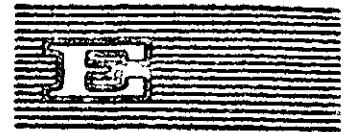


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THE INDUSTRIAL DEVELOPMENT OF PANAMA

prepared by the  
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## EXPLANATORY NOTE

Resolution 250 (XI) of 14 May 1965, adopted by the Economic Commission for Latin America (ECLA) at its eleventh session, requested the Latin American Governments "to prepare national studies on the present status of their respective industrialization processes for presentation at the regional symposium". With a view to facilitating the task of the officials responsible for the national studies, the ECLA secretariat prepared a guide, which was also intended to ensure a certain amount of uniformity in the presentation of the studies with due regard for the specific conditions obtaining in each country.

Studies of the industrial development of fourteen countries were submitted to the Latin American Symposium on Industrial Development, held in Santiago, Chile, from 14 to 25 March 1966, under the joint sponsorship of ECLA and the Centre for Industrial Development, and the Symposium requested ECLA to ask the Latin American Governments "to revise, complete and bring up to date the papers presented to the Symposium".

The work of editing, revising and expanding the national monographs was completed by the end of 1966 and furthermore, two new studies were prepared. The ECLA secretariat attempted, as far as possible, to standardize the presentation of the reports, in order to permit comparison of the experience of the different countries with regard to specific problems, particularly in the field of industrial policy.

The national studies on industrial development, to be presented at the International Symposium relate, in alphabetical order, to the following countries: Argentina, Bolivia, Brazil, Central America, Chile, Colombia, Cuba, Ecuador, Guyana, Mexico, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela.

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## I. BRIEF HISTORY

Between 1950 and 1965, gross national product increased at a cumulative rate of 5.5 per cent: from 276.7 million to 614.8 million balboas, expressed in balboas at 1960 values. Over the same period, the gross product of manufacturing industry increased at a cumulative rate of 10.0 per cent, from 23.5 million to 97.7 million balboas, in balboas at 1960 values.

However, the rather dynamic growth of the industrial sector was somewhat irregular and may be divided into three periods, in each of which industry assumed different characteristics.

Table 1

### PANAMA: GROWTH RATES OF GROSS NATIONAL PRODUCT AND OF MANUFACTURING SECTOR PRODUCT

(In percentages)

Periods	Gross National Product	Manufacturing Sector Product
1950-1955	3.6	6.5
1955-1960	5.0	9.7
1960-1965	7.6	12.4
1950-1965	5.5	10.0

Source: Government Department of Statistics and Census.

Prepared by: Department of Programming.

#### 1. 1950 to 1955

The post-war period brought with it excellent opportunities for development of the manufacturing industry, owing to the great demand for manufactured products which arose as a result of the removal of restrictions on manufactured consumer goods, and of the considerable amount of monetary reserves held in the country. However, this demand was satisfied chiefly by imported goods, and it was not until the end of the 40's, when balance of payments problems and the need to reduce Panama's dependence on economic

/transactions in

transactions in the Canal Zone, that steps were taken towards the setting up of a series of import substitution industries which would also provide sources of employment.

Decree/Law No. 12 of 1950 formed part of the strategy of import substitution by offering financial incentives to promote capital investment. While it was in force, contracts to 68 enterprises were granted.

During the period under consideration, the manufacturing sector experienced an annual growth of 6.5 per cent; the greatest increases within the sector were registered in industries which had in the past been among the more important, such as the manufacture of food products, which increased by 67.3 per cent; chemical products, with an increase of 52.8 per cent, and sawmill and other wood products with a 57.1 per cent increase. Certain other manufacturing industries were established, such as metal products and tobacco.

## 2. 1955 to 1960

During this period, two factors contributed towards the growth of the manufacturing sector. The first was the Remón-Eisenhower treaty, which prohibited Panamanians who worked in the Canal Zone, but who were resident in Panama, from making purchases in Canal Zone stores, and the second was the publication of Law No. 25 of 1957, concerning the promotion of production, which replaced Law No. 12 of 1950.

The effect of the above treaty was to increase the consumption of national goods by nearly 7 million balboas during the period 1957-1958. Sales of consumer goods in the Canal Zone stores fell by 10 million balboas from 1956 to 1958, and national production managed to supply 70 per cent of the consumption of these goods.

Law No. 25 is similar to Law No. 12, but it excluded some concessions; it also contained import-duty exemptions for machinery, equipment, and raw materials.

During this period, the Centre for Industrial Development was formed as a part of the Institute for Economic Promotion. Its task was the preparation of practicability surveys for the setting up of new industries, labour training, and industrial promotion.

/These facts

These facts enabled the accumulative growth rate to reach 9.7 per cent, compared with the 5.0 per cent rate for the gross national product.

The sector's gross national product went up by 64.1 per cent, an increase which differed in characteristics from the one registered in the first period: the most dynamic industries were tobacco, furniture, paper and rubber products, metals and chemicals. The least dynamic were beverages, printing, sawmill products, and food products.

### 3. 1960 to 1965

The gross national product of the manufacturing sector increased at an accumulative rate of 12.4 per cent, from 54.5 million to 97.7 million balboas, during this period, while the gross national product increased at a rate of 7.6 per cent, from 418.0 to 614.8 million balboas.

The period was characterized by some heavy investments in the years 1960 to 1963, such as the installation of a petroleum refinery, an increase in the capacity of cement manufacture, establishment of a new brewery and of several other processing industries.

Another characteristic was the increase in sources of finance for industry. The National Bank expanded its industrial loans department and formed a private bank for industrial development (DISA) with contributions from national investors and from AID. Private enterprise also founded the Panamanian Institute for Development (IMPADE), which acts in conjunction with the Centre for Industrial Development.

In this third period, the most dynamic industries were the manufacture of paper products, metal products, furniture and accessories, and food products. The only item which did not register satisfactory growth was the manufacture of footwear and garments.

However, in spite of the rapid growth of the manufacturing sector, certain facts have arisen which blurr the image of continuity and of dynamic expansion. Because of the reduction in the country's economic activity as a result of the January 1964 crisis, the industrial sector slowed down the rate of development it had been registering and showed an increase of only 5.7 per cent over the preceding year. Although the economy as a whole reacted favourably and managed to regain the rate of growth of

/previous years.

previous years, the industrial sector in 1965 increased by a mere 6.8 per cent over its 1964 figure. In other words, during the first three years of this period the industrial sector grew at a faster rate than that of the national economy, but the reverse was the case for the last two years of the period.

The industries aimed at import substitution, and that of food products in particular, satisfy demand almost completely. Moreover, the growth rate of the economy with the consequent increase in per capita income, and the programme of public investment, will tend to counteract these adverse tendencies and will help to maintain the sector's growth rate.

## II. RELATIVE IMPORTANCE, STRUCTURE, AND GENERAL CHARACTERISTICS, OF THE MANUFACTURING INDUSTRY

### 1. Gross product of the manufacturing industry in relation to gross national product

One of the characteristics of the manufacturing sectors is the intense development it underwent between 1950 and 1965 in terms of its share in the gross national product. It must be mentioned, however, that this development corresponds to a very low initial level of industrialization.

Over this fifteen-year period, manufacturing industry was the most dynamic sector in the Panamanian economy. In 1965, industrial product reached 97.7 million balboas,<sup>1/</sup> compared with 23.5 million <sup>1/</sup> in 1950. The total increase for the period was 315.7 per cent, which is equivalent to an accumulative annual growth rate of 10.0 per cent, higher than the rate attained by any other economic sector, and higher than the growth rate of the gross national product, which was 5.5 per cent (see table 1).

The accelerated growth rate of manufacturing between 1950 and 1965 enabled this sector to increase progressively its share in the gross national product, as can be seen from the changes which have taken place in the structure of the latter in Table 3. In 1950, the manufacturing sector was in sixth place in order of importance, with a share of 8.5 per cent. In 1965, its share had risen to 15.9 per cent, the sector having moved into second place with only agriculture and farming providing a greater percentage.

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<sup>1/</sup> Figures given in 1960 prices, unless otherwise stated.



Table 2

PANAMA: GROSS NATIONAL PRODUCT AT MARKET PRICES, DIVIDED INTO ECONOMIC SECTORS  
WITH ANNUAL GROWTH RATES, 1950-1964 a/

(In millions of balboas at 1960 values)

Sector	1950	1955	1960	1965 b/	Increase 1950-1965	Growth rates (percent- ages)
<u>Total</u>	<u>276.7</u>	<u>324.1</u>	<u>418.0</u>	<u>614.8</u>	<u>122.2</u>	<u>5.9</u>
Agriculture, livestock, forestry and fishing	74.5	86.0	95.7	126.3	69.5	3.6
Mining and quarrying	0.6	0.9	1.1	1.9	216.7	8.0
Manufacturing industry	23.5	32.2	54.5	97.7	315.7	10.0
Construction	10.6	13.5	22.9	32.7	208.5	7.8
Electricity, gas and water	3.2	4.5	8.4	14.6	256.3	10.7
Transport, warehousing and communications	10.0	13.4 c/	21.5	36.1	161.0	9.0
Wholesale and retail trade	34.9	40.2	57.9	89.2	155.6	6.6
Banking, insurance, real estate, and other financial establishments	4.5	6.2	10.3	17.0	277.8	9.3
Housing	23.3	27.2	34.5	42.4	82.0	4.1
Public administration	6.7	7.3	11.4	14.2	111.9	5.1
Public and private services	45.1	58.5	69.4	89.2	97.8	4.6
Services rendered to the Panama Canal Zone	39.8	33.2	30.4	53.5	34.4	6.0

Source: Government Department of Statistics and Census, and Department of Programming.

a/ Provisional figures.

b/ Includes the gross product of the Free Zone of Colón.

c/ Refers to real salaries.

Table 3

PANAMA: PERCENTAGE OF GROSS NATIONAL PRODUCT AT MARKET PRICES, PER ECONOMIC SECTOR

Sector	1950	1955	1960	1965
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Agriculture, livestock, forestry and fishing	26.9	26.5	22.9	20.5
Mining and quarrying	0.2	0.3	0.3	0.3
Manufacturing industry	8.5	10.2	13.0	15.9
Construction	3.8	4.2	5.5	5.3
Electricity, gas and water	1.2	1.4	2.0	2.4
Transport, warehousing and communications	3.6	4.1	5.1	5.9
Wholesale and retail trade	12.6	12.4	13.9	14.5
Banking, insurance, real estate, and other financial establishments	1.6	1.9	2.5	2.8
Housing	8.4	8.4	8.3	6.9
Public administration	2.4	2.3	2.7	2.3
Public and private services	16.3	18.1	16.6	14.5
Services rendered to the Panama Canal Zone	14.4	10.2	7.3	8.7

In spite of the relatively rapid growth of industry during the fifteen years under consideration, its importance within the Panamanian economy is still of small proportions, and far lower than the relative level attained by industry in countries with a similar economy, or even in Latin American countries with a lower per capita income.

