of national interest[59].

The tourism sector is heavily promoted by the Panamanian government who has taken a number of sector-stimulating initiatives over the last 10 years. The sector is now starting to feel the benefits of these initiatives and shows high growth potential for the future.

Tourism, in particular nature and beach-tourism, are potential catalysts for future growth of the sector and improved economic performance in the Interior area. Eco-tourism can take advantage from the tropical climate and the bio diversity of the country while beach-tourism can be developed along the many beautiful beaches of Panama.

The Panamanian Institute of Tourism (IPAT) identified 9 tourism zones of which eight are in the Interior area. The 5th tourism zone is Panama Province with its Panama Canal and related watershed while the eight zones in the Interior area are:

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[56] Tourism calculated on the basis of person entries, thus including business travelers, visits for family purposes and others.

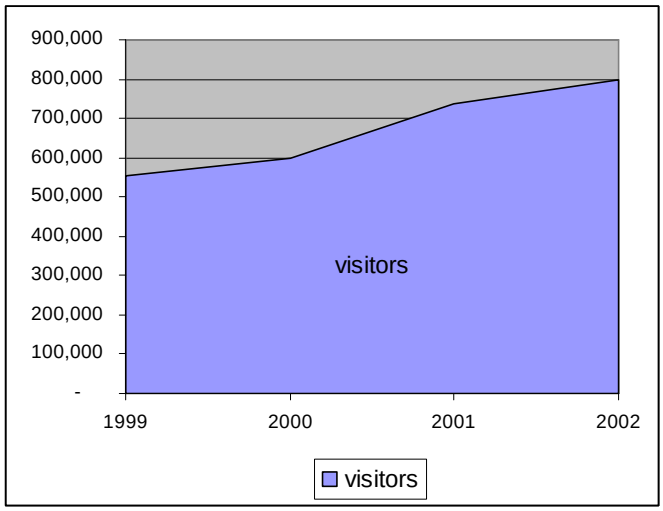
[57] "Panama: Situación Económica y Perspectivas", October 2002, Inter American development Bank, p 82, footnote 2

[58] "*FY 2000 Country Commercial Guide: Panama*" U.S. Embassy Panama City; Bureau of Economic and Business in July 1999 for Fiscal Year 2000; U.S. Department of State, 1999; p 11

[59] "*A Lawyer's Guide to Panama*"; Edited by: Julio C. Contreras III ; 1996 Arosemena Noriega & Contreras; Edificio Banco Do Brasil; Panamá Rep. de Panamá; First Printing December 1996, Second Printing May 1999, p: 25

1. **Zone 1:** covering El Parque de la Amistad and located between Chiriqui and Bocas Del Toro, where the cloudy forest of height prevails, with great potential for the eco-tourism.
2. **Zone 2:** Bastimentos, in Bocas del Toro contains enormous marine diversity and splendid beaches that can compete with the Caribbean regions.
3. **Zone 3:** Dry Arc in Azuero, possesses beautiful beaches and has a beautiful culture and folklore.
4. **Zone 4:** Farallon, stretching from Punta Chame to Farallon; has a coastline throughout 75 kilometers which can be properly developed. At present, it is characterized by a floating population that reaches 300,000 people during weekends (40% of the inhabitants of the city of Panama).
5. **Zone 6:** Portobelo a region with historic value, attractive beaches and great diversity of marine species.
6. **Zone 7:** San Blas, including the indigenous region of the same name which is interesting from a cultural perspective and also has various attractive beaches.
7. **Zone 8:** Las Perlas, an archipelago with important marine diversity and attractive beaches.
8. **Zone 9:** in Darien, its main attractiveness is the cultural aspect (indigenous people) and the tropical forest.

In spite of the abundance of possible tourist attractions, only few tourists visit Panama, but the trend is growing steadily. In 1999, a total of 555,026 tourists came to Panama. This number increased with approximately 50% to 800,161 tourists in 2002, as can be seen in Figure 2.3.4.

