FACTS FOR INVESTORS

IN PANAMA

THE INSTITUTE FOR ECONOMIC DEVELOPMENT
(a Government Institution)

REPUBLIC OF PANAMA

February, 1955.
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FACTS FOR INVESTORS IN PANAMA

Facts For Investors in Panama presents a ready reference of basic information for potential investors in productive private enterprise in Panama.

This report is designed to provide essential general resource information and a frank brief of both plus and minus economic factors, together with a birds-eye view of transportation, legal, labor, tax and other pertinent business considerations which will permit you to make your own evaluation of the general atmosphere for profit possibilities in Panama. It contains details of the special incentives offered by the Government to investors interested in new industry potential, exploitation of natural resources, agricultural activities, livestock raising and fisheries. It also contains a discussion of certain strategic location and transportation cost advantages which manufacturers or distributors shipping to Latin American markets may wish to explore further.

The Institute invites your further questions concerning local conditions, economics, transportation, building and office costs, marketing, commercial laws and regulations, labor, engineering or any other data needed to complete your evaluation of possibilities. The reply will be prompt and accurate and your inquiry will be kept in the strictest confidence.

Mario de Diego, General Manager
Institute for Economic Development.
GENERAL

AREA, BOUNDARIES, TOPOGRAPHY

The Republic of Panama, with an area of approximately 29,100 square miles, including the Canal Zone, lies between the Republics of Costa Rica and Colombia. The narrow, curving Isthmus, extends generally from East to West between 77 and 83 degrees west longitude and between 7 degrees and 9 degrees 30 minutes north of the Equator. It has a coast line of 477 miles on the Caribbean and 767 miles on the Pacific. The topography varies from high mountains to fertile valleys and lowlands with dense forests. The great mountain chain which connects all of the American Republics on the Pacific side from Alaska down to the southernmost tip of Chile passes through Panama in two lesser ranges. In the intervening valleys and plains, excellent pasturage is afforded for cattle, and a variety of commercial crops and tropical fruits are produced. The mountain slopes are covered with dense forests, a source of potential wealth. Panama has a large number of rivers, of which only a few are navigable.

Through a mountain gap, approximately in the middle of the Republic, the Panama Canal was carved to join the Atlantic and Pacific Oceans. The Canal is about 50 miles long and the surrounding Canal Zone, granted in perpetuity to the United States, has an almost uniform width of five miles on both sides of the center line of the Canal. The Canal Zone terminal city of Cristobal on the Caribbean abuts the City of Colon, the second largest city of the Republic, while Balboa, the Pacific terminal is adjacent to Panama City, largest city and capital of the Republic. Both Cristobal and Balboa have modern port facilities, the equal of any in the World.

There is considerable tidal variance between the Caribbean and the Pacific terminals of the Canal. Tidal range at Cristobal is small, averaging less than one foot and seldom exceeding two feet, while at Balboa on the Pacific the mean range is twelve feet, with occasional spring tides exceeding 21 feet.

CLIMATE

Except in the mountainous regions the climate is tropical throughout the year, with two seasons -- the rainy, extending from about the middle of May to the middle of December, and the dry extending over the remainder of the
year. On the Pacific side the average annual rainfall is approximately 70 inches, while on the Atlantic side it is much heavier -- averaging 150 inches. The mean temperature in the lowlands is approximately 80 degrees fahrenheit, with extremes as low as 63 degrees and as high as 97 degrees, while the nights are usually fairly cool. Mean humidity is about 80 percent on the Caribbean side and about 83 percent on the Pacific side.

**POPULATION**

The 1950 Census showed a total population of 805,285, of which 515,588 or 65% were rural and 289,697 or 35% urban. Of the total urban population 226,808 or 79% were concentrated in Colon and Panama Provinces and 25,592 or 8.9% in Chiriqui Province. These three Provinces accounted for 88% of the total urban population.

The growth rate of population in Panama is approximately 2.9% annually. It is estimated that total population at the end of 1953 was approximately 870,000.

**GOVERNMENT**

Panama is a Republic, consisting of nine provinces and the Intendency of San Blas (San Blas Indian Territory, which includes the islands and the Atlantic coastal strip between the Province of Colon and Colombia). Government is exercised in conformity with the Constitution of March 1, 1946 (the third revision since establishment of the Republic in 1903) which provides for universal suffrage, popularly elected officials, and separation of powers into three branches -- legislative, executive and judicial.

The legislature is a unicameral National Assembly, with 53 members, each representing 15,000 voters or any remaining fraction of 7,500 or more in each electoral district, who are elected to four year terms. A Province with less than 15,000 inhabitants may elect one deputy.

The executive branch is headed by the President of the Republic, elected for a four year term, who is not eligible to succeed himself, and may not be re-elected for the next two succeeding terms. A First and Second Vice-President are also elected, with the right of succession in the order given under circumstances spelled out in the Constitution. The Cabinet appointed by the President, consists of the heads of the seven major departments (Ministries) Portfolios are as follows: Government and Justice; Foreign Relations; Treasury and Finance; Education; Public Works; Agriculture, Commerce and Industries; Labor, Social Welfare, and Public Health. The foregoing Ministers comprise the Cabinet Council over which (as an indispensable condition) the Chief Executive must preside. The Secretary General of the Presidency (ranked as a Minister without Portfolio and appointed by the President) acts as Secretary of the Council.
with the right to speak but not to vote. The First Vice-President attends meetings ex-officio, also with the right to speak but not to vote. In addition, the Controller-General usually attends meetings to offer his advice on financial and budget matters. Governors of Provinces are appointed by the President.

CONSTITUTIONAL RIGHTS -- CITIZENS AND ALIENS

The Constitution provides that all Panamanians and aliens are equal before the law and that there shall not be personal exemptions, privileges, or distinctions, because of race, birth, social class, sex, religion, or political ideas.

In general, foreigners in Panama enjoy the same civil rights as nationals under the Constitution, but may be subject to special requirements or restrictions for reasons of health, morality, public safety or the national economy. Political rights are reserved for nationals, except that in certain cases aliens may participate in the election of municipal councils.
II

HISTORICAL AND ECONOMIC BACKGROUND

PANAMA -- "CENTRO DEL MUNDO"

On Christmas Day of the year 1502 -- "about the hour of Mass" -- Christopher Columbus, Admiral of the Ocean Seas, then on his fourth voyage to the New World in search of a strait leading to the Indies, dropped anchor off the mouth of the Chagres River, only a few miles from what are now the twin cities of Colon and Cristobal. Almost 12 years later, September 25, 1513, Vasco Nuñez de Balboa sighted the Pacific from a mountain peak in Darien Province, and in the years following, what had been the Indian Village of Panama on the Pacific Ocean, became the clearing house of the wealth of the Incas, and a center of Colonial empire for Spain. Some three hundred years later, in 1815, Simon Bolivar, the Great Liberator, was to point to the Isthmus of Panama as "el centro del comercio del universo por medio de canales". 11 years later, 1826, he invited all of the young Republics of the New World to send delegates to the Congress of Panama. At this historic gathering, the first of its kind in the New World, Bolivar envisioned Panama as the Hub of the World and the logical site for a World Capital if such should ever be created.

Some four hundred years after Columbus' visit, only a few miles from where he lay at anchor that Christmas night, an audacious and ingenious nation then unborn was to open the gateway that he had sought in vain. The Panama Canal was opened to traffic in 1914 -- "a continent divided - a world united".

450 YEARS OF TRADE

In 1953 the Republic of Panama celebrated its 50th anniversary -- and a commercial tradition more than 450 years old. From the days of the Conquistadores and the earliest Spanish settlements to the founding of the Republic, the economy of Panama was based upon trade developing from its favorable geographical location and limited exploitation of its natural resources. In the early days of the Republic lack of interior roads and limited population made development of its land and other resources difficult. The building of the Canal and supporting installations added a new and major source of direct income and offered obvious advantages to trade -- drawing many of Panama's most enterprising people into commerce. Paralleling this economic improvement, population started its upward spiral rising from an estimated 200,000 to 250,000 in 1903 to 805,285 in the 1950 Census -- an increase of almost 300
percent. To support this growing population Panama relied heavily upon income from all sources in the Canal Zone and an expanded commerce. Unfamiliar with industrial needs and profit possibilities, businessmen invested commercial profits largely in urban real estate and much more recently in productive farms. With total agricultural possibilities so long neglected and industrial potential largely ignored -- its economy dominated by the Canal and oriented toward world commerce, -- the end of World War II found the Republic with no important alternative sources of income to cushion the inevitable peacetime readjustments.
cattle and coffee, Panama imports a large share of her other basic food requirements.

Panama Exports

Reported exports totalled $15.5 million of which $14.1 million were shipped to the United States. Panama's reported exports in 1953 consisted largely of bananas, shrimp, cacao, abaca, and lesser amounts of cement, lumber, coconuts, sugar and hides. Panama currently has exportable surpluses of rice, coffee, and cattle.