2. Employment in industry, in relation to total working population

Panamanian statistics measure labour in terms of the total working population, which includes persons over 10 years of age who are working, or looking for work.

Both in 1950 and in 1960, the working population amounted to a little more than 30 per cent of the nation's total population; 264,619 persons made up the working population in 1950, and 336,969 in 1960, giving an annual growth rate of 2.4 per cent for the ten-year period.

In 1950, the number of persons actually employed was 241.1 thousand, which was 91.3 per cent of the working population. In 1960, the number of employed was 299.4 thousand, representing 88.8 per cent of the working population. This small increase in the number of employed persons - an annual rate of 2.2 per cent for the period - was lower than the growth rates registered in the working population and in the nation's total population over the same period.

Between 1950 and 1960, the manufacturing sector was fourth in importance as far as direct employment of manpower is concerned. This sector employed 18,082 persons in 1950, and 22,079 persons in 1960, figures which represented 7.5 per cent of the actually employed population in 1950, and 7.4 per cent in 1960. (See table 4.)

Table 4  
 PANAMA: EMPLOYMENT OF PERSONS PER ECONOMIC SECTOR <sup>a/</sup>  
 (In thousands)

Sector	1950		1960		1964	
	Total	Percent age	Total	Percent age	Total	Percent age
<u>Total</u>	<u>241.1</u>	<u>100.0</u>	<u>299.4</u>	<u>100.0</u>	<u>354.0</u>	<u>100.0</u>
Agriculture, forestry, hunting and fishing	131.8	54.7	153.0	51.1	171.0	48.4
Mining and quarrying	0.4	0.2	0.4	0.1	b/	-
Manufacturing industries	18.1	7.5	22.1	7.4	32.0	9.0
Construction	6.6	2.7	9.3	3.1	12.0	3.4
Electricity, gas, water and services	1.2	0.5	1.5	0.5	2.0	0.6
Commerce	19.8	8.2	27.5	9.2	35.0	9.9
Transport, warehousing and communications	6.7	2.8	8.6	2.9	9.0	2.5
Services	37.6	15.6	58.6	19.6	72.0	20.3
Panama Canal Zone	18.0	7.5	16.3	5.4	20.0	5.6
Miscellaneous	0.8	0.3	2.2	0.7	1.0	0.3

Source: General summary of population, 1950 and 1960 censuses and 1964 Manpower Survey.

a/ Population of 10 years of age and over, excluding indigenous population.

b/ The figure is greater than zero but less than 501.

While employment in industry increased at an average rate of 2.0 per cent in the period 1950-60 (a lower annual rate than was registered over the same period in the growth of the working population and of the population actually employed), unemployment increased at an annual average rate of 4.8 per cent from 23,515 persons in 1950 to 37,583 in 1960 - representing an increase in unemployment from 8.7 per cent to 11.2 per cent. These figures are much more serious in view of the fact that in the cities of Panamá and Colón, where almost half of the nation's working population is concentrated, the number of unemployed persons represented 14.5 per cent of the population resident in those cities, and 60 per cent of the total unemployed in the country.

There are reasons for believing that the unemployment situation has become less serious since 1960. According to the results of the labour surveys of 1963 and 1964,<sup>2/</sup> the total of actually employed persons in 1964 was 354.0 thousand, or 93.7 per cent of the working population. The increase was registered at an annual rate of 4.3 per cent, which was higher than the 3 per cent rate of increase in the working population between 1960 and 1964. As a consequence, the level of unemployment which was 11.2 per cent in 1960, fell to 6.3 per cent in 1964. However, the bulk of the unemployed population is still concentrated in the Metropolitan Region<sup>3/</sup> where, it is estimated, three quarters of the 24,000 unemployed persons registered in 1964 reside, in spite of the fact that the level of unemployment in the region dropped from 14.5 per cent in 1950 to 9.9 per cent.

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<sup>2/</sup> The surveys of 1963 and 1964 are not, in fact, strictly comparable with the results of the population census of 1960. For example, the category of "under-employed" was introduced in the surveys, but was not considered in the 1960 census. This means that some of the persons classified as unemployed in the census were classified as under-employed in the surveys. In spite of this lack of uniformity, a quick comparison of the two enables useful conclusions to be drawn.

<sup>3/</sup> The Metropolitan Region comprises the principal districts of the Provinces of Panamá and Colón, districts in which 95 per cent of the population of the two Provinces is concentrated.

If the structural changes which have taken place in employment of manpower over the period 1960-1964 are examined, it will be seen that the industrial sector in particular has absorbed an extremely high proportion of the increase in the working population: of an increase in the country's working population amounting to 41,000 persons, approximately 10,000 were employed in the manufacturing industry. The setting up of industries such as the petroleum refinery, corn mill, match factory, the expansion of the cement plant, a new brewery, and several processing industries, are examples of installations which have helped to create new jobs and have eased the problem of unemployment in Panama.

### 3. The industrial structure of Panama in 1964

According to the results of the manufacturing industry's Annual Survey, carried out by the Government Department of Statistics and Census, the gross value of production reached 183.4 million balboas in 1964. Table 5 shows the distribution of the gross value among the different branches of industry.

Food-producing industries occupy the first place, providing around 32 per cent of the gross value of production, followed by beverages, which provided 11 per cent. The relative importance of beverages is mainly due to the large-scale development which has taken place in the beer industry, which is at present one of the biggest industrial enterprises in the country, both for the amount of capital involved and for its amount of sales.

The next in order of importance of value of production are non-metallic mineral products, and the footwear and garments industries, which provided 5.7 per cent and 4.7 per cent of total value of production respectively.

In 1961, the main characteristic of industry in Panama was the concentration of manufacturing on a few lines of production.<sup>4/</sup> However, it appears that this situation has been changing for the better in the last two years. A brief look at the structure of industry in 1964 shows that some diversification took place since 1961 because of new lines of production which opened up, such as petroleum derivatives,<sup>5/</sup> which provided 22 per

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<sup>4/</sup> Approximately 53 per cent of the total gross value was produced by the four industries already mentioned.

<sup>5/</sup> Included under the heading "Miscellaneous Industries".

cent of the value of production and accounted for approximately 50 per cent of the increase in total gross value, and because of increased development in existing industries.

#### 4. Industrial investment in relation to total gross investment

Conditions which prevailed following the close of the Second World War were highly important factors in the increase experienced in total gross investment in the period 1945-1947, since ready use was made of the capital which had accumulated during the war. The years immediately after 1947 however, were characterized by a reduction in the nation's economic activity when these capital reserves became exhausted. As a consequence, the level of investment, which was abnormally high in 1947, gradually diminished in the following years until it reached a value of 34.4 million balboas in 1951; it was in this year that a period of economic recovery began.

In the years 1951 to 1963, development of the manufacturing sector was subject mainly to national influences, outstanding among which was the policy of incentives carried out by the National Government. Such measures played an important part in domestic capital build-up in the sector.

As shown in table 6, gross investment in industrial equipment increased from 5.5 million balboas in 1951 to 20.8 million in 1963 - a total increase of 278.2 per cent - while total gross investment went up from 34.4 million to 107.7 million balboas over the same period, with an increase of 213.1 per cent.

#### 5. Characteristics of foreign trade with relation to the manufacturing sector

Until 1950, there had been periods of marked fluctuation in the amount of the nation's imports and exports because of external and internal pressure caused by the war's boom-and-slump effect on international trade.

The years 1950 and 1951 can be said to represent the beginning of Panama's period of economic recovery. The years immediately preceding these had been characterized by poor conditions as a result of the drop in foreign demand. Imports and exports, which had reached exceptionally high levels in 1946 and 1947 due to the normalization of international sea transport, and to the accumulated needs of the nation during the war years, were reduced when the wartime monetary reserves became exhausted.

Table 5  
 PANAMA: GROSS VALUE OF INDUSTRIAL PRODUCTION PER INDUSTRY, YEARS 1961 AND 1964  
 (In thousands of balboas)

Industry	Gross value of production	
	1961	1964
<u>Total</u>	<u>102.2</u>	<u>183.4</u>
Food products	41.1	58.9
Beverages	14.2	20.2
Tobacco	5.1	7.9
Footwear and garments	6.9	8.6
Wood and cork	2.9	2.9
Furniture and accessories	3.4	4.2
Paper and paper products	2.4	6.3
Printing and affiliated industries	4.6	6.3
Leather	0.9	1.0
Rubber	0.5	0.5
Chemical products	4.2	6.0
Non-metal mineral products	8.9	10.4
Basic-metal products	0.3	1.4
Metal products, excepting transport machinery	3.8	5.1
Non-electrical machinery	0.3	0.5
Electrical machinery	0.5	0.6
Transport machinery	1.2	1.9
Miscellaneous industries	1.1	40.5 <sup>a/</sup>

<sup>a/</sup> Includes products derived from petroleum.



Table 6

PANAMA: TOTAL GROSS INVESTMENT COMPARED WITH INVESTMENT IN INDUSTRIAL EQUIPMENT, 1950-1963

(In thousands of balboas at 1960 values)

Year	Total gross investment	Investment in industrial equipment	Investment in industrial equipment as a percentage of total gross investment
1950	41.3	9.2	22.3
1951	34.4	5.5	16.0
1952	39.3	8.2	20.9
1953	45.1	6.6	14.6
1954	46.4	8.0	17.2
1955	45.6	7.2	15.8
1956	54.2	9.3	17.2
1957	64.0	8.6	13.4
1958	63.1	9.5	15.1
1959	64.2	10.8	16.8
1960	71.1	8.4	11.3
1961	87.1	12.1	13.9
1962	96.3	15.6	16.2
1963	107.7	20.8	19.3

Source: Government Department of Statistics and Census.

(a) The nature and development of imports

The total amount of imports of merchandise went up from 95.4 million balboas in 1950 to 193.1 million in 1963 (see tables 7 and 8), which gives an increase of 104.4 per cent - an increase similar to the one registered in the gross national product over the same period. The increase in imports was made at a faster rate than the rate of increase in the population, but slower than the growth of gross product in the manufacturing sector, rates which were 46.2 per cent and 270.0 per cent respectively, between the first and last years of the period 1950-1963.

Because of the importance that quantities of registered imports of merchandise had throughout the period 1950-1963, and the lack of detailed information concerning imports from the Panama Canal Zone, this analysis will have to be limited to imports from other countries, that is to say to registered imports of merchandise.

The amount of registered imports showed a tendency to increase in the years 1950 to 1963. This was mainly due to the increase in imports of manufactured products which regularly made up 97 per cent of the total registered imports for each year of this period. It should be borne in mind that together with this increase, changes occurred in the nature of such imports.