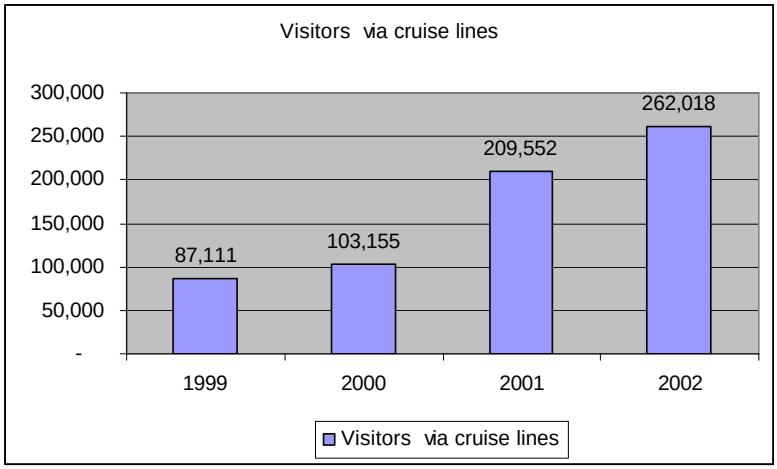


Source: IPAT

Figure 2.3.4 Tourism Growth in Panama

Over 53% of the tourists arrived in Panama via the international airport of Tocumen and 32% via the maritime way.

An important increase of tourists coming through maritime ways demonstrates the growing interest of the cruise line sector for Panama. See Figure 2.3.5.



Source: IPAT

Figure 2.3.5 Evolution of Tourists Using Maritime Way

Since 1999, the number of tourists coming to Panama via cruise lines has tripled, from 87,111 in 1999 to 262,018 in 2002. In 2002, the number of visitors increased with 25% as compared to the previous year, which represents a total of 52,466 additional visitors. This increase is largely contributed to the confidence that the *Asociación de Cruceros de Florida y el Caribe (FCCA)* has in Panama as tourist destination and provides highly necessary impulses to the cruise line sector in Panama[60].

As a source of revenues, tourism has recently surpassed both the Panama Canal and Colon Free Zone, as demonstrated in Table 2.2.48 and Figure 2.3.6.

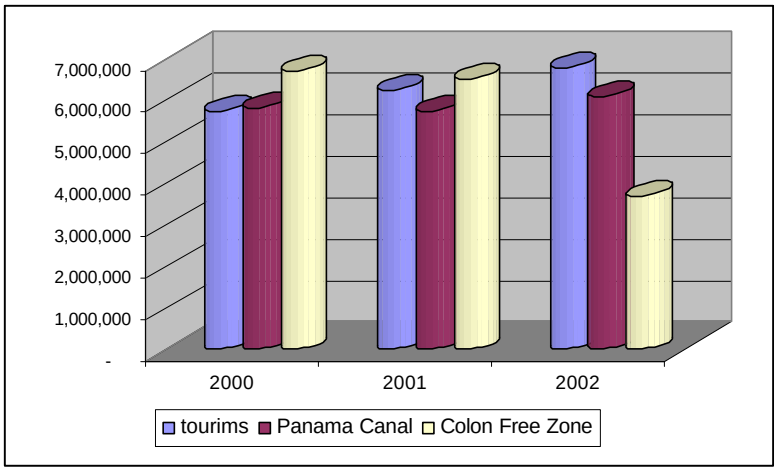
Table 2.3.48 Evolution of Revenues for Selected Sectors

Unit: 1,000 Balboa

	2000	2001	2002
Tourism	5,756,000	6,257,000	6,788,000
Panama Canal	5,818,000	5,736,000	6,083,000
Colon Free Zone	6,699,000	6,506,000	3,693,000

Source: IPAT

[60] Information provided by IPAT.



Source: IPAT

Figure 2.3.6 Revenues of Tourism (in '000 of Balboa)

But in spite of high percentile increases over the last years, the number of tourists remains low, not exceeding 1 million persons per year. IPAT distinguishes 4 different tourist types, as demonstrated in next Table 2.3.49.