Total Value of Imports, Exports and Re-Exports (1950 - 1953)

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports $</th>
<th>Re-Exports</th>
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<tr>
<td>1950</td>
<td>$66,997,391</td>
<td>$10,648,243</td>
<td>$7,936,418</td>
</tr>
<tr>
<td>1951</td>
<td>66,121,893</td>
<td>11,728,010</td>
<td>3,320,406</td>
</tr>
<tr>
<td>1952</td>
<td>73,557,116</td>
<td>12,443,028</td>
<td>3,474,491</td>
</tr>
<tr>
<td>1953</td>
<td>71,602,929</td>
<td>15,495,756</td>
<td>2,256,756</td>
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Canal Zone -- "Goods and Services"

Panama's dollar earnings from the Canal Zone, which are relatively stable, are the largest item in her foreign exchange earnings and usually pay for more than half of her imports. Preliminary estimates of Panama's Department of Statistics and Census for 1953 indicate that net income from "goods and services" transactions with the Canal Zone was $44.2 millions, or about 83 per cent of the estimated net deficit of $53.4 millions in Rest of the World "goods and services" transactions. In 1952 as indicated in the table "International Transactions", net "goods and services" income from transactions with the Canal Zone was $44.5 millions, slightly higher than 1953 preliminary estimates and approximately 79 percent of the estimated net deficit in "goods and services" transactions with the Rest of the World.

1/ Export figures do not include the total of goods purchased within the Republic by Canal Zone activities and by individuals residing in the Canal Zone. Since these purchases are not required to be officially reported through customs they are not included in the above figures, but are contained in an "International Transactions" statement as estimated by the Department of Statistics in Panama. In addition, there are some cases in which reported export values may be less than actual value FOB Panama which also contributes to understating of actual export values.
Complete information for 1953 has not yet been released. The following table outlines balance of payments for the Republic of Panama in the year 1952:

<table>
<thead>
<tr>
<th>Description</th>
<th>Millions of Dollars</th>
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</thead>
<tbody>
<tr>
<td>Net &quot;Goods and Services&quot; Transactions with the Canal Zone</td>
<td>$44.5</td>
</tr>
<tr>
<td>Net &quot;Goods and Services&quot; Transactions with the Rest of the World</td>
<td>$56.4</td>
</tr>
<tr>
<td>Movement of Private Investment</td>
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</tr>
<tr>
<td>Official Financing</td>
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</tr>
<tr>
<td>Errors and Omissions</td>
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<tr>
<td>Compensatory Financing</td>
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</tr>
<tr>
<td></td>
<td>$56.8</td>
</tr>
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<td>$56.8</td>
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MARKETING AREAS

Three Principal Marketing Areas

The Panama City Area is composed of the Provinces of Chiriqui, the southern part of Veraguas, Los Santos, Herrera, Cocle, Panama and Darien.

The Colon Area is composed of the Provinces of Bocas del Toro, the northern part of Veraguas, Colon, and the Intendancy of San Blas.

These marketing areas are fairly well defined geographically, since Panama is roughly divided into two parts by the chain of mountains which generally traverse the central part of the country from the Costa Rican border to Colombia. Before the completion of the Trans-Isthmian Highway during World War II there was a natural servicing of the Pacific side from Panama City and the Atlantic side from Colon, since the only communication was by railroad, through the Canal or by air. However, since the completion of the highway, the much greater concentration of industry and commerce in Panama and the generally greater economic development of the Panama Marketing Area has altered this distribution pattern and greatly increased the direct competition of Panama Area suppliers in the Colon Area.

The Panama Canal Zone is a third marketing area, of major importance because of the large "goods and services" requirements which the Canal operations generate.

The Panama City Production and Marketing Area

The Panama City production and marketing area contains approximately 54,622 sq. km. and had a population of some 692,439 at the time of the 1950 Census. It includes the capital of the Republic, the largest market and distribution center and several secondary distribution centers located in the smaller cities of David, Puerto Armuelles, Concepcion, Santiago, Las Tablas, Pensoné, and Aquadulce in the interior of the country. Major activities of the Canal Zone, including military, are also located within this general area. The Area has the best transportation system, most of the country's manufacturing industries, and the best agricultural lands which produce approximately 90 percent of the crops grown and consumed in the country. In it are most of the banana cultivation, the principal grazing and livestock lands, large forest resources with much valuable timber, and the country's leading fishing activities.

The Area includes the lowlands, hills, and valleys and the southern slopes of the mountain divide which traverses the country from Costa Rica to the Colombian border. It contains many rivers, some of which may offer
hydro-electric power possibilities which are soon to be examined. Those west of the Canal are short, steeply graded, swift running streams while those to the east such as the Tuira, Bayano, Chagres and Chucunaque are longer and more navigable and in the case of the Tuira in Darien Province -- commercially important.

Commercial Centers in Panama Area Provinces

Panama Province. (1950 population 248,335)

Panama City is the capital of Panama Province as well as of the Republic and is the center of the country's commercial, industrial, political and social life. It is situated at sea level, adjacent to Balboa, Pacific terminus of the Panama Canal, and has a population including its suburbs, of approximately 177,600. It is the hub of the transportation system, being connected with international markets by air and water; with the Colon Marketing Area by air, water, highway, and railroad; with most of the urban and rural centers of the Panama City Marketing Area west of the Canal by water and highway; and with the forest lands east of the Canal by water. Panama Province contains by far the greater part of industry in the country and has much the largest electric power resources.

Chiriqui Province. (1950 population 138,136)

David is the capital city of Chiriqui Province and the Republic's third largest city, with a population in the 1950 Census of 14,847. It is located on the David River, 175 feet above sea level. The city is a secondary distribution center for imports from Panama City and is also the concentration center for the products of the region (coffee, cacao, rice, corn, sugarcane, vegetables, cattle, lumber) which are distributed throughout the Panama City Marketing Area. Chiriqui is a major producer of agricultural products and livestock, has a small industrial nucleus including a sizeable liquor plant, and has a small hydro-electric plant which is currently being enlarged. David has good transportation facilities. It is connected by air, highway, and by coastwise steamer with Panama City and with most of the cities of the Marketing Area by highway. There is rail transportation to the principal urban centers of Chiriqui.

Puerto Armuelles is the Pacific terminus of the Chiriqui National Railroad and in 1950 had a population of 5,734. It is the center of activities for the large banana plantations of the United Fruit Company and is a major port of call for ocean going banana ships, loading for export and may be reached by plane from Panama.
Other Small Urban Centers in Chiriquí are Concepción with a population of 3,063 in 1950, and Boquete, a coffee center, with a population of 1,948 in 1950.

Northern Veraguas Province (1950 population 106,598)

Santiago is the capital city of Veraguas Province and in 1950 had a population of 5,886. It is situated on the Inter-American Highway and has road connections with Panama City and with most of the cities of the Area. Veraguas is an important producer of agricultural products and livestock.

Los Santos Province (1950 population 61,422)

Las Tablas the capital of the Province had a population of 2,662 in 1950. The Province is a major producer of livestock and agricultural products.

Herrera Province (1950 population 50,095)

Chitré is the capital of the Province of Herrera and in 1950 had a population of 7,398. The Province is a major livestock producer and is steadily expanding agricultural production. It contains the largest tannery in Panama.

Coclé Province (1950 population 73,103)

Penonomé is the capital of the Province and is located on the Inter-American Highway. In 1950 it had a population of 3,515. Coclé is a small province which is growing in agricultural and livestock importance. Sugar-cane is a major crop and two sugar mills in the Province refine sugar for domestic use and limited amounts for export.

Darién Province (1950 population 14,660)

La Palma is the largest settlement in Darién and in 1950 had a population of 1,703. The Province of Darién is the largest, most sparsely settled and the least known of Panama Provinces. It is a major source of supply for bananas for domestic use, contains the most extensive and finest forest resources in the Republic, including valuable mahogany stands, and is reputed to have mineral wealth. Darién has the only commercially important navigable river in Panama. (Navigable for 100 miles). An airport capable of handling DC-3s is expected to be completed in 1955 at El Real. (Population
Development of transportation in this Province would open a frontier which contains some 21 percent of the total land area of the Republic. From this region in 1944 the U.S. Rubber Development Corporation exported 816,726 pounds of wild rubber.

Transportation -- Panama Marketing Area

Ocean Shipping

Panama City is adjacent to Balboa, the Pacific terminus of the Panama Canal, which has excellent modern facilities for handling ocean shipping, stevedoring, and transshipping cargo. Because of its strategic position Balboa is a port of call for many steamship lines with frequent service to the United States, East and West Coasts of Central and South America. Many lines of other maritime nations touch at Balboa, en route to United States, Latin American and other ports throughout the World. Some 64 steamship lines of 34 maritime nations transit the Canal regularly.