6. Size and characteristics of manufacturing enterprises

The 1962 Industrial Census classifies the size of industrial enterprises according to the number of persons they employ.

Table 9 shows the figures relevant to the 2,053 registered enterprises. It will be seen that 483 enterprises, or 23.8 per cent of the total number of industrial enterprises, employ 5 or more persons. They employed 80.6 per cent of the total number of persons employed in the manufacturing sector, and accounted for 95 per cent of the value of industrial production. The table also shows that small-scale industries or enterprises employing less than 5 persons, made up 76.2 per cent of the total number of enterprises, providing work for only 19.4 per cent of the total employed in the sector accounting for 5.0 per cent of the sector's value of production. In general terms it can be said that Panamanian industry shows a marked contrast between the two types of enterprise. The first is made up of plants operating on a relatively larger scale, and with modern and efficient equipment, while the second type consists of an extremely high number of small establishments in which artisan production predominates.

Table 7

PANAMA: IMPORTS OF MERCHANDISE

(In thousands of balboas at 1960 values)

Type of merchandise	1963	1962	1961	1960	1955	1950
<u>Total imports of merchandise</u>	<u>193 138</u>	<u>182 949</u>	<u>145 572</u>	<u>127 258</u>	<u>107 308</u>	<u>95 450</u>
Registered c.i.f. imports	187 797	177 145	139 778	121 421	96 930	34 401
Registered imports by warehouses	434	902	1 223	1 437	...	...
Imports of ships and aircraft	153	9	247	398	0	25
Hired machinery	-28	-23	-145	-6	-38	0
Merchandise consigned to foreign Transport and Communications agencies	-1 539	-2 160	2 241	-2 378	...	...
Merchandise consigned to the Diplomatic and Consular Corps	-173	-150	-99	-33	-1 543	-1 321
Imports of water from the Panama Canal Zone	1 075	329	626	904	-57	-146
Purchases in the Canal Zone by Panamanian residents	5 300	4 925	4 417	4 483	631	562
Illegal purchases in the Canal Zone by Panamanian residents, contraband	973	984	992	1 000	10 984	11 333
Contraband: imports of non- registered merchandise	725	667	774	752	...	...
Gold coin <sup>a/</sup> merchandise consigned to foreign Transport and Communications agencies	305	389	...	...	...	...

a/ As from 1962 this merchandise was excluded from foreign-trade registers.

Table 8

PANAMA: AMOUNT OF REGISTERED C.I.F. IMPORTS, CLASSIFIED INTO INDUSTRIAL SECTORS

(In thousands of balboas at 1960 values)

Industrial category	1963	1960	1957
<u>Total</u>	<u>187 797</u>	<u>121 421</u>	<u>116 699</u>
Agriculture, livestock, forestry and fishing	6 634	3 627	2 639
Mining and quarrying	269	301	217
Crude petroleum	32 966	0	0
Manufacture of food products, excluding beverages	12 839	12 666	15 281
Beverages	952	2 040	2 606
Tobacco	1 037	2 235	2 010
Textile manufacture	9 945	8 614	4 459
Manufacture of footwear and garments	10 821	7 978	9 008
Wood industry, excluding furniture	712	573	858
Manufacture of furniture and accessories	782	790	992
Manufacture of paper and paper products	13 333	4 428	2 920
Printing and affiliated industries	1 492	1 382	1 061
Leather industry, excluding footwear	656	541	655
Manufacture of rubber products	2 910	2 442	2 222
Manufacture of chemicals and chemical products	22 438	14 528	13 402
Manufacture of products derived from coal and petroleum	4 911	11 442	9 576
Manufacture of non-metal mineral products	3 218	2 800	2 234
Basic-metal industries	5 237	4 781	2 932
Manufacture of metal products, excluding transport machinery	9 719	6 883	4 168
Machinery construction, excluding electrical machinery	13 498	7 058	12 316
Construction of transport material	12 744	12 256	6 771

Table 9

PANAMA: NUMBER OF INDUSTRIAL ENTERPRISES, SHOWING PERSONS EMPLOYED AND VALUE OF PRODUCTION ACCORDING TO SIZE OF ESTABLISHMENT - 1961

Size of industrial establishment (number of persons employed)	Industrial enterprises		Persons employed		Value of production	
	Number	Per- cent- age	Number	Per- cent- age	Balboas	Per- cent- age
<u>Nation's total</u>	<u>2 033</u>	<u>100.0</u>	<u>15 030</u>	<u>100.0</u>	<u>107 554 687</u>	<u>100.0</u>
1 - 4	1 550	76.2	2 912	19.4	5 319 787	5.0
5 - 9	191	9.4	1 284	8.5	7 321 200	6.8
10 and over	292	14.4	10 834	72.1	94 913 700	88.2

Further details of employment in the main industrial sectors can be found in table 10.

It can be seen that the average number of persons per enterprise in industry as a whole is only 7, whereas the average figure for medium and large-scale industries is 25. This reflects the enormous influence that small-scale production has on employment statistics.

The industries with the lowest figures are rubber, and footwear and garments, which employ an average of 3 and 4 persons per enterprise. The exclusion of small-scale food industries and of small-scale footwear and garments industries from the statistics given would be sufficient to increase the average number of persons employed in these industries to 25 and 27 respectively, and would increase the average of industry as a whole to 12 persons per enterprise.

Table 10

PANAMA: AVERAGE NUMBER OF PERSONS EMPLOYED PER ENTERPRISE, ACCORDING TO INDUSTRIES, 1961

Industries	Number of enterprises	Persons employed	Number of persons per enterprise
<u>Total</u>	<u>2 033</u>	<u>15 030</u>	<u>7</u>
Food products	556	4 520	8
Beverages	24	1 032	43
Tobacco	3	218	73
Footwear and garments	566	2 480	4
Saw-mills and wood products	52	788	15
Furniture and accessories	170	955	6
Paper and paper products	11	238	22
Printing and affiliated industries	57	1 014	18
Leather	46	257	6
Rubber	18	55	3
Chemical products	31	432	14
Non-metal mineral products	59	1 197	20
Basic-metal products	5	73	15
Metal products, excepting transport machinery	82	562	7
Non-electrical machinery	22	87	4
Electrical machinery	11	92	8
Transport machinery	28	408	15
Miscellaneous industries	10	114	11

Source: Based on figures issued by the Government Department of Statistics and Census.

### 7. Employment in industry

In the first part of this report, the total figures of employment for the whole of the manufacturing sector were given. In short, the Industrial Census of 1962 gave the number of persons employed in small, medium, and large-scale industries as 15,030, while the 1960 employment statistics accounted for 22,079 persons being employed in the manufacturing sector. This means, that of the total number of persons employed in industry, artisan industries employed approximately 7,000 persons, or about 32 per cent.

It was also stated that the setting up of new industries from 1960 onwards helped to increase employment in industry, and that in 1964 the sector employed some 32,000 persons. The 1964 Industrial Survey, which dealt with establishments employing 5 or more persons, gave the number of persons employed in such industries as 13,893, which represents an increase of only 2,159 persons over the 1961 figure. In other words, more than 80 per cent of the increase in industrial employment was accounted for in industries of the artisan type.

Table 11 shows, first of all, the number of persons employed in the industrial sector divided into different industries. Once again, the pronounced concentration of industry on the manufacture of food products, footwear and garments, and beverages is made evident. These three industries employed more than half the total number of persons employed in the sector. A comparison between the figures for employment and those for the value of production will show the marked differences in productivity which exist among the country's industries. The highest values of production per person were registered in miscellaneous industries, which include petroleum, followed by tobacco, beverages, basic metals, paper products, and food products. The differences in value of production per person are mainly due to the size of the respective enterprises, and to the different degrees of mechanization achieved in each industry.

Table 11

PANAMA: PRODUCTIVITY AND REMUNERATIONS OF PERSONS EMPLOYED IN INDUSTRY, 1964

Industries	Number of persons employed <sup>a/</sup>	Value of production (thousands of balboas)	Total remuneration (thousands of balboas)	Value of production per person (balboas)	Average remuneration per person (balboas)
<u>Total</u>	<u>13 983</u>	<u>183 376</u>	<u>24 493</u>	<u>13 114</u>	<u>1 752</u>
Food products	4 024	58 930	6 281	14 644	1 561
Beverages	1 190	20 221	2 415	16 992	2 029
Tobacco	217	7 920	569	36 498	2 622
Footwear and garments	1 981	8 621	2 433	4 352	1 228
Wood and cork	674	2 926	745	4 341	1 105
Furniture and accessories	590	4 223	918	7 158	1 556
Paper and paper products	398	6 343	773	15 937	1 942
Printing and affiliated industries	1 033	6 306	2 258	6 105	2 186
Leather	223	966	281	4 332	1 260
Rubber	35	484	72	13 829	2 057
Chemical products	618	5 982	1 168	9 680	1 890
Non-metal minerals products	1 267	10 423	2 394	8 227	1 889
Basic-metal products	87	1 414	139	16 253	1 598
Metal products, excluding transport machinery	560	5 097	996	9 102	1 779
Non-electrical machinery	96	503	212	5 239	2 208
Electrical machinery	66	646	148	9 788	2 242
Transport machinery	445	1 873	708	4 209	1 591
Miscellaneous industries	479	40 498	1 983	84 547	4 140

<sup>a/</sup> Refers to administrative personnel, technicians, clerks, machinists and workers under employment at the end of the months of February, May, August, and November.

/The figures



The figures giving average remuneration per person, also in Table 11, show greater uniformity among industries; nevertheless, the differences are still considerable between miscellaneous industries and tobacco, on the one hand, and footwear and garments, leather, and wood and cork, on the other.

If remuneration and productivity per person are compared in each industry, it will be seen that a relation, although not a constant one, does exist among them. For example, the industries with the highest productivity, which are miscellaneous industries, and tobacco, also have the highest average remuneration per person. However, industries with a low productivity, such as printing, and non-electrical machinery, have an average remuneration approaching that of industries with the highest productivity rates.

Another aspect of unquestionable importance in industrial employment concerns the qualifications of the persons employed. It is, in fact, an aspect of production which has a determining influence in the rhythm of industrial growth.

In spite of the importance of the problem, no complete statistical information is available which can give details of the training and qualifications of workers employed in industry.

Table 12 gives only some information on the subject: the classification of persons employed in industry as a whole, for the year 1960. The table shows that a mere 2 per cent of the total number of employed persons was in the category of "professionally qualified" or "technician". The total number of such persons - 424 - was even smaller than the number of industrial establishments in that year, giving an average of less than one professional or technician per establishment.

It would have been interesting to go into greater detail with this classification, to make an analysis of different types of job in each industry; unfortunately, there are no statistics with such information. However, this is merely part of the problem which involves the need to train labour in order to properly satisfy the growing demand required by an efficient industrialization. In view of the situation, the National Government has undertaken a vigorous programme of labour training, with the active participation of representatives of private entrepreneurial associations and of workers' unions.