Table 2.3.49 Types of Tourists Visiting Panama

Value in number of persons

Year	Motive of travel					Total number of tourists
	Recreation	Business	Conventions	Family	Others	
1992	135,860	89,439	10,089	3,413	11,818	250,619
1993	136,825	96,126	13,086	3,978	15,568	265,583
1994	179,739	88,680	8,069	1,428	14,365	292,281
1995	173,609	99,853	11,230	3,127	12,404	300,223
1996	162,457	110,937	17,694	3,987	12,755	307,830
1997	182,453	122,592	16,966	6,034	15,475	343,520
1998	177,091	120,403	18,233	13,448	13,300	342,515
1999	188,630	120,077	21,124	14,358	14,666	358,855
2000	200,389	122,993	23,629	11,743	16,353	375,107
2001	214,139	121,438	20,133	21,037	15,464	392,211
2002	229,633	120,112	21,350	22,447	14,755	409,297

Source: IPAT

The data relate to the visitors coming to Panama via Tocumen international airport. As can be noted in the table, persons with a clear leisure objective have nearly doubled over the last 10 years from 135,860 visitors in 1992 to 229,633 tourists in 2002. Visitors with a more professional reason have combined increased from approximately 100,000 visitors to 141,000 visitors, an increase of 40% over 10 years. Remarkable is the increase of persons visiting family that has increased from 3,413 visitors in 1992 to 23,447 visitors in 2002. It is clear that Panama is gradually being discovered as a tourist destination, given the impressive growth of recreational visitors.

Panama, and in particular the Interior area, has a wealth of natural, historical and cultural destinations that are until present day highly underdeveloped or even fully unexploited. The reasons why several regions (e.g., Darièn and Bocas del Toro) have not (yet) evolved into a true tourist destination are many, among which the most important are[61]:

1. Absence of adequate transport infrastructure
2. Absence of tourist services and accommodation (see Table 2.3.50 and Figure 2.3.7)
3. Opposition from local indigenous inhabitants
4. Centralized government and lack of various types of necessary expertise in the regions, both among public administrators and the private sector, in respect to tourism activities

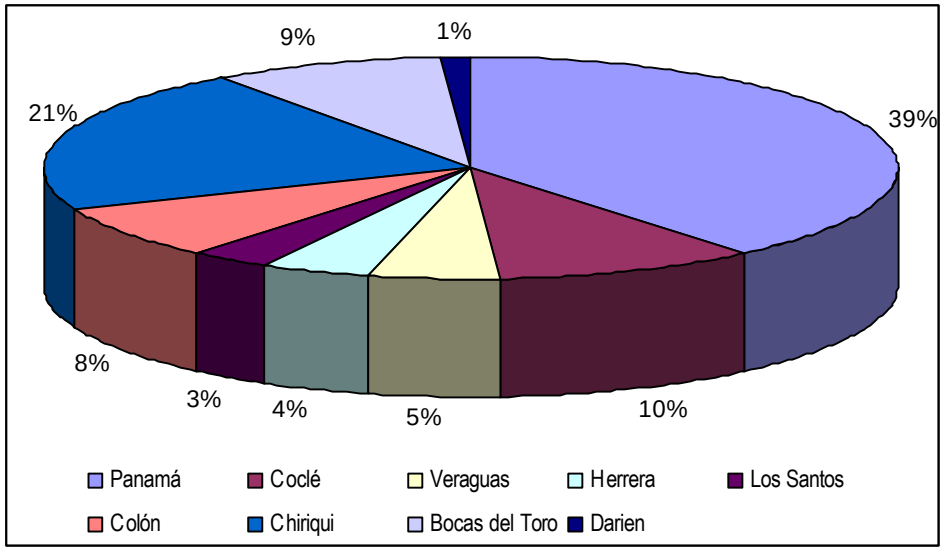
Table 2.3.50 Tourist Accommodation per Type and Capacity (Year 2002)

Type	TOTAL	Panamá	Coclé	Veraguas	Herrera	Los Santos	Colón	Chiriqui	Bocas del Toro	Darien
TOTAL	16,115	10,380	1,109	491	280	193	1,829	1,333	456	44
Hotel	12,499	8,061	971	397	190	106	1,616	883	239	36
Aparthotel	681	677	-	4	-	-	-	-	-	-
Residential	695	537	22	20	-	45	10	47	14	-
Pension	1,687	994	75	47	90	36	87	259	99	-
Cabañas	359	68	31	3	-	-	96	77	84	-
Hostel	117	35	10	-	-	6	7	31	20	8
Motel	41	-	-	20	-	-	-	21	-	-
Bungalow	36	8	-	-	-	-	13	15	-	-
% share	TOTAL	Panamá	Coclé	Veraguas	Herrera	Los Santos	Colón	Chiriqui	Bocas del Toro	Darien
TOTAL	100%	64%	7%	3%	2%	1%	11%	8%	3%	0%
Hotel	100%	64%	8%	3%	2%	1%	13%	7%	2%	0%
Aparthotel	100%	99%	0%	1%	0%	0%	0%	0%	0%	0%
Residential	100%	77%	3%	3%	0%	6%	1%	7%	2%	0%
Pension	100%	59%	4%	3%	5%	2%	5%	15%	6%	0%
Cabañas	100%	19%	9%	1%	0%	0%	27%	21%	23%	0%
Hostel	100%	30%	9%	0%	0%	5%	6%	26%	17%	7%
Motel	100%	0%	0%	49%	0%	0%	0%	51%	0%	0%
Bungalow	100%	22%	0%	0%	0%	0%	36%	42%	0%	0%