Coastwise Shipping

Local water communication with the Colon Marketing Area is maintained via the Panama Canal; water communication between Panama City and other Pacific Coast ports is carried on by coastwise steamers and launches. River transportation is utilized, especially in the area east of the Canal in the Provinces of Panama and Darien. In the latter Province water transportation is practically the only means of communication. The Tuira River is used to carry inland products a distance of 100 miles to the sea coast. Other rivers used primarily for local movement of goods and passengers are the Bayano, Chagres and Chucunaque.

Railways

The Panama Railroad, owned and operated by the United States Government, connects Panama City with Colon. The only other railway connections are in the northwestern part of Chiriquí Province. Here two railroads operate; the Chiriquí National Railroad, which operates 124 miles of track from David, with one line to Pedregal, another to Puerto Armuelles, and a third branch to Boquete with a branch to Potrerillos; and the Chiriquí Land Company (United Fruit Company) which operates a 97 mile network linking banana plantations and Puerto Armuelles.
Highways

The principal urban centers of the Panama City Marketing Area are connected by the Inter-American Highway, and subsidiary roads to the Colon Marketing Area by the 50 mile all concrete Boyd-Roosevelt Highway.

The Inter-American Highway runs for 317.4 miles between Panama City and Concepción in Chiriquí Province, approximately 26 miles from the Costa Rican border. This highway is concrete for about 75 miles from Panama City westward, and is rough macadam and gravel from this point to some 20 miles from David where new concrete sections are being laid down. Beyond David to Concepción the road is again gravel. However, modern trailer trucks make regular runs to David via the Inter-American Highway with occasional interruptions due to road conditions in the rainy season.

The Pan-American Highway, eventually to run from Panama City to the Colombian border, extends in an easterly direction only as far as Chepo, some 42.8 miles east of Panama City. The highway is concrete for a distance of about ten miles from the heart of Panama City and gravel for the remainder of the distance to Chepo. Beyond Chepo lies a wild and generally unexploited area of Panama Province and little known Darien Province, unexploited except for timber and bananas.

Airlines

Panama City has international and national air transportation through Tocumen International Airport, a major air junction between North America and Latin America. Tocumen serves 8 International Airlines operating in this Hemisphere and is only hours away from capital cities of all Latin American countries, with the farthest distant major cities of South America only fifteen to twenty hours distant. The airport is located about fifteen miles from the heart of Panama City via modern concrete highways.

Dependable, regularly scheduled air service, utilizing DC-3s is maintained between Panama City, and interior cities of David and Puerto Armuelles in Chiriquí Province, Changuinola and Bocas del Toro in Bocas del Toro Province and Colon. Light charter plane services operate to and from almost all urban centers in the country. In Panama City light planes operate from Paitilla Airport a fifteen minute drive from the heart of the city. Construction of an airport capable of handling DC-3s near El Real, Darien Province is scheduled to be completed sometime in 1955. Completion would mark a major move to open Darien Province for further development.
The Colon Marketing Area

The Colon Marketing Area includes the Province of Bocas del Toro, the northern part of Veraguas, Colon and the Intendency of San Blas (Indian Territory). It has an estimated area of 19,388 sq. km. and a population of approximately 112,936 at the time of the 1950 Census.

The Area includes the lowlands and northern slopes of the mountain chains which traverse Panama from Costa Rica to the Colombian border. There are numerous rivers, none of which have any commercial importance.

It includes Colon, the second largest city in the Republic, a major World seaport, an important International Free Trade Zone, and an important commercial center. Yet, with the exception of the settlements around Almirante in Bocas del Toro Province, Colon itself and nearby areas, adjacent Canal Zone settlements, and limited official Government and tourist visits to several nearby San Blas islands, the region itself is almost completely unexplored, owing to lack of ports along the Caribbean Coast and lack of interior roads.

Of the total population approximately one third live in Colon, with a secondary concentration in the Almirante area of Bocas del Toro Province, where the plantations of the United Fruit Company are located.

Bananas were a major export crop in Almirante until a soil disease stopped cultivation, but eradication measures have been developed which appear effective and in the past year cultivation has been resumed. Other important crops of this area are cacao and abaca, although abaca is declining in importance. There is a cacao drying plant in Almirante and an abaca processing plant in the Changuinola Valley. In addition, there are numerous small planters of cacao in the Almirante area and a local cooperative has been organized to assist in crop marketing. Other agricultural production is generally limited to subsistence farming which makes it necessary to import much of the food consumed in this region.

The region from Almirante eastward to Colon contains valuable forest resources and a few very small coastal settlements, but is almost completely undeveloped. As previously pointed out, this region and the region east of Colon to the Colombian border are largely unexplored, with the only commercial activity of note the gathering of coconuts along the Caribbean coast and in the San Blas islands.

In Colon Province, in the area around the City of Colon, limited agriculture, cattle raising and dairying is carried on. The small agricultural and livestock production necessitates imports from the Panama City area and abroad.

The Porto Bello region contains previously worked manganese mines
which are reported to still contain sizeable deposits. However, costs have apparently made them uneconomical to operate.

Commercial Centers in Colon Area Provinces

Colon Province. (1950 population 90,100)\(^1\)

The City of Colon is the capital of the Province of the same name and the second largest city in the Republic, with a population in the 1950 Census of 52,204. Situated at sea level, adjacent to the Canal Zone Atlantic terminal port of Cristobal, it depends largely upon commerce. Colon is a supply point for shipping transiting the Canal, a major port of entry for goods shipped into the Republic, and a major port of call and shopping center for passengers of a large number of regularly scheduled steamers as well as some 37 large Caribbean cruise ships which, alone, will bring in some 21,000 tourists, between December 1954 and April 1955.

The Colon Free Zone located within its borders has been playing an important part in the distribution of manufactured goods throughout Latin America. In the short span of three years since its establishment in 1951, it has grown tremendously. In 1953 goods valued at over $14,000,000 were shipped from the Free Zone, much of it from American manufacturers. To provide facilities requested by additional firms a $500,000 bond issue was authorized, with the proceeds to be used for enlargement of physical facilities (roads, sanitary facilities, warehouses). For further description see Appendix "The Colon Free Zone".

Colon has a limited number of light industries, and (except for United Fruit Company shipments) is the concentration point for assembly of the area's export -- principally cacao, coconuts, and some bananas -- which are usually carried by launch from Bocas del Toro and San Blas. The city also serves as the distribution center for merchandise going to small towns and villages in the interior.

Bocas del Toro Province. (1950 population 22,400)

The City of Bocas del Toro is the capital of the Province of the same name. It is located at sea level on the island of Bocas del Toro in the Chiriqui Lagoon. In the 1950 Census the population was 2,160. The city is to a great extent dependent upon activities of the large United Fruit plantations and revival of banana cultivation will be an important stimulus adding a major export crop to current abaca and cacao exports. The area produces some coffee, coconuts, tobacco and hides although on a small scale.

\(^1\) Includes 18,075 population of San Blas Indian Territory.
Almirante situated on the south western side of the Chiriqui Lagoon is the headquarters of the banana, cacao and abaca plantations. It is connected with Suretka in Costa Rica by rail and is the concentration point for United Fruit Company exports of banana, cacao and abaca. It has a 1,000 foot dock, a modern hospital and a cold storage plant. In 1950 the population was 2,386.

Northern Veraguas Province (1950 population 400)

The northern part of the Province of Veraguas has a few tiny coastal settlements, but is undeveloped and largely unexplored.

The Intendancy of San Blas. (population included in Colon Province total)

The Intendancy of San Blas consists of a group of islands and the coastal strip of the mainland east of the Province of Colon and extending to the Colombian border. It is peopled by a group of practically pure-blooded Indians numbering in the 1950 Census 18,075. This area is a principal source of coconuts within the Republic and is potentially a good source of the copra used in vegetable oil and soap plants.

Transportation—Colon Marketing Area

Ocean Shipping

Colon is adjacent to Cristobal, the Atlantic terminus of the Panama Canal, a World shipping port, with excellent modern facilities. Strategically located it is a port of call for ships of all maritime nations, with frequent sailings to the United States, Latin America, and all World seaports. As pointed out in the case of Panama City, some 64 steamship lines of 34 maritime nations transit the Canal regularly.

Coastwise and Interior Service

Transportation between Colon and the small towns in the Colon Marketing Area is carried on principally by coastwise steamers and Launches. Except for United Fruit shipments, cacao, coconuts and some bananas are brought from Boacas del Toro to Colon for export this way. The many rivers in the area are of no importance commercially. Water communication between the Panama City and Colon Marketing Area is via the Panama Canal.
Railways

Rail communication between Colon and Panama City is furnished by the Panama Railroad, owned and operated by the Panama Canal Company. In the extreme northwest area a railroad operates from Costa Rica over the border to the port of Almirante serving the abaca and cacao plantations along the way. The line is 173 miles long of which only 65.5 miles are in Costa Rica.