Table 12

PANAMA: CLASSIFICATION OF PERSONNEL EMPLOYED IN THE MANUFACTURING INDUSTRY, 1960

	Number of persons
<u>Total</u>	<u>22 079</u>
Professionally qualified personnel, technicians, and persons in similar categories	424
Managers, administrators, and personnel in executive categories	714
Clerks, and personnel in a similar category	1 257
Salesmen, and personnel in a similar category	408
Farmers, cattlemen, fishermen, hunters, timbermen, and personnel in similar categories	381
Transport drivers, and personnel in a similar category	735
Artisans and persons employed in connexion with spinning, the manufacture of footwear and garments, carpentry, the building industry, mechanics, and graphic arts	12 254
Other artisans and workers	5 074
Workmen and labourers unskilled in other categories	291
Workers in personal services, and personnel in a similar category	311
Other workers, not specified in other categories	230

Source: Department of Statistics and Census. 1960 National Census. Volume V. Economic Characteristics.

### 8. Location of industry

The geographical concentration of the manufacturing industry is characteristic of Panama's industrial development, as can be seen in table 13.

Approximately 54 per cent of the country's industries in 1961 were located in the Metropolitan Region.<sup>6/</sup> The industries in this region employed 75.5 per cent of the personnel, and produced 75.8 per cent of the gross value of production of the manufacturing industry.

Among the many factors which have accounted for the location of industries, and which have stimulated their development in this region, the most important are undoubtedly the concentration of a great part of the purchasing power of the population, and the presence of a good transport and communications system with the main sources of imports, which make the supply of imported raw materials and intermediate products easier. Other factors are the availability of electric power and water, and the easier access to and contact with official institutions and banks.

A more detailed examination of the geographical distribution of manufacturing, concerning the type of industry carried out in certain Provinces (see table 14), shows that the majority of enterprises located outside the Metropolitan Region are those which manufacture food products, footwear and garments, those concerned with the produce of sawmills, tanneries, sugar-mills, corn-mills, milk-processing and production plants, and the manufacture of articles from textile products and leather, all activities where the principal factor for their location is the proximity of raw materials.

It is difficult to foresee the lines that location of industrial production will take in the immediate future; however, some factors appear to suggest that a certain decentralization will take place. Indeed, the progressive improvement of the transport system, the carrying out of electrification projects in the central region of the country, the rural development programme, and the establishment of industrial belts in strategically selected areas, will influence the setting up of some types of manufacturing plants in Provinces which barely form a part of the country's present industrial zone.

<sup>6/</sup> As explained in previous chapters, the Metropolitan Region comprises the majority of the districts of the Provinces of Panamá and Colón.

Table 13

PANAMA: NUMBER OF ESTABLISHMENTS IN THE MANUFACTURING INDUSTRY, NUMBER OF PERSONS EMPLOYED, AND VALUE OF PRODUCTION, ACCORDING TO PROVINCES, 1961

Provinces	Establishments		Persons employed		Value of production in 1961	
	Number	Per-centage	Number	Per-centage	Balboas	Per-centage
<u>Nation's total</u>	2 033	100.0	15 030	100.0	107 554 687	100.0
Bocas del Toro	17	0.8	47	0.3	123 575	0.1
Coolé	104	5.1	1 162	7.7	12 130 614	11.3
Colón	173	8.5	815	5.5	6 160 863	5.7
Chiriquí	393	19.3	1 510	10.0	7 275 303	6.8
Darién	16	0.8	213	1.4	841 438	0.8
Herrera	150	7.4	731	4.9	2 861 636	2.7
Los Santos	108	5.3	308	2.0	1 016 927	0.9
Panamá	935	46.0	9 916	66.0	75 353 393	70.1
Veraguas	137	6.8	328	2.2	1 790 938	1.6

Source: Department of Statistics and Census.

Table 14

## PANAMA: GEOGRAPHICAL DISTRIBUTION OF INDUSTRIES, 1961

Industries	Bocas del Toro	Coalá	Colón	Chiriquí	Darién	Herrera	Los Santos	Panamá	Veraguas	Total	Per- cent- age
Food products	8	46	23	121	8	68	58	138	84	544	27.3
Beverages			2	4		3	1	14	1	25	1.2
Tobacco			2					3		5	0.2
Textiles			1			1		1		3	0.1
Footwear and garments	7	28	48	147		19	13	288	16	566	27.8
Saw-mills and wood products		2	2	10	8	4	11	11	4	52	2.6
Furniture and accessories		4	23	28		7	3	100	5	170	8.4
Paper and paper products								11		11	0.5
Printing and affiliated industries	1	11	7	5		2	1	38	2	57	2.8
Leather		7		13		6	5	11	4	46	2.3
Rubber			2	2		1		12	1	18	0.9
Chemical products				5		3	1	22		31	1.5
Non-metal mineral products, excluding derivatives of petroleum and coal		6	4	7		8	2	27	5	59	2.9
Basic-metal products		1						5		6	0.2
Metal products, excluding transport machinery		4	11	7		5	3	46	6	82	4.0
Non-electrical machinery			3	2		1		15		21	1.1
Electrical machinery		2	18	16		6	2	72	1	117	5.9
Transport machinery		2	20	19		11	5	70	2	129	6.3
Miscellaneous industries	1	1	7	7		5	3	51	6	81	4.0
<u>Total</u>	<u>17</u>	<u>104</u>	<u>173</u>	<u>393</u>	<u>16</u>	<u>150</u>	<u>108</u>	<u>935</u>	<u>137</u>	<u>2 033</u>	<u>100.0</u>
Percentage	0.8	5.1	8.5	19.3	0.8	7.4	5.3	46.0	6.8	100.0	

Source: Based on figures of the Department of Statistics and Census.

### III. DEVELOPMENT PROJECTS AND PROGRAMMES

#### 1. Industrial programming

The economic policy of the Republic of Panama has been influenced by historical events which have made the country into a centre for the supply of its productive services to more highly developed enterprises. Since the end of World War II, however, the need arose to develop other sectors of the economy, and in view of this a series of legislative measures was introduced to promote organized economic growth. In spite of such measures, national economic policy is based on aims which are characteristic of a country devoted to the collection of revenue obtained commercially from importation and re-exportation, services, and taxation which adversely affects consumption.

The nation's economic policy should be designed so as to take full advantage of its resources. Its geographical position is the most important resource, but one which has not been efficiently exploited. This does not mean that sectors like agriculture and industry are to be neglected, on the contrary, the development of Panama should be based on the optimum combination of resources.

In the 40's Law No. 77 of 1941 was published, which created the Agricultural and Industrial Bank of Panama, with the aim of "promoting the development of agriculture, livestock, poultry, apiculture, and other small-scale industries". This bank became concerned almost exclusively with agricultural development, and played no major part in setting up or financing manufacturing enterprises.

Because of the country's economic setback resulting from the reduction of operations in the Canal Zone, the Government realized the need to promote the industrial development of the country. It was no longer possible to think in terms of a free-exchange economy, and the need was seen to protect the country's budding manufacturing industries.

The legislative instrument which was to put this new line of economic thought into operation was Decree/Law No. 12 of 1950, which stimulated capital investment in the exploitation of natural resources and in the setting up of industries concerned with agriculture and livestock, and certain other industries of benefit to the economy.

/The main

The main tax incentives granted under Decree/Law No. 12 were:

- (a) exemption from import duty on machinery, equipment, spare parts, fuels, and raw materials;
- (b) exemption from exportation taxes;
- (c) tariff protection for competitive products;
- (d) the stabilization of income tax for the duration of the contract, and
- (e) exemption from taxes on installation, production, or sales.

The concessions were granted for a maximum period of 5 years.

This initial effort at promoting industrial development had serious shortcomings; concessions were granted haphazardly. However, once one enterprise had been granted concessions, these were also granted to any other enterprise in the same branch of industry which had similar conditions and would assume the same obligations. According to the contracts enterprises had to sell their products in the country at prices which did not exceed those agreed upon with official organizations, to employ preferably Panamanian labour, and to give preference to the use of national raw material.

Decree/Law No. 12 was in force until February 1957, by which time contracts had been granted for the setting up of enterprises in 68 cases, of which 38 received tariff protection.

In 1957 Decree/Law No. 25 was published. This Decree contains basically the same incentives as did its predecessor, with the difference that the period of validity of concessions is reduced to 15 years, and income tax concessions are withdrawn, except in the case of tax on income arising from exports as long as natural resources are not being exported. Decree/Law No. 25 guarantees the right of any enterprise with equal conditions to obtain the same tax concessions granted to one enterprise. This clause has been legally interpreted as meaning that stabilization of income tax granted under Decree/Law No. 12 of 1950 must be granted to any enterprise in similar conditions for a period equal to the length of time remaining in a contract already in force. In this way, many enterprises have obtained stabilization of income tax for periods of more than 15 years since 1957.

/Although Decree/Law

Although Decree/Law No. 25 does lay down certain norms for selection, they are very wide in scope and have not been given force of law, with the result that the Executive still has ample power to discriminate and has no definite pattern to follow in granting tax benefits. Consequently, there is no process of evaluation, and the ambiguity of criteria does not lend itself to an efficient selection system.

Such a situation permitted a number of previously-established enterprises to resort to the concessions contained in this Law. It is obvious that if these enterprises had been profitably operated in the past, they would not have had to seek government tax benefits to continue in operation.

The number of weak points in Decree/Law No. 25 of 1957 has given rise to the need for reform, and for this purpose the government has obtained United Nations help in drawing up a law to eliminate the principal shortcomings of this Decree/Law and to forge it into an effective instrument for the promotion of industrial development. However, there are serious differences of opinion with regard to the role that tax incentives must play in the process of development.

Doctor Sol L. Descartes, a United Nations expert who studied the situation in Panama, referring to the nation's economic development said: "It was also agreed that in this vast and balanced economic development programme, tax incentives could play an important part; but it was recognized that it would be a secondary role, although an important one within its field. It was also recognized that one of its chief merits would be to start the nation off on the path of economic development and of industrial expansion, particularly in the private sector. Tax incentives had their limitations but were considered necessary and useful in the hard task of achieving economic growth which is set out in the programme of economic and social development".