Source: Dirrección de Servicios Turistico

All indicators demonstrate that tourism can become an important resource for future revenues. Already one of the major components of GDP, its potential remains highly underdeveloped and in many cases is not exploited at all.

[61] Based upon discussions with representatives from the Ministry of Economy and Financing (MEF), Department of Regional Planning; IPAT, Compité Panamá and others



Source: IPAT

Figure 2.3.7 Hotel Accommodations per Region

Panama has a huge potential and a wide variety of attractive tourist features:

1. Panama City and the Panama Canal watershed;
2. Its islands and beaches, offering sport fishing, deep sea fishing, sailing and other beach diversions;
3. Its nature and adventure sports (bird watching, rafting, kayaking, surfing, extreme adventure);
4. Its highlands and mountains (eco-tourism, mountain climbing, hiking and biking adventures);
5. Cultural diversity (Indian cultures, historical sites).

2.3.10 Growth Potential for Selective Sectors

Creating a sustainable regional economic basis will contribute in maintaining the present high standard of living (3,260 USD in 2001[62]) and will also help alleviating poverty in the rural areas.

One of the critical conditions for identifying economic activities that can contribute to future sustainable development is that they need to be in line with the government's objectives of decentralization towards the Interior area and poverty alleviation in the rural provinces.

Based upon the past and present performance of the Panamanian economy, a number of sectors can be identified as potential catalysts for socio-economic growth. The reasons for their potential are briefly discussed hereafter.

[62] "*Panama at a glance*": World Bank Group Panama Country Unit Staff, 9/24/02

Agriculture

Increasing the strength of the non-traditional and farming sectors is of a high priority to ensure the future growth of agricultural production and related exports. While the necessary resources are abundantly available and the export of these products is constantly increasing, the sector as a whole demonstrates only limited competitive strength, in particular in the global market. The problem lies in the scale of production and the organization and control of operations. Production is generally small scale and uncoordinated, making for several products the volumes too small to benefit from the efficiency, generated through economies of scale that could improve the efficiency in purchasing supplies, of production methods, of transport and logistics processes, in international marketing and of market access (competitive power) in general. The ongoing Rural Plan for Panama 2001 – 2004 is a step in the right direction and can be a basis for a more comprehensive strategy that stimulates investments and promotes efficiency.

This assessment is, however, not valid for the traditional agricultural products such as bananas, coffee and sugar, which have seen a constant decline over the last 5 to 10 years. Changes in the global market and policy decisions in key markets (e.g., Europe for bananas) have created an environment in which exporting becomes increasingly difficult. At the same time, new developing countries emerge and compete for a shrinking market, offering in many cases more competitive prices because of lower production and costs, export subsidies, investment incentives, etc… Although a declining trend is undeniable for the traditional crop productions of Panama, its future economic value should not be underestimated. Banana production and export has been constantly shrinking, but the sector is still responsible for 72% of total agricultural export.