Highways

The City of Colon is connected with Panama City by the Trans-Isthmian Highway. There are practically no other roads within the Colon Marketing Area outside the Almirante area and the City of Colon and its small suburbs, transportation being dependent upon small coasters.

Airlines

Colon has its own airport and is on regularly scheduled airlines via DC-3 planes to Changuinola and Bocas del Toro in Bocas del Toro Province, David and Puerto Armuelles in Chiriquí Province and Tocumen International Airport (Panama City). It is also connected by concrete highway to Tocumen International Airport — one and one half hours away by car or truck.

Panama Canal Zone -- A Marketing Area

Although the long run trend of traffic through the Canal is probably still upward, the Canal Zone appears to be a static source of income for Panama. Management continues its drive for increased efficiency, with concurrent labor force decreases, so that if no large scale construction program develops, direct employment opportunities must continue to decline slowly. With the relative economic importance of the Canal ebbing, Panama must find new sources of income for its rapidly growing population in the development of its total resources — much of which were so long neglected.

Nevertheless, the Canal Zone offers a high income market of great importance for Panamanian goods and services, both in the Canal Zone and in the Republic. Food products and other goods are sold to ships in transit, to the Panama Canal Company, the military establishments, commissaries, and post exchanges in the Canal Zone. Civilian residents of the Zone, military personnel, and transients make expenditures in the Republic for amuse-
ment, transportation, and other consumer goods or services. In 1953 estimates indicate that goods and services totalled more than $44 millions. Both civilian and military authorities are increasing local purchases of fresh foods, lumber and other products and this market offers promise of further substantial expansion.

The Panama Canal Zone in general -- disregarding special adjustments -- is comprised of the area within five miles of both sides of the center line of the Canal. Estimated total area is 648 square miles and in 1953 population was estimated at approximately 42,049. The estimated population includes civilian employees of all government agencies and their families and members of the families of Army, Air Force, and Navy personnel residing in the Canal Zone, but omits uniformed members of the services.\footnote{Second Annual Report of the Panama Canal Company and the Canal Zone Government for the fiscal year ending June 30, 1953. US GPO, Washington DC page 126.}
Agriculture and Livestock

The land area of the Republic is 7,447,000 hectares\(^1\) according to the 1950 Census. 15.6 percent of the land was in farms, of which 3.2 percent was in plant crops, 7.4 percent in natural or sowed pastures; 2.9 percent had been cultivated in other years but was not then being worked; and 2.1 percent was devoted to other uses.

With 85,473 farms reported, Panama has some large mechanized agricultural and livestock farms and many small subsistence farmers using primitive methods. 61 farms were reported containing 2,471 acres or more and 502 contained 494 or more acres, but of the total number — 52 percent contained less than 12 and fraction acres. 99 percent of the total used neither mechanical or animal power in working their farms, while of the 1 percent — 502 used mechanical equipment, 79 used combinations of animal and mechanical equipment, and 289 used animals alone.

Problems in the collection and distribution of farm products, were pointed up in Census data covering farm-to-market transportation. In transporting products to market 8.1 percent of farmers used trucks, 7.1 percent used water transportation, 47 percent moved products via horse, 29 percent carried products on foot, while the remainder used other methods or combinations of transport.

Livestock on hand and major agricultural production were valued at a total of $55,326,156 in the 1950 Census. Livestock was valued at $30,072,623, with cattle by far the largest item at $25,792,210. Major agricultural production was valued at $25,253,533 of which rice, corn and beans amounted to $12,094,967; coffee, sugarcane, and tobacco amounted to $4,417,424; fruits (bananas, plantains, oranges, and coconuts) were valued at $7,810,089, with bananas at $5,248,700\(^2\) by far the largest item; and vegetables (peppers, tomatoes, cabbage, lettuce) at $931,053. The Census gave no production data on cacao or abaca, major export items covered in footnote (2) below.

\(^1\) One hectare equals 2,471 acres.

\(^2\) The United Fruit Company operates extensive plantations in the extreme southwest and northwest parts of the Republic, around Puerto Armuelles in Chiriqui Province and Almirante in Bocas del Toro Province, near the Costa Rican border. Their holdings are capitalized at approximately $25,000,000. The Fruit Company's major crop in Panama is bananas, of which more than $7,000,000 was exported in 1954. Smaller crops of cacao and abaca are also grown. Production is entirely for export and is transported directly from com-
In addition to the foregoing Panama raises lesser amounts of abaca, cacao and cotton; tropical fruits such as tangerines, lemons, limes, grapefruit, pineapples, avocados, papaya, and mangoes; and vegetables such as chayote, oote, and yams. In the Western highlands strawberries have been raised and marketed -- carrots, string beans, potatoes, watercress, celery, watermelon.

However, production was insufficient for domestic needs. In 1951 the Republic imported approximately $12.7 million of foodstuffs, approximately 19 percent of the $66 million import total for that year. Much of this food might have been grown at home.

Considerable progress has been made since that time. The drive to obtain self-sufficiency in all suitable crops is well under way. Modern methods taught in the field by technicians of the Ministry of Agriculture, Commerce and Industries, including use of fertilizers and machinery are considerably expanding crop yields. On the training side the National Agricultural School at Divisa annually turns out some 30 boys well grounded in modern agricultural practices and equipped for the farm or advanced study at college level. Training grants have been made for study in the United States and in other countries. Progress is being made on the technical side as well, in experimental work in the development of better livestock; of high yield disease resistant crop varieties; and of new crops adaptable to conditions in Panama.

The Institute for Economic Development (IFE) negotiated two loans with the International Bank for Reconstruction and Development (IBRD); company owned docks in Fruit Company ships. Narrative above does not include Company data except that 1950 Census data on major agricultural production cited, includes a $5,248,000 item for banana production which is largely production of the Fruit Company. Cacao and abaca production, which were entirely for export, were not examined in the 1950 Census. However, export figures show cacao exports of $1,269,116 and abaca production of $1,495,272, the greater part shipped by the United Fruit Company.

The United States Operations Mission to Panama (Institute of Inter-American Affairs) supplies technical advisory services through a "servicio" (cooperative technical agency), and under the "servicio" the Arkansas Agricultural Mission renders technical services in agricultural vocational education, research and extension. The Food and Agricultural Organization currently maintains a veterinarian consultant in Panama and the U.S. Army assigns a veterinarian consultant to the Ministry of Agriculture, Commerce and Industries.
$1,200,000 for agricultural machinery, equipment and hand tools and $290,000 for a grain storage plant. IFE will operate machinery pools for serving medium farms not large enough to justify purchase of expensive machinery; farm machinery will be sold on credit to farmers owning larger farms; and hand tools will be sold at cost and an advisory service supplied to small subsistence farmers now eking out an existence on very small farms. Maintenance, improvement, and expansion of existing farm-to-market roads through an IBRD loan for maintenance and road building equipment and the organization of a technical staff has been under discussion between IFE and IBRD representatives.

The following data offers a measure of the improvement from benchmarks of the 1950 Census:

Rice is an important food crop. Per capita consumption is approximately 100 pounds per year. Special efforts were made to expand annual rice production to the point of self-sufficiency in this important staple with the following results:

<table>
<thead>
<tr>
<th></th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>1,849,233</td>
<td>1,866,059</td>
<td>2,008,505</td>
<td>2,413,855</td>
</tr>
</tbody>
</table>

In 1953, for the first time it was not necessary to import rice -- modern methods, including fertilization and mechanization are credited with this result.

Corn is an important animal food crop and is used to some extent for human consumption in Panama. Here is the production record:

<table>
<thead>
<tr>
<th></th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>1,375,790</td>
<td>1,475,338</td>
<td>1,562,141</td>
<td>1,677,077</td>
</tr>
</tbody>
</table>

Panama is not yet self-sufficient in corn, but production is improving.

Coffee - In 1953 Panama for the first time exported a quantity of coffee, 6,860 cwt being exported in the crop year 1952-3. Panama had previously been an importer of coffee, but recent increased production and improved quality promises to make this a sizeable future export crop.

Livestock - Raising of livestock is a major activity. As of June 1954, it was estimated that there were on farms in the Republic 578,600 head of cattle; 225,600 head of hogs; and 2,059,800 chickens, with 652,600 of marketable age, and a daily egg production of 18,000 dozen. At that time there were 35,000 milking cows with a milk production of 98,000 liters per day. In 1953 for the first time Panama did not import cattle for slaughter and by the end of 1954 approximately 4,000 head of cattle will have been exported.
Forest Products

Panama's forest reserves are extensive, but largely unexploited. There is an efficient plywood plant, and a number of sawmills cut lumber for construction and export. There is also a small domestic wood furniture industry. In 1953 exports of lumber from Panama amounted to $817,414 and imports into the Republic amounted to $102,593.