Doctor Descartes is not the only expert who has expressed his doubts concerning the importance of tax incentives. In the Fiscal Survey of Panama, prepared by the Fiscal Mission to Panama of the OAS/IDB Joint Tax Programme the following statement can be found:<sup>7/</sup> "Although the

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<sup>7/</sup> Fiscal Survey of Panama, page 224.



granting of tax incentives to stimulate development (particularly industrial expansion) is widespread in under-developed countries, such concessions are looked upon with little enthusiasm by many professional experts. To begin with, the effectiveness of tax incentives is questionable. There can be no doubt that investment is influenced by multiple factors, such as the importance of the market and the cost and availability of labour in general. Among the factors which encourage investment, tax concessions are considered to be of marginal importance, and cannot take the place of well-planned promotion programmes, the availability of cheap capital, and the development of economic infrastructure in the form of roads, water and power supplies, and labour training. Considering these, and other requirements for development, all that can be said in favour of tax concessions is that they can express a government's determination to promote and stimulate private enterprise, and can be used to overcome certain obstacles to investment. To a certain extent, tax concessions also possess psychological attraction for businessmen beyond their real value".

Apart from the reform of Law No. 25 of 1957, the government has planned few changes in its industrial development policy. Industrial loans have been stepped up through an IDB loan to the National Bank; services to enterprises have been improved in the fields of labour training and industrial relations, and investments in industrial parks are planned. However, these individual measures are not part of an integral plan for industrial development. The Government Department of Programming, conscious of the extreme importance of an Industrial Development plan as an urgent requirement for the nation's economic development, has decided to begin preparing an Industries Plan which would cover every single need of the industrial sector and would be within the limitations imposed on the Government by the nature of Panama's economy, a rational vehicle for the promotion of the industrial sector.

2. Organization with executive responsibility in industrial development

The Panamanian Government has followed a policy of little direct intervention with industrial development. However, the government is well aware of the need to provide a basic structure of development in order that private enterprise may operate efficiently and also recognizes that private enterprise needs a number of services that the Government can give. The government has therefore made use of the National Economy Council, the National Department of Industry, and the Centre for Industrial Development and Productivity of the Ministry of Agriculture, Commerce, and Industry as vehicles for supplying the services required by the private sector.

(a) The National Economy Council

The Council is the government organization in charge of studying or investigating every aspect of any general or particular problem which affects or which may affect the nation's economy, with a view to advising the Executive and Legislative Body on the situation and development of the National Economy.

The Council is made up of five principal members with their respective substitutes, and a General Secretary who attends Council meetings with only speaker's rights.

The members are nominated by the Executive for a period of 2 years, and must be persons with knowledge and experience in agriculture, commerce, industry and finance.

One of the more important specific functions of the Economy Council is to approve the tax-exemption contracts of companies applying for concessions under Law No. 25 of 1957. In such cases the Council consults the Industrial Development Centre and the Presidential Department of Programming before announcing its decision.

(b) The National Department of Industry

This is a department of the Ministry of Agriculture, Commerce, and Industry with a legal basis established under Law No. 25 of 1957, and Decree No. 122 of May 14, 1963. Its functions can be summarized as follows:

/(1) to

(i) to study, in view of the contracts, applications for import permits for machinery, raw materials, equipment, etc.;

(ii) to study and to transact applications for new contracts until final approval;

(iii) to keep a register of all concessions granted to companies;

(iv) to carry out physical inspections and investigations of companies who cancel their contracts or cease operating for one reason or another, in order to ensure that the Law is being complied with, and

(v) to carry out tests and laboratory analyses and classify objects or materials which may be indispensable to the operation of machines or factory equipment of companies with contracts.

(c) The Centre for Industrial Development

This organization began operations on April 9, 1956 as the result of an agreement between the Institute for Economic Promotion (IFE) and the Institute of Inter-American Affairs, under the name "Economic Co-operation Agreement", and included the Inter-American Service for Co-operation in Economic Promotion (SCIFE). It was based on the General Agreement for Technical Co-operation of May 11, 1954, signed by the Governments of Panama and the United States. On December 31, 1960, when the April 9 resolution was considered at an end, the Centre for Industrial Development became an integral part of the Institute for Economic Promotion until March 1, 1963, when it was incorporated into the Ministry of Agriculture, Commerce, and Industry in accordance with article 4 of Law No. 57 of February 4, 1963 (Budgetary Law).

As a result of Law No. 17 of December 31, 1964 (Budgetary Law), the name was changed to "Centre for Industrial Development".

Its main functions are:

(i) to carry out basic studies of economic and technical aspects for the guidance and promotion of the country's industrial development;

(ii) to carry out practicability surveys of industrial projects;

(iii) to free other official departments from handling consultations of a technical or economic nature which private enterprise or international organizations may make;

(iv) to put forward, and advise on, the criteria employed in the assessment of applications for industrial protection contracts and for loans to finance industrial projects;

/(v) to

(v) to give technical assistance to established enterprises, or to those about to be established;

(vi) to develop schemes for tapping the country's human resources, by means of labour-training programmes in the manufacturing industry;

(vii) to co-ordinate the work of standardizing industrial products, processes, and testing;

(viii) to encourage investment in Panama by means of information and reports distributed abroad; and

(ix) to advise companies on matters concerning industrial relations.

#### IV. THE PRINCIPAL INDUSTRIES OF THE MANUFACTURING SECTOR

The manufacturing sector is characterized by the absence of so-called "heavy industry", and concentrates production on certain items in transformation industries. This situation is due to the lack of national raw materials for heavy industry, and to the small market, which gives no scope for industries that operate on the basis of large-scale economies.

In the past, the most important manufacturing industries were food products and beverages, which accounted for over 50 per cent of manufacturing production at the beginning of the period considered in this report. Footwear and garments, and printing were also important, and their volume of production added to the two industries already mentioned made up over 75 per cent of production, a situation which clearly shows that Panamanian industry was almost exclusively concerned with the production of immediate consumer goods.

At the end of the period, the relative positions of these industries had changed very little, although their share of production became considerably reduced. Food products is still the most important, accounting for 32 per cent of production in the manufacturing sector, and although beverages is still in second place, its share has fallen to 11 per cent. On the other hand, the manufacture of petroleum products which was begun in 1962, accounts for approximately 20 per cent.

/Manufacturing in

Manufacturing in Panama has long been aimed at the substitution of imports of consumer goods, and the scope in this field has gradually been reduced. What is needed in the future is to direct the process of industrialization along other lines, and to begin the substitution of imports of durable and semi-durable goods, and the development of export items.

### 1. Food products

The apparent consumption of food products increased from 100.6 million balboas in 1950, to 164.3 million in 1963. The greater part of this increase was covered by national production, which increased from 84.6 million balboas in 1950, to 144.4 million in 1963, while imports went up from 15.9 million balboas to 19.9 million over the same period.

The principal foods manufactured are:

(a) Bread and Cereals, the consumption of which rose from 28.2 million balboas in 1950, to 37.1 million in 1963, while production and imports increased respectively from 26.8 million and 1.3 million in 1950, to 33.2 million and 3.9 million in 1963. A flour-mill began operation in 1964 which would supply the total national demand for this product.

(b) Meats. Meat consumption increased from 16.5 million balboas in 1950, to 26.7 million in 1963. Over the same period, national production, and imports went up from 15.2 and 1.3 million balboas, to 24.4 and 2.2 million respectively. Meat imports generally consist of tinned ham, and of certain specialities such as salami, corned beef, and others, since national livestock production is sufficient to allow for exportation.

(c) Milk, cheese, and eggs. The consumption of these products leapt from 8.6 million balboas in 1950, to 21.1 million in 1963, a situation which is due exclusively to the heavy increase in national production, which went up from 5.7 million balboas in 1950, to 19.2 million in 1963. Imports were reduced from 2.8 million balboas in 1950, to 1.97 million in 1963. This is a case where the positive effects of protection of the home industry can be seen in the rapid increase in production.

/(d) Sugar,

(d) Sugar, preserves, and confectionery. Consumption increased from 2.8 million balboas in 1950, to 8.5 million in 1963. This is another protected industry, where national production increased more rapidly than imports - from 2.3 million balboas in 1950, to 7.3 million in 1963, while imports went up from 0.5 million balboas to 1.2 million. The Panamanian sugar industry now exports to the United States the excess of its production over national consumption; imports are generally made up of high-class confectionery, and in particular chocolates and biscuits.

## 2. Beverages

The total consumption of beverages went up from 15.1 million balboas in 1950, to 24.8 million in 1963. This increase was covered completely by national production which rose from 13.1 to 23.3 million balboas, while imports fell from 1.9 to 1.4 million balboas.

(a) Non-alcoholic beverages. Consumption increased from 1.6 to 4.3 million balboas, entirely because of the increase in national production, as gaseous beverages are heavily protected.

(b) Alcoholic beverages. Consumption increased from 13.4 to 20.4 million balboas. National production went up from 11.5 to 19.1 million balboas, while imports dropped from 1.9 to 1.5 million balboas. However, this is due to a recent rise in tariffs on imported spirits, for in 1962 imports amounted to 6.8 million balboas. The national alcoholic beverages industry is now heavily protected, and only certain products are imported, such as wine, champagne, and scotch whisky; imports of spirits such as rum and gin have been substituted by national production.

Beer production has soared, mainly because of the opening of the nation's second brewery.

## 3. Tobacco

Tobacco consumption increased from 3.7 million balboas in 1950, to 8.8 million in 1963.

/In the

In the period under consideration, production went up from 0.3 to 8.2 million balboas, while imports fell from 3.3 to 0.6 million balboas. This is due to the beginning of national production in 1954, and to the heavy protection received by the industry since 1957. Imports consist of cigars, and pipe tobacco, which the country does not produce.

#### 4. Garments and other personal effects

Consumption increased from 20.1 in 1950, to 35.7 million balboas in 1963. National production went up from 8.3 to 16.3 million balboas, and imports from 11.8 to 17.4 million balboas.

(a) Footwear. Footwear consumption increased at a much faster rate than did imports: from 1.9 to 6.4 million balboas, while the increase in imports was from 1.8 to 3.1 million balboas. The national industry is at present partially protected by tariffs and import quotas; imports consist of expensive footwear.

(b) Garments. Consumption increased from 12.6 to 20.6 million balboas. The increase in imports was higher than the increase in production: the increases being from 6.2 to 10.8 and from 6.4 to 9.8 million balboas respectively. Imports consist mainly of ladies' garments, although in 1964 certain protected industries were set up which will eventually reduce the dependence on imports.

(c) Other personal effects. Consumption varied irregularly and, was largely accounted for by imports. Watches and jewelry were the main import items, being articles which are not produced locally, with the result that imports may be expected to increase.

(d) Furniture, accessories, and household goods. Consumption of furniture and accessories was trebled, rising from 3.8 to 13.0 million balboas. This was due to the heavy increase in national production, which went up from 0.6 to 7.7 million balboas while imports increased from 3.3 to 5.3 million balboas. The Panamanian furniture industry has progressed immensely, and imports consist chiefly of carpets, pianos, lamps and metal furniture.

## V. POLITICAL MEASURES FOR DEVELOPING INDUSTRY

### 1. Tariff protection

Import tariffs are fixed by Law N° 25 of 1957, which replaced the tariff rates fixed by Law N° 49 of 1934 and the many partial reforms it has undergone over the years.