Fishing

Although a slight set-back over the last years, the fishing sector is a strong economic performer in Panama. Its national production and export volumes have constantly increased. With the completion of the sector's privatization, the fish processing industry can prepare for further growth. The signing of the International Dolphin Conservation Program Agreement in May 1998 also paved the way for an increase of tuna fishing and offers in particular potential in exporting to the United States. However, efforts will have to concentrate on improving competitiveness through increased efficiency because until the present day, performance stayed well below its potential. Aqua-culture or aqua-farming of shrimps and various fish species is constantly growing, in particular in the Coclé area, and can be considered the segment of the fishing sector with the best growth potential. Aqua-culture is one of the few economic activities that witnessed worldwide high growth rates in coastal areas in a large number of countries. The commercial production of marine shrimp in impoundments, ponds and tanks, started in the early 1970s, and according to FAO statistics, over fifty countries export farmed shrimp with Ecuador as leading producer in the western hemisphere, and until recently Thailand, the leader in the eastern hemisphere and in spite its relative newness, 1/3rd of present shrimp production worldwide originates from farms. Dominant consumer markets are the United States, Western Europe and

Japan. In order to remain competitive and increase its share in world production and exports, the Panamanian aqua-farming will have to increase efficiency, generate economies of scale and rationalize production in order to meet increasingly stringent environmental and health conditions.

According to FAO statistics, the contribution of aqua-culture to global supplies of fish, crustaceans and mollusks increased from 3.9% of total production in 1970 to 27.3% in 2000, therewith growing more rapidly than all other animal food producing sectors. Worldwide, the sector outperformed capture fisheries and farmed meat production with its average compounded growth rate of 9.2% annually since 1970.

Forestry and mining

The forestry sector in Panama continues to grow and, as for the mining sector, demonstrates a particular potential for Panama because of the availability of natural resources. Expansion is not only apparent in the production of raw materials, but also in the manufacturing of wood products and derivates. However, careful attention will have to be devoted to the conservation of the natural resources, given the important decline in forest coverage. The mining sector is undoubtedly a second sector with a high potential for the future, given the available natural reserves of gold, copper, silver and other natural products. Although mining in Panama showed some positive signs between 1997 and 1999, foreign investors remain hesitant and sector growth is slow, consequence of the existing mining law.

Both sectors are confronted with problems in particular related to the impact on the environment and the relationship with the indigenous population. For example in 1994, 25% of the country area was covered by mining concessions or applications and currently over half of the national territory is open to mining concession applications. Many mining sites are located in the forests and 70% of concessions have been granted in indigenous lands at San Blás, Bocas del Toro, Veraguas and Chiriquí"[63]. In addition to potential negative effects on the environment, this situation causes conflicts with the indigenous people. For example, the copper exploitation by the Canadian company Panacobre S.A. in the Province of Chiriquí was granted for 25 years with possible extension, although the General Congress of the Ngobe-Bugle, the largest indigenous population, rejected the project[64]. These problems will have to be addressed and equitable solutions found before both sectors will develop according to their true economic potential.

Furthermore, the problems with the indigenous people and the protection of the environment are two subjects that are also closely related to the development of tourism in Panama. Because most resources to attract foreign tourists are located in nature parks and protected zones and on land of the indigenous population, a sustainable and coordinated development with mutual approval is the only option for the future.

[63] WRM's bulletin Nº 46, May 2001
[64] WRM's bulletin Nº 46, May 2001

Tourism

Panama received just over 800,000 visitors in 2002, generating revenues in 2002 estimated at 678.8 million Balboa, an increase with 53.1 million Balboa (+8.7%) as compared to the year 2001. Panama as a country has a high amount of natural beauty in the form of natural parks (rain forest), attractive beaches, interesting historical sites and the indigenous population with their ancient culture and tradition. Furthermore, both the Panama Canal and Colón Free Zone are recognized destinations for foreign visitors.

In assessing the tourism potential, a distinction should be made between *"real tourists"* and other travelers visiting Panama because they have different goals, habits and destinations. Business people coming to Panama generally remain in one of the county's economic centers and spend only limited time in Panama. This does not mean that these visitors are not important for the Panamanian economy. On the contrary, business people in general have a high daily expenditure, in particular beneficial to the hotel and restaurant sector and also to some extent the retail sector (shopping). Family visits are the least profitable for the country's economy because many of these visitors reside with their family and take their meals in private homes, therewith bringing only low value added to the tourist sector and specifically to the hotel and restaurant business.

The *real tourist* is the person that comes to Panama attracted by the beauty of the natural parks, the beaches, the Panama Canal, the cultural or historical monuments, etc…, and representing in theory 60% of all arrivals in Panama. But at present, a large majority of these tourists are coming on cruise lines. Cruise line tourists remain only a limited period of time in the country (generally 12 hours), and concentrate their activities close to their ports of call, concentrating also their expenditures (predominantly shopping and excursions) in that area. So it can be concluded that the number of tourists, actually entering and residing for a longer period of time in Panama City or in the Interior areas is very low, estimated for the moment below 100,000 tourists annually.