Important steps have been taken recently to stimulate development of natural timber resources. A conservation committee composed of timber interests, industrialists, legislators, and Government officials have agreed upon a series of basic steps for improved forest resource utilization, which includes drafting a new law providing for the first time, a Forestry Office to make necessary technical studies, and to promote and establish essential conservation practices. In addition a testing laboratory has been set up in the University of Panama with facilities for testing physical and mechanical properties of woods and other materials. A survey has been started preliminary to the establishment of a forest nursery and the Ministry of Agriculture, Commerce and Industries is planning for the development of a large scale coffee and cacao propagation nursery.

Fisheries

The Panama City Marketing Area contains major fishing grounds, which except for the large shrimp catch are far from fully developed. Principal fishing grounds exist in the broad Gulf of Panama within a radius of 100 miles of Panama City. They include the islands and bays adjacent to the Panama Canal, the area around the Island of Otoque, off Chame Point, on the beach near Chorrera, around Chepillo Island, in the estuaries of the Bayano and Chico Rivers, around the Pearl Islands, and off Chiman, Panama. In addition, there are less important fishing grounds near Colon and Almirante on the Caribbean. (See "Targets for Development" - "Fish Processing" and "Fisheries Resources").

Mining

Mineral resources are very much a question mark in Panama since no survey of underground deposits has been undertaken. A considerable number of mining claims are on file with the Government but at present no mining is being carried on.
Petroleum

No petroleum has been found, but exploitation contracts have been signed covering almost every square mile of the country. Stipulated work must be performed within a time limit of three years.

Manufacturing Industries

Manufacturing industries in Panama are generally small and limited in number. Of six corporations with declared capital of over $1,000,000 the top three are the two subsidiaries of the United Fruit Company with declared capital of around $25,000,000 and the Panama City-Colon electric, gas and telephone utility with approximately the same declared capital. The next three are manufacturing or processing industries -- the local brewery, the cement plant, and the shrimp processing plant with declared capital ranging between $1,500,000 and something over $3,000,000.

There are some 35 to 40 other manufacturing firms with declared capital ranging between $100,000 and $1,000,000 -- mostly in construction and consumer goods areas. They include a plywood plant, sawmills, clay products, building and floor tile, vitreous sanitary ware, sanitary pipe, cement blocks and other cement products, alcoholic beverages, soft drinks, sugar refining, abattoir, vegetable oils, soaps and detergents, canned milk, canned tomato products, cookies and candies, dairies, bakeries, cigarettes, clothing, shoes, tannery, etc.

There is a high degree of concentration of industry in and around Panama City. Approximately 67 percent of manufacturing establishments are located in Panama Province and if only those with capital of over $100,000 are considered the concentration is more striking -- with some 88 percent of this group located in Panama Province. Chiriqui Province, which includes David, third largest city of the Republic, ranks a poor second in number of manufacturing establishments with 12.4% of the total number -- all small industries.

The major reason for such concentration in the past was the immediate availability in Panama City of electric power, good transportation, trained labor, housing and other amenities. At this time it would still be necessary to provide a private electric power source for any industry located outside the Panama City area which has substantial electric power requirements. However, a study is now underway to determine hydro-electric power possibilities along the Pacific slopes between Panama City and the Costa Rican border and in Chiriqui plans are underway for an expansion of the existing hydro-electric power plant. Interior living conditions and general transportation are steadily improving so that considera-
tions other than power are not as compelling as they have been.

A survey of new industry possibilities is expected to be completed sometime in the first half of 1955. Some areas of opportunity are cited under Manufacturing Industries "Targets for Development".
ECONOMIC SUMMARY

Economic Situation in 1950

1950 was the year of the decennial Census and a year of recession in Panama. As has already been noted there has been steady improvement in many areas since that time which can be measured against the benchmarks of that year.

In 1950 there was an employable national labor force of 262,660 men and women with a proportionate distribution by branch of economic activity as follows: agriculture, forestry, hunting and fishing -- 52 percent; mines and quarries -- .02 percent; manufacturing industries -- 8.1 percent; construction -- 3.9 percent; electric, gas and water utilities -- .06 percent; commerce -- 8.6 percent; transportation, warehousing and communications -- 3.1 percent; services -- 16.7 percent; Canal Zone -- 8.8 percent; activities not well specified -- .08 percent.

21,556 were unemployed, a national average of a little more than 8 percent, however 17,662 or about 82 percent were concentrated in the provinces of Colon and Panama. At the same time less than one percent were unemployed in agriculture, forestry, hunting and fishing in which more than half of the country's employables were engaged. 20.5 percent of the unemployed had been employed in Canal Zone activities, 23.5 percent in the services area and 27.5 percent had been in construction and manufacturing industries.

Census data showed low average salaries in Panama in 1950, with 58.3 percent of all employed declaring receipt of salaries of less than $75 per month. By branch of economic activity agriculture led the list, with 88.3 percent receiving under $75 per month; services were second with 67 percent; commerce 59.4 percent; manufacturing industries 53.8 percent; mines and quarries 52 percent; transportation 51.6 percent; construction 43.1 percent; Canal Zone 41.6 percent; and electric, gas and water utilities 38.4 percent.

\[1/\text{Government employees are included in the total and are distributed in branches of economic activity roughly comparable to work area.}\
\[\text{There were 1,959 new additions to the labor force who had never worked before and are not included in the above total or in percentage distributions.}\]
Government Action

Investment Incentive Act

It was in this atmosphere that an investment incentive act -- Decree Law 12 of May 10, 1950--was passed to "attract and encourage the investment of capital in the exploitation of natural resources, agricultural activities, cattle raising and fisheries, and in profitable industries". (See Appendix "Investment Incentives". (Decree Law 12, May 10, 1950).

Office of Price Regulation

In February, 1952, the Office of Price Regulation was organized with three primary functions: (1) examining costs and fixing maximum retail and wholesale prices for all goods and services of "prime necessity"; fixing tariffs for public utility services; preventing undue limitation of production, overpricing and other monopolistic practices; (2) examining costs and fixing sales prices for goods produced by industries availing themselves of the benefits of the investment incentive law (Decree Law 12 of May 10, 1950); investigation of requests for tariff protection of home industry and agriculture and within certain limitations making determinations; changing tariff provisions or prohibiting or limiting certain imports, subject to the approval of the Council of Ministers.

International Agencies' Recommendations

In 1951 the Government requested that the International Monetary Fund and the International Bank for Reconstruction and Development examine the general fiscal and economic situation and submit recommendations for future development. These recommendations were submitted to the Government of President José Antonio Remón Cantera in the fall of 1952. In the economic area there was general agreement that the country could no longer be supported by an economy based largely upon commerce and the demand for goods and services generated by the Canal, and that there was a need for the development of a balanced economy based upon maximum utilization of natural resources which, for the most part had been so long neglected.

Institute for Economic Development

From this background the Institute for Economic Development (IFE)
an autonomous Government Agency with a broad mandate to promote and coordinate the economic development of the Republic emerged in January 1953. Working in close cooperation with the technicians of the Ministry of Agriculture, Commerce and Industries, and other Ministries and Agencies, IFE has broad planning, research and developmental responsibility: to promote the expansion of agriculture and industry through maximum utilization of natural resources; to provide commercial banking and credit facilities in areas, largely rural, not otherwise provided for by private banks; and to improve urbanization and general living conditions, including low cost housing construction and improvement. (See Appendix "Institute for Economic Development").

Economic Improvement

From the 1950 lows there has been measurable and steady improvement. Direct comparisons cannot be made in the detail given in the 1950 Census data, but the previous section on agricultural and livestock production shows several clear indications of major improvements in rice production; coffee production; and livestock production which includes a large expansion in poultry. The development of agriculture at least to the point of self-sufficiency in suitable crops appears now well under way.

There has also been a pattern of improvement quite apparent in certain general business indicators. In the 1950-53 period annual consumption of electricity in Panama City increased by 39.8 percent; the number of construction permits issued in Panama City in 1954 were 9.9 percent greater than in 1950 and the dollar value of construction was 15 percent greater. In addition there has been increase of 14.2 percent in business licenses issued in 1953 in the District of Panama as compared with 1952 and dollar value of capital invested in the District increased by 5.2 percent. There was also an apparent increase in wage levels in the City of Panama as indicated in a comparison of data of Appendix "Salary and Wage Scale" (Province of Panama) with low average wage levels for industry and construction disclosed in the

1/ Technical Assistance -- The International Bank maintains an economic representative in Panama, in close touch with IFE. The U.S. Operations Mission to Panama (Institute of Inter-American Affairs) cooperates with various Government agencies through technical assistance programs in Agriculture, Education, Health, Sanitation and Welfare; Public Administration; Civil Aviation; Industry and Special Studies. The Food and Agricultural Organization currently maintains a fisheries (shrimp) consultant and a livestock veterinarian; and the U.S. Army assigns a livestock veterinarian as a consultant to the Ministry of Agriculture, Commerce and Industries. In Health and Sanitation, the World Health Organization also maintains a Mission in Panama.
1950 Census. In the 1950-1954 period a number of new small industries were started which show promise, with expansion of the shrimp processing industry far outstripping the rest with an expansion of reported export value from some $167,579 in 1950 to an estimated $2,044,429, in 1954.