While the 1957 tariff law was being drawn up, it was understood that it could not be a mere instrument of industrial policy, and much less an instrument which would act only as a source of government revenue. Because of the country's economic situation and the need for an organized economic development, tariffs were considered to be useful markers for the nation's economic growth. Since 1957, certain changes have been made according to the needs of the country's changing economic situation.

The characteristics of import tariffs are:

(a) Classification and nomenclature: the most modern methods of tariff classification and nomenclature are used, following the systems and recommendations of specialized international organizations. The new tariff is geared to the standard classification for international trade drawn up by the Inter-American Institute of Statistics for United Nations use, and follows the recommendations of the Economic Commission for Latin America as presented in the Central American Standard Tariff Nomenclature (NAUCA).

(b) Standardization and simplification: with the aim of making tariff administration simpler, rates have been standardized and simplified, thus making payment easier.

(c) Combination of taxes: because of the unusual situation prevailing at the time of the reform, with a double customs duty in the form of an importation tax and of consular duties, the new tariff combined these taxes into one. This combination simplifies tariff handling and payment.

(d) Concessions for raw materials and semi-processed products: In order to step up the development of industries which process these goods, low-rate tariffs are applied to raw materials and semi-processed products which are not produced in the country and which are used in industry.

/(e) Granting



(e) Granting of incentives to enterprises and individuals without contracts: normally, a small-scale entrepreneur does not have a protection contract, and to encourage this type of industry the tariff law reduces considerably the duties on machinery, spare parts, and other implements of work.

(f) Protection and backing of national production: tariffs offer state protection to agricultural, livestock, and industrial production. In some cases, the level of protective tariffs has been changed where it was considered excessively high, since this was often responsible for high prices among national products - a situation which adversely affected the consumer, and which prolonged the life of notoriously inefficient enterprises.

(g) Articles for the tourist trade: the tourist flow to Panama is extremely important as a source of foreign currency and of employment. Rates on articles generally sold to tourists and travellers have always been kept low in order to attract tourists.

(h) Luxury articles: tariff rates are high on luxury articles which are not subject to re-exportation or sale to tourists. Low taxes have therefore been maintained on articles which belong to the field of international trade and provide a source of foreign currency through re-exportation, while tax is high on luxury articles which are not sold abroad or in the Canal Zone and which are acquired mainly by Panamanians or residents in Panama.

(i) Essential articles: low taxes have been applied to essential articles which are not produced in the country. Low rates, for example, have been fixed on food products not produced in Panama, medicines, and cloth.

The new tariff tends, therefore, to increase the rates on luxury articles consumed exclusively by Panamanians, and on those produced in the country, while taxes on capital goods, labour goods, and raw materials are kept low.

This is done with the aim of stimulating industry by making consumption cheaper, and at the same time offering a protected market.

/In some

In some cases, protection has undoubtedly been too great, with the result that prices for the consumer have been high, since the manufacturer has an ample margin to increase prices, but there can be no doubt that it has aided the production of certain goods which would not have appeared on the home market if they had not been given the necessary protection.

Import duty is waived, or considerably reduced, on certain goods which are considered of prime importance in promoting industrial development. Such is the case with raw materials which are not produced in Panama, and which are used in producing manufactured articles; chemical products, and capital goods.

Law N° 25 grants to enterprises which come under its jurisdiction, exemption from payment of any type of duty, rights, or tax whatsoever, which is or may be levied on:

(a) the importation of machinery, equipment, and accessories, or spare parts for their maintenance; mechanical apparatus or instruments used in manufacturing; laboratories or company buildings intended for manufacturing, maintenance, and warehousing;

(b) the importation of fuels and lubricants for use or consumption in manufacturing;

(c) the importation of containers and raw materials which are not produced in the country or not produced in sufficient quantities to satisfy the company's demand, and at prices which guarantee a company a reasonable profit without making the consumer pay a price that is considered excessive by competent official organizations.

The exemptions, concessions, and protection offered are subject to certain exceptions and conditions:

(a) exemption on petroleum and on alcohol is excluded;

(b) the company must commit itself to using national raw materials, and may only use foreign raw materials when national sources do not supply sufficient quantities for the manufacture of the company's products. In such cases the authorization of the relevant official department is required, and the amount imported is limited to the exact quantity necessary to cover the particular requirement;

/(c) the

(c) the Government reserves the right to import or authorize the importation of any foreign article similar to those produced by a company operating under this Law, on condition that such a step were necessary to supplement the national demand when national companies fail to satisfy it. Merchandise, articles, and materials which could be put to different uses from those specified in the contract, and which are not indispensable for the operation of machinery or plants or which are available in the country at a reasonable price, are not subject to concessions;

(d) no concessions are granted on the importation of raw materials and articles which, in the opinion of the Ministry of Agriculture or its delegate, are similar to, or by-products of, raw materials or articles which are produced in the country in commercial quantities and which may replace foreign products satisfactorily.

Law N° 25 includes other clauses which concern capital, but these will be dealt with when studying government incentives to industrialization.

## 2. Methods of applying concessions and protection

The procedures concerning concessions and protection for companies under the jurisdiction of Law N° 25 of 1957 are as follows:

(a) The application for duty-free importation is made in writing by the company to the Ministry of Finance and Treasury, and specifies the objects to be imported and the use to which they will be put. The Ministry then considers the application with regard to the regulations in force and the terms of the contract, and comes to a decision within a minimum period of fifteen days. Once the application is approved, the Ministry grants the company permission to import the articles or merchandise free of duty.

(b) When the goods arrive, the company presents the import permit to the Ministry of Finance and Treasury which, within three working days, then authorizes the Customs officials to waive the duty on the goods stipulated in the import permit.

(c) When the application concerns treasury protection, the Ministry of Agriculture or its delegate will first require that the Programming and Economic Advisory departments give their approval, and when this has been obtained, the Ministry forwards the case, together with its own

/comments, to

comments, to the Executive Body for the final decision. Applications are normally dealt with quickly, but there have been cases, particularly when the approval of the Ministry of Agriculture is required, of unnecessary delays. For this reason, some companies which come under protection of Law N° 25 prefer to make no application for exemption in urgent cases, and pay the relevant tax in exchange for quickness in the transaction.

The tariff and its subsequent changes must be approved by the Legislative Body, a fact which considerably reduces tariff flexibility as a means of confronting changes in economic conditions.

In 1953, a Tariff Commission was formed with the task of preparing the tariff to replace the one established under Law N° 49 of 1934 and its subsequent modifications. The Commission worked for more than four years in the preparation of a tariff project that would receive legislative approval, and which became Law N° 25 of 1957.

The process is obviously long and complicated, and hinders the setting up of a flexible tariff which would permit immediate changes in response to fluctuations in the international-trade situation, or in the requirements of national industry. What is needed, therefore, is an instrument which can be rapidly adjusted to unforeseen economic changes.

### 3. Effects of the protectionist policy

To a great extent, the Republic of Panama depends on collection of import duty to finance public expenditure, and at the same time uses customs tariffs and import quotas as a means of protection to promote industrial development.

It is difficult to calculate the real influence that protectionist tariffs have on increase in production. It is logical to think that increased prices of imported products would cause them to be replaced by national goods. This has been the case, for example, in the period 1953-1961 in which imports of certain goods were reduced considerably: margarine and butter, by 57 per cent; tobacco products by 63 per cent; footwear by 9 per cent; milk, eggs, and honey, by 15 per cent; and oils and fats by 17 per cent.<sup>8/</sup>

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<sup>8/</sup> Fiscal Survey, pp. 149 and 150.

Protectionist tariffs have generally caused monopolies which do not produce at full capacity, and whose average costs are higher than those of the same product produced abroad. These inefficiencies of the monopoly system can be removed by setting up new enterprises within the industry.

Statistics show that the production of certain protected articles has been stepped up; this is the case with sugar, salt, livestock, tinned milk, and tomato production. Similarly, the aggregate value of protected industries increased satisfactorily, although in some industries the increases were smaller than the increase in gross national product.

The use of tariffs to promote industrial development has apparently had no great effect on the level of industrial employment.<sup>9/</sup> In fact, the level of employment in certain selected industries fell by 1 per cent in the period 1956-1960, while the increase in industrial employment was 4,500 or 24.5 per cent from 1960 to 1961, and the total working population went up by 77,000 or 28.5 per cent. This shows that in Panama, industries for import substitution operate much more intensively with capital than with labour.

The most favourable proof of the effects of tariff protection on the development of protected industries can be seen by comparing in different years the proportion covered by national production of total consumption of certain goods. Such a comparison gives a satisfactory situation for: bread and cereals; meat; sugar and confectionery; coffee, tea, and cocoa; alcoholic beverages; and footwear and clothing.

There can be no doubt at all that tariff protection has been beneficial, as far as increasing the production of protected industries is concerned. However, the question arises of the cost of this protection for the consumer. Although tariffs stimulate national production, they normally create a short-term rise in prices, and a fall-off in government revenue as imports are reduced.

A protectionist policy is justified if industries in the long run can continue without the need for subsidies. If not, there is a loss of revenue for the State, consumers pay higher prices, and protected industry obtains excessive profits because of its monopoly, with no visible advantages for the country as a whole.

<sup>9/</sup> Fiscal Survey, pp. 149 and 150.

What has Panama's experience been?

(a) Protected industries have developed, and in nearly every case have increased the aggregate value of production, but have had little effect on industrial employment.

(b) The prices of certain protected articles have been kept at satisfactory levels, as in the case of fresh and processed meat.

(c) The prices of some protected products have fallen - among others, those of fresh poultry, shrimps, fresh vegetables, and vegetable oils.

(d) It is difficult, however, to find other articles where the home price is lower than the imported one. Examples are: salt, butter, rice, sugar, beer, milk, and many others.

The Fiscal Survey of Panama states that <sup>10/</sup> "unfortunately, the tariffs which have caused prices to rise are those which affect to a great extent the budgets of medium and low-income families. Tariff protection on sugar, coffee, butter, margarine, salad oils, milk, and even beer, has had a highly adverse effect".

The Survey also states <sup>11/</sup> "it is difficult not to reach the conclusion that if the sacrifices made by consumers were calculated and priced, in some cases a total would be obtained which was higher than the share from protected industries. This would mean that high prices have simply been a 'private tax' which protects monopolies and redistributes income from low-income groups to high-income groups".

#### 4. Other forms of import control

Panama uses tariffs and import quotas as protective measures. Import quotas are fixed by the Office for Regulation of Prices, which has the following articles establishing its legal basis:

(a) Clause (g) Article 9 of Law N° 19 of February 14, 1951, for essential articles produced in the country.

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<sup>10/</sup> Page 154.