But the situation can change and a sustainable tourism industry could be developed that is no longer focused on Panama City and surroundings but also includes the Interior area, in particular Bocas del Toro and Chiriqui. The luscious mountains, variety of vegetation, unspoiled beaches and a rich folklore and heritage can become well known by the world's tourist community. To achieve this goal, IPAT started an aggressive promotion campaign, focusing pioneer travelers that are looking for new and exotic, nature-oriented destinations, in addition to tourists that search the comfort and pleasure of the cosmopolitan life[65]. Once a more coherent and better organized tourism sector is in place in Panama that covers all the beauties of the country and no longer concentrates on Panama City, the tourism sector can be highly attractive for international tourists (not only from the United States), promoting the sector from a high strength – low attractiveness position to a high strength – high attractiveness positions and therewith becoming one of the most important catalysts for future economic growth and regional socio-economic development.

[65] USD 10 million budget. conducted by the advertising firm Campagnani-BBDO.
See http://www.InternationalReports.net (operated by the Washington Times advertising department)

Communications and information technology

The communications and technology sector is growing fast worldwide, lead by innovative applications in the mobile and broadband data communications sectors and in internet and networking applications. The forecasted growth in these sectors is of 5% for 2003[66]. "The telecommunications and information technology (IT) industry is growing exponentially and trade in equipment -- even to the most remote parts of the world -- is burgeoning. … Valued at more than USD 300 billion and growing at approximately 15 percent a year, the international telecommunications equipment market is expanding at an even higher rate than the U.S. market."[67] According to the year 2000 Communications Industry Forecast[68], Internet and other new technologies made the communications industry the fastest-growing sector of the US economy from 1994 to 1999 and will allow it to maintain that lead through 2004.

Although Panama's aggressive stance on privatization has secured Panama's' position as Latin America's pioneer in the telecommunications sector, the attractiveness for foreign investors is lowered by high personnel costs, high communication costs, limited local markets, etc… The full opening of the market in 2003 could prove to be the necessary incentive to further attract foreign investments. But Panama will need to prove that its market will remain attractive also in the long-term future. It will have to provide not only the necessary economic incentives to foreign investors, but will also have to ensure top-of-the-line expertise, infrastructure (such as prepared at Howards Air Force base) and most of all, transparency in sector legislation to strengthen the sector for the future. Activities that have been identified as specific poles of attraction are call centers and regional distribution platforms for computers and computer equipment. The first investments can be identified in these fields with the recent multi-million investment by the computer manufacturer Dell, suggesting that the computer business is willing to invest in Panama.

Manufacturing and industrial production

The secondary sector traditionally performed weakly and also shows a gradual decrease in overall productivity. Some elements are a consequence of market conditions in Panama, suggesting that this sector could in general become more attractive with the right measures. For example, measures could be contemplated to reduce the high production and labor costs to compete with neighboring countries.

But for many products, external and structural market conditions make Panama a relatively unattractive country to invest in manufacturing and production. One of the important reasons is the absence of natural resources needed in the production processes. With the globalization of production, this problem could in theory be overcome by focusing on semi-production. But the

66 Telecommunications Industry Association (TIA) press release March 12th 2003.
67 TIA website market policy: see http://www.tiaonline.org/policy/regional/overview.cfm
68 The Communications Industry Forecast (CIF) is a comprehensive accounting of consumer usage and advertising spending trends across the full range of the communications industry

related logistics costs need to be less than the potential benefits generated from locating the production plant in Panama. At present, Panama cannot compete efficiently with a wide range of countries where labor and production costs are only a fraction of these in Panama. Comparing the sector distribution of Panama with the other Central American countries (see Table 2.2.12) underlines this opinion.

But there is some potential in particular related to the primary sector. For example, the excellent performance of the forestry sector and the therewith related constant growth of the wood production and manufacturing sector demonstrate that, with the right incentives, growth is also possible in the secondary sectors. Other activities such as food processing (fish, crop and meet products) have a high potential, given the availability of local resources and a high performance of primary sector in Panama.