These favorable indicators are limited to the Panama City Area and there is reason to believe that the City of Colon has not shared in the improvement to the same extent although the Free Zone has added a new source of income whose continued growth can be of material assistance. However, the further real growth of Colon would appear dependent upon the economic development of the Caribbean coastal area which so far is comparatively unknown and undeveloped. The over-all picture, however, would appear to be one of healthy improvement from 1950 lows.

From a look at the foregoing there has undoubtedly been an improvement in urban employment from the 1950 lows. However, measurement of the improvement is difficult since there has been no new census of unemployment since 1950.
IV

INVESTMENT CLIMATE

ECONOMIC POLICY

Panama—offering exceptional geographical location and transportation advantages—has traditionally welcomed foreign merchants, traders and distributors and more recently has attracted foreign investors interested in resource development and industrial possibilities. Article 225 of the Constitution emphasizes that "The economy should be developed primarily through private enterprise".

The U. S. dollar is the circulating medium. Transfer of funds has never been blocked. The U. S. investor can transfer funds freely and in his own currency, in gold or foreign exchange.

Property rights are respected and secure in the Republic. In its history a private business has never been expropriated, nor have political disturbances of the past resulted in measurable physical damage to private property. Public reaction to events of the immediate past offers convincing evidence of the growth of a political maturity, stability, and respect for constitutional processes remarkable in so young a nation.

There has been an economic awakening as well. Within the past ten years there has been a growing realization that agricultural possibilities and total resource development had been neglected, industrial potential largely ignored, and the Republic's unrivalled strategic geographical location and transportation advantages utilized with too little imagination. Coupled with this there has been a growing awareness that no longer can Panama place major dependence upon commerce and the demands for "goods and services" generated by Canal operations to supply the expanding employment opportunities necessary to provide for its rapidly growing population.

Out of this background, a more mature economic policy has taken shape. An investment incentive act, Decree Law 12 of May 10, 1950, was passed by the National Assembly, with the declaration that it was enacted to encourage the investment of private capital in the exploitation of natural resources, agricultural activities, cattle raising, fisheries and in profitable industries. The daily press,
at the time, hailed the action as defining the Government's policy toward the economic development of the Nation, and for the first time, marking a departure from the traditional concept that Panama's economy must be largely dependent upon commercial pursuits because of its exceptional geographic location.

Succeeding Governments have left no doubt of their general support of the balanced development policies implicit in the preamble of Decree Law 12 quoted above. President Jose Antonio Remon Cantera took office on October 1, 1952, with his administration committed to the development of a balanced economy through increased national production, maximum utilization of total resources and a climate favorable to the investment of new capital. In the words of his opening speech to the National Assembly: "The Administration will give full support to invested capital which strengthens the economic life of the Nation and will facilitate the legal steps for its free growth".

President Ricardo Arias Espinosa in a speech to the Nation on January 21, 1955, added his endorsement when he declared that he would administer the affairs of the Nation within the framework of the policies initiated by his predecessor, President Remon. He emphasized that "We will continue the expansion and development of agriculture, commerce, and industry in the Republic" and..."the Government over which I preside will continue the healthy policy of providing incentives and encouragement for the investment of foreign capital".

The need for broad and effective economic planning to achieve desired goals has also been recognized. In 1951 the Government requested that the Internation Monetary Fund and the International Bank for Reconstruction and Development (IBRD) make preliminary studies of the fiscal and general economic situation to indicate the direction for more detailed analyses and to offer recommendations for future development. Pursuant to the recommendations of these international agencies the Institute for Economic Development, an autonomous Government agency, was created in January 1953 with a broad mandate to promote and coordinate the economic development of the Republic--working in close cooperation with technicians of the Ministry of Agriculture, Commerce, and Industries and other Government agencies. At the same time action was taken to strengthen the Government's financial position, including the adoption of measures to fund and liquidate the internal floating debt, to improve the tax structure and the collection system, and to establish sound budgetary practices.

The interim report of the U. S. Senate Committee on Banking and Currency made the following statement: "Members of the IBRD staff visited Panama in December 1952 and March 1953, and were most favorably impressed by the efficiency with which the Government was carrying out this program and by the promising results already obtained". 

INVESTMENT IN PANAMANIAN ENTERPRISE

A very rough estimate of declared capital invested in Panama and Panamanian enterprise based upon best available data indicates that approximately 46 percent represents Panamanian, 50 percent American and 4 percent other foreign funds.

Private American investment in Panama on December 31, 1953 was estimated at $399 millions. A substantial part constitutes investments in ships registered under the Panamanian flag. Other large American investors are the United Fruit Company and American and Foreign Power Company, each of whose investments are estimated at $25 millions. In addition, many of the large American corporations are represented in Panama either directly or through agents and two major American commercial banks maintain branches in the Republic -- The Chase National Bank and The National City Bank of N. Y.

The interim report of the U. S. Senate Committee on Banking and Currency makes the following comments: "Most United States businessmen who talked to your committee in Panama held the opinion that they received fair, nondiscriminatory treatment from the Panamanian Government and that it fulfilled its treaty and contractual agreements to the letter."[1]

ECONOMIC HIGH-LIGHTS

From 1950 to date, there has been steady and measurable expansion of national production, especially of agricultural products, although in all areas improvement has been at an accelerated rate in the past two years. Agricultural expansion is attributed to the use of more modern methods, including farm mechanization, in a planned drive for self-sufficiency at least, in all suitable crops.

A start has been made toward better resource development in general, but much remains to be done. The size of the job and some idea of the size of the opportunity for both foreign and domestic investors is evident from a casual look at one major area alone -- land utilization. 1950 Census figures indicate that only 15.6 percent of the total land area was devoted to farms and it is estimated that 75 percent of the total land area is public land, much of which can be allotted, sold or leased under conditions prescribed by law.

Remarkable growth -- In 1951 the Free Zone in Colon (an international free trade zone) was established. From a small beginning in 1951 total shipments from the Free Zone in 1953 expanded to over $14 millions and in 1954

rocketed to over $34 millions, a remarkable growth. A $500,000 bond issue has been authorized to provide additional facilities for further expansion.

CAPITAL REQUIREMENTS AND TECHNICAL ASSISTANCE NEEDS

Capital Requirements

In general, private capital can be raised in the Republic to support the greater part of small-to-medium-sized new enterprises, although foreign capital would be required to support large projects or accelerated industrial expansion. During the past two to three years it is estimated that roughly $4,000,000 to $5,000,000 of new private investment funds were available annually for all types of investment in the Republic, a good part of which might have been diverted to equity investment in sound enterprises. In 1954, $2,500,000 of National Racetrack (Hipódromo Nacional) Republic of Panama, 6 percent 20 year bonds were sold to local investors at par, while income producing housing and commercial construction continued at a high rate (private construction permits issued in 1954 totalled over $6,000,000 in Panama City alone) and a number of new small industries were started with local capital.

Technical Assistance Needs

Know-how and technical guidance are major needs. As pointed out above, Panama is not without developmental capital. Emerging very recently from a traditionally commercial and trading economy, businessmen are for the most part unfamiliar with industrial needs and profit possibilities, and naturally hesitant to step into the unknown. Their greatest need is for direction and planning guidance. It would not be difficult to form a joint-venture Panamanian-United States private enterprise with a sound project in view with, on the United States side, technical guidance and know-how as its major contribution.

Panama has a greater than average percentage of engineering school graduates within its borders most of whom have been trained in U. S. colleges and universities. The Society of Architects and Engineers in Panama City lists 163 members as of December 21, 1954, of whom 41 are architects, 90 civil engineers, 9 electrical engineers, 5 mechanical engineers, 3 chemical engineers with the remainder scattered through a variety of other engineering pursuits. These numbers are augmented annually by new young graduates. There is therefore, a nucleus of technically trained young engineers upon which to build. At this time direction born of experience, technical guidance; and industrial know-how are essential to the development of new industries needed to complement the contributions of other sectors in a balanced economy.
INVESTMENT INCENTIVES

Panamanian business law makes no distinction between Panamanian and foreign companies in the formation of an enterprise and requirements for organizing a business are simple and not onerous. They include filing of properly certified organization papers in the Mercantile Section of the Public Registry Office together with a statement of the capital to be invested, the procurement of a license to do business, and the maintenance in the country of a representative authorized to act for all legal purposes.