<sup>11/</sup> Page 157.

(b) Decree N° 41 of June 7, 1961, for the fixing of import quotas for any article produced in the country by industries recently beginning.

When the restricted articles are essential items, the import quotas are permanent; when the restriction concerns articles under Decree N° 41, the restriction is in force from its date of decree until six months after the date that the company is obliged to begin operating.

Import quotas are fixed at the request of protected companies. They generally represent up to 80 per cent of normal imports in the case of essential articles; in other cases, the restriction is made at the normal level of imports in periods previous to the date of restriction.

The formula applied is generally the following: normal importation - national production - according to the rate of increase in demand that cannot be satisfied by national production, the quota is increased, in other words, the Office for Regulation of Prices has a wide scope for varying quotas.

#### 5. Industrial loans policy

The execution stages of the industrial loans policy are carried out by official and private finance institutions in two ways: through overdrafts, and through direct loans to companies.

Because of the economic crisis in Panama in January, 1964, the economy underwent certain upheaval which had many adverse effects, such as contractions in the monetary system and restrictions in the availability of loans. This situation caused the overdrafts of many companies to be reduced, and it became necessary to restrict credit of all kinds, including loans to industry. Although the economy has recovered from this recession, which was due to external causes, the monetary and credit systems are still under restrictive pressure.

The Government is at present carrying out a policy of industrial promotion through its departments. This policy is manifested in the creation of an Industrial Loan Bank, as a part of the re-organization of the National Bank. In addition, and with funds from the Alliance for Progress and from the private sector, an Industrial Development Bank (DISA) has been formed with the main objective of encouraging and financing the establishment of industries.

/The procedure

The procedure with applications for overdrafts and loans by already established companies depends on the companies' previous development. One of the practices is an analysis of their financial status. In the case of companies about to be established, they are required to present practicability surveys in order to evaluate the investment possibilities. The Government carries out this type of study for different kinds of industry as a way of creating new investment channels.

The Centre for Industrial Development is the government agency assigned to practicability surveys, although the Centre is principally an organization for the training of labour.

As part of the Economic and Social Development Programme, 2.0 million balboas have been earmarked for practicability surveys, 0.5 million of which may be used for industrial practicability surveys, or those related to the setting up of industries.

Another method of providing industrial loans is the possible re-structuration of bank interest rates. This has been under careful study by banks. The rate of interest in force at present is 7 per cent, which is the maximum allowed by law; there are no special short or long-term rates, nor different rates according to the type of loan made.

Foreign banks, national private banks, the National Bank of Panama, and DISA, are at present the main institutions for the administration of industrial loans.

The National Bank has undergone internal re-organization and as a result now has an Industrial Loan Bank which deals with loans to both established and to prospective industries.

DISA is a purely industrial bank which grants loans for 2 to 15 years at an interest rate of 7 per cent. Seven years is the average length of loans made. Loans also include a period of grace for three, six, nine, or twelve months for the amortization of capital and interest. The bank can also offer its clients technical assistance on matters connected with the industry's requirements.



Table 15

PANAMA: LOANS MADE BY BANKS BETWEEN 1958 AND 1965 <sup>a/</sup>

(In millions of balboas)

Year	Total	Industrial	Percent age
1958	79.9	6.7	8.4
1959	95.6	8.5	8.9
1960	100.8	8.7	8.6
1961	119.1	10.6	8.9
1962	136.6	12.8	9.4
1963	122.7	18.3	19.4
1964	144.6	22.4	15.5
1965	198.2	21.6	11.0

Source: Department of Statistics and Census, Series E No. 1, Public Treasury and Finance. 1958-1962.

<sup>a/</sup> The figures for 1958-1962 include "overdraft" loans, which were not classified into the uses they were put to.

Table 16

PANAMA: INDUSTRIAL LOANS GRANTED BETWEEN 1958 AND 1965, SHOWING TYPE OF BANK

(In millions of balboas)

Year	Total	Official	Private	Percentages		
				Total	Official	Private
1958	6.7	0.9	5.8	100.0	13.4	86.6
1959	8.5	1.1	7.4	100.0	13.0	87.0
1960	8.7	0.6	8.1	100.0	6.9	93.1
1961	10.6	0.3	10.3	100.0	2.8	97.2
1962	12.8	0.4	12.4	100.0	3.1	96.9
1963	18.3	<sup>a/</sup>	<sup>a/</sup>	100.0	<sup>a/</sup>	<sup>a/</sup>
1964	22.4	1.2	21.1	100.0	5.4	94.6
1965	21.6		19.8	100.0	8.2	91.8

Source: Department of Statistics and Census, Series E No. 1, Public Treasury and Finance. 1958-1964.

<sup>a/</sup> Figures not available.

/Loans made

Loans made by banks for industrial purposes increased considerably in the period 1958-1965. In 1958 they totalled 6.7 million balboas, and accounted for 8.4 per cent of total loans, while in 1965 the value increased to 21.6 million balboas, and the percentage of total loans went up to 11.0.

Private banks have always been responsible for the majority of industrial loans, and have accounted on average for more than 90 per cent of the total.

The rate of interest on bank loans was kept at 6 per cent for many years, and went up to 7 per cent in the second half of 1962; it has since stayed at this rate, which is the maximum allowed by law. However, within the circles of bank loans it is possible to charge an additional 1 per cent for services, which makes an effective interest rate of 8 per cent on the majority of loans made. A re-structuration of interest rates may be carried out in the future whereby the legal maximum will be raised to 10 per cent. This means that in a certain period of time the rate charged on industrial loans may gradually rise to 10 per cent. This would have an effect on enterprises which are about to be established, and whose return were 10 per cent or less; if 10 per cent were the market rate of interest, investors would not go through with industrial projects which would give the same return.

However, if the rate of interest on loans rose to 10 per cent and the rate paid on savings deposits rose to 5 per cent, these rates would be higher than those in many other countries, and with free movement of capital it can be expected that deposits, as well as foreign investment would increase in Panama.

The rise in the number and amount of industrial loans has been due to certain obvious causes. On the one hand, the demand on the part of established industrial enterprises has gone up as a result of their process of expansion of installed capacity, because of lack of liquid assets in the case of some companies, and the intention to renew part of their fixed capital.

At the same time, the increase in the number of industrial enterprises has, of course, increased the number of applications for loans.

Table 17

PANAMA: RELATION BETWEEN RATES OF INTEREST ON BANK LOANS AND ON BANK DEPOSITS

(In thousands of balboas)

Years, and quarters	Rates (Percentages)		Amounts of loans	
	On loans	On deposits	Industrial	Others a/
1961				
I	6	2	6.3	94.9
II	6	2	5.7	97.3
III	6	2	7.1	96.5
IV	6	2	8.3	100.3
1962				
I	6	2	8.8	103.4
II	6	2	9.2	104.7
III	7	2	10.2	108.7
IV	7	2	9.0	111.4
1963				
I	7	2	16.2	106.6
II	7	2	17.2	108.8
III	7	3	16.0	116.8
IV	7	3	17.5	122.0
1964				
I	7	3	18.6	126.3
II	7	3	17.0	129.3
III	7	3	16.8	133.9
IV	7	3	19.7	141.3
1965				
I	7	3	18.6	147.3

a/ Includes overdrafts until the fourth quarter of 1963. Also includes the amounts of loans to agriculture and to commerce.

/On the

On the other hand, the banking sector has increased the availability of funds, first of all by forming new banks, and secondly by recognizing the security and possibilities of profit inherent in industrial loans.

However, there is still no fixed and well-defined policy for financing industrial development. An effective policy should include the fixing of priorities for bank loans, more favourable rates of interest on loans to industry, industrial study centres within banks to study the setting up of new industries, as well as a policy to attract foreign capital to industry.

Because of the special situation in the Panamanian monetary system, it is not possible to foresee clearly the future path that banking will take with regard to industrial financing.

#### 6. Taxation policy

The Fiscal Code of Panama, where it concerns income tax (Law N° 9 of December 23, 1964) and the income tax regulations contained in the Fiscal Code (Decree N° 60 of June 28, 1965) do not distinguish among different economic sectors, but do make a distinction between individuals and companies.

Decree N° 60, which governs income tax regulations, does include some paragraphs which deal specifically with certain kinds of companies, such as shipping lines, insurance companies and companies established in the Free Zone of Colón, but these refer to taxable income rather than to an attempt at differentiating among economic sectors.

Government regulations concerning depreciation appear in Decree N° 60 under paragraphs 57 to 71. The general regulations state that depreciation is deductible when it affects goods employed by the taxpayer in his business, industry, or profession, and/or in activities related to the production of taxable income. Depreciation, therefore, is not deductible at all in the case of wear, age, or deterioration of goods which produce exempt incomes.

Depreciation is calculated on the basis of cost and of permanent improvement carried out. The cost included expenses incurred in the purchase, installation, and assembly of the article; expenses such as

/commission on

commission on purchase, the cost of insurance and of transport to the installation site, customs duties and similar costs, payment to technicians for assembling and starting, the cost of previous surveys and of preparing the installation, and of interest actually paid during the period of construction. When permanent improvements are carried out which may considerably prolong the useful life of the depreciable article, the value on which depreciation is calculated, is the undepreciated balance, plus the cost of the improvement.

Depreciation is fixed annually by calculating the probable number of years of useful life of the depreciable article up to the maximum fixed in paragraph 65 of the Decree. For fiscal purposes depreciation may be calculated at the taxpayer's choice in the following way:

- (a) By applying a fixed and constant percentage of the total investment.
- (b) By applying a fixed and constant percentage of the decreasing amount of the value of the total investment.
- (c) By applying the system of adding the figures.

If the second method is used, the percentage should not be higher than the one given in the table of paragraph 65, plus 25 per cent.

Once the taxpayer has chosen a method for a certain article, it cannot be changed, and the depreciation on revaluation of depreciable goods is not permitted as a deductible cost.

Paragraph 70 deals with the depreciation of organization costs and other intangible assets, stipulating that organization costs may be deducted in the fiscal year in which they are incurred or paid, or amortized in five successive annual quotas, whichever the taxpayer prefers. The deduction of amortization on key rights, concessions, trade marks, industrial patents and formulas, and similar intangible assets is not permitted, whether or not these have actually been paid by the taxpayer.

Paragraph 28 states that amounts calculated as revaluation of assets by means of simple entries in accounts are not considered as gross income.

## 7. Technological research

The Centre for Industrial Development and Productivity is the government organization in charge of developing technological research. For this purpose it works in conjunction with the National University and Government Laboratories in order to supply investors with the information they require.