Foreign investors may own all or part of any enterprise and there is complete freedom to manage the business. While the Labor Code provides that Panamanians must comprise at least 75 percent of the workers and 75 percent of the wages and salaries in every commercial or industrial enterprise must be paid to Panamanian nationals -- exempted from this rule are administrators, technicians and experts required in the operation of such enterprises.

A private business has never been expropriated in the history of the Republic of Panama. While there are under the Constitution "eminent domain" provisions which, in the national interest, could be used under very carefully spelled out circumstances, there is also a guarantee of prompt, effective and equitable compensation.

The Government through its Institute for Economic Development welcomes the participation of foreign capital and know-how in the development of the full resources of the country -- offers its support and cooperation -- and invites consideration of the following advantages:

Strategic Geographical Location and Sea and Air Transportation Advantages

Panama is at the cross roads of major World sea and air transportation routes. By sea -- days closer to Latin American markets than U. S. ports -- frequent sailings to all major Latin American markets -- 64 steamship lines of 34 maritime nations touch regularly at Canal Zone ports. By air -- an average of one day closer to Latin American markets -- daily flights to major Latin American cities -- farthest distant major cities of South America only 15 to 20 hours away -- eight international airlines regularly use Tocumen International Airport, near Panama City.

1/ U. S. companies may engage in any enterprise -- other foreign companies may not engage in retail trade.

2/ Ibid.
Investment Incentive Law

Decree Law 12 of May 10, 1950, was passed to attract and encourage the investment of capital in the exploitation of natural resources, agricultural activities, cattle raising, fisheries, and in profitable industries. Especially favorable to foreign capital, it grants a number of privileges and concessions for periods ranging up to 25 years, which include exemption from a variety of taxes, including import and export imposts. It does not include exemption from income taxes on domestic activities but income derived from activities outside of Panama are exempt from income taxes. The law provides guarantees against increases in any tax for the period of the agreement and under certain conditions may offer tariff protection against competitive foreign imports.

Currency and Exchange

No exchange control — transfer of funds has never been blocked.

Free convertibility of currency — the U. S. Dollar is the circulating medium.

Clauses requiring payment in gold or foreign exchange are legally valid.

Banking and Credit Facilities

National Banks, branches of two large American commercial banks and a third foreign bank offer excellent facilities for doing business in Panama and throughout Latin America. The Institute for Economic Development may also extend credit for developmental purposes and operates commercial banking services in rural areas.

Taxes

Foreign and domestic companies are subject to the same taxes. Income taxes are low by U. S. standards — progressive business income taxes and personal income taxes range from 2 percent on income between $900 and $2,400 to an effective tax rate of approximately 25.24 percent on incomes of $1,000,000 with a maximum of 34 percent on all income above $1,000,000. There is a 20 percent surtax on business income taxes only. There is no double taxation of dividend income. Dividends, interest on bonds, profit sharing distributions are taxed at the source and are not again subject to income taxes — foreign investment income is not subject to income taxes.
Other principal national imposts include import duties which generally range from 8 percent to 20 percent with an average of 19 percent based upon value of annual duties paid, with special protective imposts on a limited number of items; social security taxes; real estate taxes; license fees; and a number of nominal stamp taxes on papers and documents covering a variety of transactions. Municipal taxes are limited by law to certain limits and vary depending upon the municipality. Major taxes include license fees based upon nature and volume of business transacted ranging from $5 to $300 per month; annual automobile and truck license plates ranging from $24 to $34 for private cars to a maximum of $110 for trucks of three tons and more capacity, plus small fees for commercial signs and advertising posters and bills.

U. S. Foreign Tax Credits

Either a credit or deduction, within limits are allowed for income taxes paid a foreign country. Western Hemisphere Trade Corporations receive especially favorable treatment, being eligible for a deduction of 14 percentage points from normal corporation income taxes due.

Education

Panama offers a complete system of education from kindergarten through the University, including vocational training at the secondary school level. Primary education is compulsory. Instruction is given in Spanish.

The Panama Canal Zone Government (a U. S. Government activity) operates American schools from kindergarten through two years of college, offering college transfer and terminal courses in Liberal Arts, Commercial (Business Administration and Secretarial) and Science-Engineering. High schools and the Junior College are accredited by the Middle States Association of Secondary Schools and Colleges and credits earned are accepted in accredited schools and colleges in the United States. All instruction in these schools is in the English language. Schools are primarily for children of personnel attached to Canal Zone activities, but on a space available basis a small number of children of other United States citizens together with some Panamanian children and children of foreign nationals are accepted for admittance at the beginning of the school year, upon payment of tuition.
Labor

Panama, with a largely bilingual labor force, offers special advantages in business contacts with predominantly Spanish speaking Latin American markets. Panamanian labor is readily trained, many with basic mechanical skills learned in Canal Zone operations and in vocational schools of the Republic, and wage scales are lower than U. S. averages. The Labor Code gives certain guarantees to workers. Social Security protection is also offered workers.

Health and Sanitation

Medical, health and sanitary facilities are good in Panama City and Colon and generally good in all urban areas.

Living Conditions

"Panama City is a modern cosmopolitan metropolis.....United States citizens who have resided in Panama for many years are reported to be well satisfied with living conditions here". Quoted from the U. S. Department of Commerce "Living and Office Operating Costs in Panama", World Trade Series No. 556, dated June 1954.
TARGETS FOR ECONOMIC DEVELOPMENT

Panama has set as her goal a balanced economy based upon maximum productive use of total resources. The following are targets for development:

MANUFACTURING INDUSTRIES

The Minister of Agriculture, Commerce, and Industries, Temístocles Díaz, in his annual report (Memoria 1953) to the National Assembly emphasized the importance of industry in a balanced economy and summed up the Government's attitude in these words: "The National Government feels that the increase of agricultural production by itself would be insufficient, and even self-defeating, if not accompanied by adequate complementary industries...."

Although small at present, manufacturing industry is a key sector of the economy and promises to become increasingly important in the future. Lacking complete basic resource analyses its full potential cannot be finally estimated, but manufacturing can play an important and profitable part in complementing present contributions of other sectors of the economy.

Panama offers unique strategic geographical location and unexcelled export transportation facilities by sea and air -- with a choice of world export markets or the more limited domestic and Canal Zone markets -- which should be carefully considered in assaying industrial potential.

General possibilities for increasing industrial plant in Panama exist in the form of light and medium industry in the following areas: Industries based upon agricultural, forest and fisheries resources; service industries; and assembly operations and other industry which can profitably exploit Panama's strategic location and transportation differentials. With the exception of crude salt, industries based upon known and currently worked mineral resources, as previously noted, are confined largely to the small but efficient construction and allied industries in Panama. Possibilities in other minerals reported and petroleum must await evaluation and further exploration. The following is not an exhaustive list, but is indicative of areas of opportunity:
Processing of Fruits and Vegetables

Panama produces all familiar varieties of tropical fruits and vegetables and a number of Temperate Zone vegetables as well -- yet only tomato products are processed in the Republic. There is no citrus juice industry although the Republic grows oranges, grapefruit, lemons, and limes, and there are possibilities of working out a schedule of staggered maturities of other produce, including such baby food possibilities as banana puree, which all together could provide a base for year-round operation. The Republic and Canal Zone annually import substantial quantities of fruit juices and beyond these local demands are World markets.

Tropical Fibers

The long range World-supply - demand situation and recent technical advances have opened new possibilities in the utilization of various tropical fibers (bagasse, bamboos, reeds, tropical hardwoods) to supplement depleted Northern Hemisphere forest resources in the production of pulp for paper, rayon, and other cellulose products. Panama's large areas of undeveloped land, extensive forest resources, and uniquely favorable geographical location and water transportation facilities offer major advantages.