Since the end of 1964, the Technical Assistance Department of the Centre has concentrated on drawing up practicability surveys. This is partly due to the fact that the National Bank of Panama has received a loan from the IDB special fund, for financing part of the fixed investment in setting up new industries and improving existing ones, and also due to the great wave of people interested in all kinds of industrial investment. The Centre prepares practicability surveys at the request of the National Bank, since the Bank requires studies and proofs that guarantee the quality of the investments it is prepared to finance. Assistance is also given to private investors wishing to invest in industry who lack the necessary experience or knowledge of initial planning procedures.

In the short time that the Centre has been preparing practicability surveys, the following have been completed: the manufacture of concrete blocks; aluminium roofs; rice milling; expansion of spice-packing industries; a saddlery industry; and a honey industry.

The Centre also carries out special research such as sectoral analyses, surveys of financial organizations, and location surveys, both for new enterprises as well as for established ones.

## 8. Standardization

In Panama there is no organization whatsoever concerned with the fixing industrial standards, thus making quality control of different products very difficult.

Because of the importance of regulating quality standards, the Centre for Industrial Development and Productivity (CDPI) has approached several foreign agencies which specialize in quality control, with a

view to placing them in contact with Panamanian industries and obtaining opinions on standardization to be passed on to relevant institutions for local adaptation. The main source of information on standardization, with standards that are more adaptable to the Panamanian economic situation, is the Central American Institute for Industrial Research and Technology (ICAITI), with headquarters in Guatemala.

When ICAITI draws up new standards, these are distributed in Central America and in Panama. On receiving these standards, the CDPI classifies them for future reference and distributes them among local institutions and industries, inviting comments so that the Centre can recommend changes or modifications to ICAITI. By this method, Panamanian industrialists have the chance to influence the final decision on standards which will eventually be applied to their products. However, the plan has not been very effective, since Panamanian industrialists have ignored the required standards, and in the majority of cases have not commented on the standards presented to them.

#### 9. Artisanship and small-scale industry

The part played by artisan workshops and small industries in the country's economic growth is one of extreme importance, since on the one hand they manufacture a considerable variety of products and provide work and a way of living for a high percentage of the population, and on the other they make up a large segment of the infrastructure which is indispensable for a comprehensive industrialization process.

The 1960 Census placed the figure of home industries or artisan workshops of the family type in the country at 14,829. Although no exact information is available concerning the number of persons who work in such industries, the total undoubtedly passes the 25,000 mark. It must be mentioned that this type of home industry or artisanship in the majority of cases is a supplementary activity for the people involved, and does not represent permanent or regular employment throughout the year.

/It has

It has been calculated that the other purely artisan sector - the production of "molas", a mixture of toasted flour and salt - of the Kunas indians in San Blas, employs approximately 7,000 women.

According to the figures for December 1963, there were 2,310 establishments making up the country's manufacturing industry, of which 2,072 employed less than 15 persons each. The total number of persons employed in the manufacturing industry was 17,623, of which 5,834 were employed in the 2,072 establishments that employed less than 15 persons, which means that these small manufacturing enterprises accounted for 89.6 per cent of the total number of establishments, and employed 33.1 per cent of the total number of persons employed in the sector.

In short, the number of employed persons at the end of 1964 in small industries, artisan workshops, and home workshops or industries, amounted to some 40,000 and accounted for almost 90 per cent of the country's total industrial labour force.

Because of the sector's importance, there is an urgent need to develop artisanship and small-scale industry as a way of reducing unemployment and of improving production resources. National authorities have reached the conclusion that in order to deal with this urgent need it is necessary to set up a special service on a national scale, within the general framework of the country's development organizations. This service would be similar to the ones in countries which have had more experience of this problem, and would be concerned with the development, promotion, improvement, and diversification of the work and production of small industries and artisan workshops.

The urgent objectives were then established which the Government's plan would have to deal with, such as the training of personnel, co-operativism, the use of national raw materials, increase in production and market organization, all with the aim of satisfying the population's demand for goods and services, apart from creating new sources of employment, especially in rural areas.

/With a



With a view to achieving such goals, it was considered necessary to seek the help of the United Nations Special Fund so that a long-term programme could be carried out which would allow integral development of artisanship and small-scale industry.

With the collaboration of ILO and the Panamanian Institute for Development, the Centre for Industrial Development and Productivity in April 1965 prepared a "Project for the Establishing of a National Service for Artisanship and Small-scale industries" (SENAPI). The Project receives aid from the United Nations Special Fund for a period of four years, after which it will continue with a completely national staff.

The total cost of the Project is 1,678,310 balboas, divided as follows:

	<u>Balboas</u>
Special Fund	960,950
Local expenses - Panamanian Government	103,950
Contribution - Panamanian Government	717,360

One of the most important tasks of the Special Fund Project is the training of national officials to take over all the responsibilities of SENAPI when the international experts of the Special Fund finish their mission. The Project will have two main functions, one of research, study, preparation, programming, and planning, and the other of teaching and training; both functions will be carried on at the same time.

SENAPI will have two technical units for services: one for research, programming, management, promotion, and control, and the other for the training of personnel, instruction, and expansion of services. The first unit will have the following specific functions:

- To compile and maintain up-to-date reports on the main products of the country's artisan workshops and small-scale industries.
- To carry out market research at home and abroad for these products.
- To carry out practicability surveys for improved development of this type of industry.
- To study the labour market and other factors which may affect the Plan.

/- To analyse

- To analyse economic research and reports from industries which may be directly interested in artisanship and small-scale industry.
- To co-operate in, and to carry out and promote research which gives greater scope for national raw materials.
- To plan the most efficient marketing of products.
- To plan more efficient techniques of manufacture.

The second unit will be equipped with a Model Training and Production Centre, and will carry out the following specific functions:

- To prepare teaching programmes and practical exercise for SENAPI courses.
- To give basic training to candidates for instructors or teachers of manual arts of the Ministry of Education.
- To give supplementary training (practical and theoretical) to persons employed in artisanship and small-scale industries, at different levels.
- To organize and supervise the expansion of services to artisan workshops and small industries in rural and urban areas, thus guaranteeing direct advisory services in workshops and factories.
- To give technical advice on co-operative work to organized groups.
- To advise artisans and small-scale industrialists on the general organization of their activities, including business administration, accounting, costing, inventories, and other similar aspects.

SENAPI will have an extremely flexible structure, and will be able to adapt itself to the most urgent needs for technical assistance in training, advisory services, as well as in carrying out specific studies required by certain sectors of the economy.

This concentrated effort of the National Government with United Nations help, will activate the productivity of small-scale industries and artisans in such a way that their share in industrial development will increase, and at the same time will help solve the acute problem of unemployment.

/VI. DIRECT

## VI. DIRECT FOREIGN INVESTMENT IN PANAMA

### 1. Types of investment and classification of enterprises

The term "direct investment" is applied to investment which aims at establishing or increasing permanent participation in an enterprise; it implies a certain amount of government control.

With portfolio investments, the investor does not intend to play an important part in managing the company's policy; the motives for such investments are more likely to be the negotiability of shares, yield, the possibility of capital gains, tax concessions, possible changes in rates of exchange, or a secure deposit of capital.

Foreign investment in resident enterprises with direct investment consists of two kinds of capital: direct capital investment, and other capital investments.

Direct capital investment is the (net) investment by foreigners who have a notable influence in the policy of the enterprise; it includes any investment in branch companies.

"Other capital investments" in enterprises with direct investment include the capital invested by other foreigners in these enterprises, whose capital holdings are 50 per cent or more than the total, but where an organized group of shareholders does not exist.

The Department of Statistics and Census carried out a survey of foreign investment in Panama, which covered the years 1961 to 1964.

In 1961, 133 enterprises were selected, 112 of which were enterprises with direct foreign investment; of these, 38 were branches, 36 were subsidiaries and 28 were other enterprises with direct investment. The remainder were enterprises with portfolio investment and foreign capital in associated companies.

In 1964, 158 enterprises were selected; 126 were classified as enterprises with direct foreign investment, of which 43 were branches, 43 were subsidiaries and 40 were other enterprises with direct investment. The remainder were enterprises with portfolio investment and foreign capital in associated companies.

### /2. Investment

## 2. Investment in different economic sectors

Of the 105 enterprises studied in 1961, 51 belonged to the sector commerce, 23 to the manufacturing industry, 11 to services, 10 to transport, and the remainder to miscellaneous activities. In 1964, of the 123 enterprises studied, 54 belonged to commerce, 31 to the manufacturing industry, 14 to services, 15 to transport, and the rest to miscellaneous activities. It will be seen that in both years enterprises in commerce accounted for almost 50 per cent of the enterprises under study, and together with those in manufacturing, they accounted for about 70 per cent of the total. These figures do not include banks, nor the enterprises in the Free Zone of Colón, because of the special operating conditions of these enterprises.

## 3. Total amount of direct foreign investment

At December 31, 1960, the total amount of direct foreign investment in the enterprises under study was 114.5 million balboas. The greater quantities were registered in agriculture, with 53.8 million balboas; electricity, with 29.5 million; and commerce, with 20.8 million balboas. Investment in the manufacturing industry was only 6.5 million balboas. The heavy foreign investment in agriculture is due exclusively to the plantations operated by the United Fruit Co. in the Provinces of Chiriquí and Bocas del Toro. In electricity, the investor is the American Foreign Power Co. which supplies power to the cities of Panamá and Colón.

As can be seen, the major part of investment is in subsidiaries, especially in agriculture and electricity.

Direct foreign investment in 1964 had changed its nature considerably. Heavy investment in the construction of the Panama Refinery increased foreign investment in manufacturing industry to 56.3 million balboas, making the sector second in importance for foreign investment. Investment in commerce increased to 31.6 million balboas, and in agriculture, to 64.5 million. The total result was an increase in foreign investment to 194.7 million balboas at December 31, 1964.

Table 18

PANAMA: TOTAL AMOUNT OF DIRECT FOREIGN INVESTMENTS, CLASSIFIED INTO SECTORS <sup>a/</sup>  
 (AT DECEMBER 31, 1964)  
 (In millions of balboas)

Economic sectors	Total	Branches	Subsidiaries	Others
<u>Total</u>	<u>194.7</u>	<u>20.5</u>	<u>117.2</u>	<u>57.0</u>
0 Agriculture, forestry, hunting, and fishing	64.5		64.3	0.2
2-3 Manufacturing industry	56.3	0.3	3.5	52.5
4 Construction	1.3	1.0	0.3	
5 Electricity, gas, water and sanitary services	36.6	0.6	36.0	
6 Commerce	31.6	15.9	11.6	4.1
7 Transport, warehousing, and communications	2.8	2.6	0.1	0.1
8 Services	1.6	0.1	1.4	0.1

<sup>a/</sup> Banks are not included.

Of the total amount invested, 180.9 million balboas came from the United States of America, which is not unusual considering the close ties which exist between the United States and Panama. United Kingdom investment amounted to 6.0 million balboas; and that of Switzerland to 5.0 million balboas. Investment from other countries was of little significance.