Fish Processing

There is in Panama a comparatively large and efficient shrimp processing and freezing plant which has shown remarkable growth in the past four years -- plus smaller competitors. Yet, although Panamanian waters are known to be productive of high grade edible fish, no industry for canning, smoking, drying, salting or otherwise processing fish products for domestic needs or for export exist in the Republic. 1

1/ In February 1955 a $225,000 fish reduction plant, processing fish for fertilizer and animal feed was placed in operation. By-products will include fish oil used in the manufacture of soap, paints, and refined oil. Company spokesmen stated that the plant is of sufficient capacity to satisfy local needs and will enter export markets as well. Present plans include the addition, at some future date, of machinery to extract proteins from fish liquids and ultimately of further expansion to include canning fish and producing fish powder for human consumption.
Powdered Milk

The following is a specific example of action taken by local investors:

There is under construction in Chiriqui Province a whole milk processing plant designed to produce powdered milk. Investment is estimated at $400,000 in round figures which includes plant, equipment and operating capital. It will utilize raw milk, of which only a small part is pasteurized in Chiriqui and much is presently wasted because of lack of a sizeable nearby market and the distance and transportation difficulties involved in shipping fluid milk to the more populous Panama City and Colón markets. The plant, observing safe health standards, expects to use the most modern equipment and sterilizing processes. The services of a U. S. consulting firm were used for planning, design, construction and procurement of machinery and equipment and arrangements have been made for continuation of consulting services during the period required to conduct trials, establish controls, operating and maintenance procedures and train required personnel. The Management plans to start operations early in June of 1955 with first year production aimed at 50 percent of the average 1,210,000 pounds of powdered milk imported into the Republic annually during the past five years and second year production aimed at supplying the entire market. Capacity of the plant will be larger than is presently necessary so that as additional milk sources are developed production of other dairy products may be undertaken such as butter, skimmed milk powder, ice cream mix and evaporated milk. This is an important industrial addition in a country in which, outside of the major cities, refrigeration is limited, or lacking entirely.

LAND -- AGRICULTURE AND LIVESTOCK

Panama has large areas of uncultivated fertile lands, both in the tropical lowlands and in the temperate highlands. In 1950 Census figures indicate that only 15.6 percent of total land area is devoted to farms, and it is estimated that 75 percent of the total land area is public land (tierras baldías) much of which can be allotted, sold, or leased under conditions cited in Title IV Chapter I of the Fiscal Code.

While there are no recent over-all statistics, a look at expansion of land use and yield of two basic crops -- rice and corn -- from 1950 to 1953 inclusive will give some idea of possibilities. In this period it is estimated that rice acreage planted increased by 18 percent and yield by 31 percent; and corn acreage planted increased by 24 percent and yield by 22 percent.1 In the same years

1 The basic reason for the different area-yield improvement ratios between corn and rice is that rice production is becoming increasingly mechanized on larger acreage, while corn continues to be cultivated for the most part by a large number of small farmers who still use primitve methods.
Grouper. There is no difference in varieties taken on either coast except that varieties taken in the Caribbean are generally smaller in weight. There are no published statistics of over-all take in Panamanian waters.

Panama Bay is a well known sport fisherman's paradise -- with Black Marlin, Pacific Sailfish, Tuna, Wahoo, Dolphin, Bonita, and Mackerel heading the list -- and boasts of a number of world record catches.

MINERALS

During World War I, manganese was mined and shipped from the Porto Bello area of the Republic, and manganese has been reported from various other locations as well. Competitive market prices and costs involving transportation difficulties have apparently made it uneconomical to resume operations in the Porto Bello area to date although reports indicate that there is a substantial remaining deposit. Gold was mined commercially in Veraguas and Cocuyo some years back and in Campana until about two years ago, but these locations are no longer being worked.

Other known mineral resources are crude salt; limestone, which exists in some quantity and is currently worked in the manufacture of cement; clays used in the manufacture of a number of clay products (such as tile, block, vitreous bathroom items, etc.); and the usual common construction materials such as stone, sand, and gravel.

Low grade iron ore, coal, copper, silver, lead, zinc, tungsten, marble, granite, rock crystal, mercury, bauxite, sulphur, pitch, asbestos and asphalt have also been reported in old mining claims, but no commercial mines are being worked at this time and these old claims remain unevaluated. Transportation facilities and costs are problems in areas distant from the two major highway systems or from water transportation. (See Appendix "Mining Laws and Regulations").

PETROLEUM

The change in petroleum legislation late in 1953 resulted in the signing of exploitation contracts covering almost every square mile of the Republic. The contracts require completion of geological surveys and drilling of wells to minimum 1,500 feet depths within a three-year period. Exploration teams have drilled in the Republic for some years past but no producing wells have been reported. (See Appendix "Petroleum Laws and Regulations").
Valuable Latin American markets are at its doorstep. The Free Zone offers geographical advantages in tapping Latin American markets unique in the Western Hemisphere. Combined with unexcelled sea and air transportation facilities, the Free Zone offers major competitive advantages in speedier deliveries and probably lower shipping and operating costs to companies interested in distribution of products or parts and assembly or light manufacturing operations at a point closer to end markets. For sales promotion it offers excellent facilities for setting up permanent exhibits or displays of goods or services within easy reach of all parts of South and Central America and the Caribbean. Bilingual staffs may readily be recruited to facilitate business contacts with predominantly Spanish-speaking Latin America. (See Appendix "The Colon Free Zone")
# APPENDICES

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Rights of Foreign Investors

General

Article 21 of the Constitution provides that Panamanians and foreigners are equal under the law. However, the law may subject foreigners in general (but not specific groups) to special conditions or deny them the right to engage in certain activities. Article 45 of the Constitution provides that private property legally acquired by natural or juridical persons may not be disregarded or violated by subsequent law.

To Engage in Business

United States citizens may engage in any branch of enterprise in the Republic. Other foreign citizens may engage in any branch of foreign enterprise except retail trade¹ (unless they were in such business before promulgation of the Constitution).

To Exploit Natural Resources

Foreigners have the same right as Panamanian nationals with respect to acquisition of lands, exploitation of agricultural enterprises, water rights, mining, petroleum and other subsoil concessions, except that they may not acquire lands within 10 kilometers of the frontiers.

¹ Article 234 of the Constitution reserved retail trade for nationals, excepting those persons engaged in such trade before promulgation, and certain others. U.S. citizens are exempt under a paragraph of Art. 234 which says that nationals of states having an "enterprise or organization" on the Isthmus providing employment opportunities for Panamanian nationals may engage in retail trade—if resident in Panama. The Panama Canal has been adjudged such "enterprise or organization" under the law.
Organizing a Business in Panama

Panamanian commercial law recognizes five forms of commercial companies (juridical persons): the collective company or general partnership (sociedad colectiva); the simple limited partnership (sociedad en comandita simple); the corporation (sociedad anónima); the stock issuing limited partnership (sociedad en comandita por acciones); and the cooperative company (sociedad cooperativa). These five forms of companies may engage in any kind of commercial business. A business may also be operated as a sole proprietorship.

Panamanian law makes no distinction between Panamanian and foreign companies in the formation or organization of an enterprise. Article 60 of the Commercial Code contains requirements which must be met by commercial or industrial enterprises and provides that a foreign company intending to become established or to set up branches in Panama must present for registration:

1. proof of legalization of its charter or other documents relating to its organization;

2. a statement of the amount of capital utilized or intended to be utilized in operations in Panama;

3. a certificate (article of incorporation, partnership papers, etc.) showing that it is organized and authorized to do business under the laws of the country concerned, to be issued by the Panamanian consul in that country, or if there is none, by the consul of a friendly nation.

Following registration of the required documents in the Mercantile Section of the Commercial Registry Office, the company must obtain a commercial or industrial license (patente). Further the company must maintain in Panama a representative, administrator, director, or manager duly authorized to act for all legal purposes.

1/ Basic laws governing economic activity in Panama are the Constitution of 1946; the Commercial Code of July 1, 1917 with subsequent modifications; Law 32 of February 26, 1927; Law 24 of March 24, 1941; Decree No. 48 of January 11, 1944. In addition there are special laws: Law No. 101 of 1941 covering banking; the Code of Mines and Law No. 100 of 1941 covering mining; the Fiscal Code and Law No. 21 of 1923 as amended covering oil companies; cooperatives are covered under the Commercial Code and a Decree Law passed in 1954. (Decree Law No. 17 of September 22, 1954)
The operation of such enterprises is subject to the supervision of the Ministry of Agriculture, Commerce and Industries, but solely for the purpose of assuring compliance with constitutional and legal provisions.

Once a foreign company has fulfilled all legal requirements and formalities, for engaging in commercial or industrial activities, it is entitled to the same privileges and concessions, and has the same obligations as those of a domestic company engaged in the same type of activities.

**Cooperatives, Banks, and Insurance Companies**

Special laws govern these companies and they are also subject to authorization and supervision of the executive branch.

**Agricultural Activities**

These are not regarded as commercial and are governed by the Civil Code. Foreigners may freely exploit agricultural properties and enjoy the same rights as nationals. No license is required, unless a commercial company is organized to engage in agricultural activities, in which case the functioning of the company is governed by the Commercial Code.

**Public Utilities**

Operation of a public utility requires a franchise, license, or special privilege granted by the national Government, a Province, or a Municipality. Article 3 of Law 102 of 1941 defines public utilities and requires licensing. The Ministry of Public Works supervises such enterprises.
INVESTMENT INCENTIVES

Decree Law 121

Passed on May 10, 1950 -- enacted to attract and encourage the investment of capital in the exploitation of natural resources, agricultural activities, cattle raising and fisheries, and in profitable industries.

It defined the Government's policy regarding the economic development of the Republic, and for the first time, marked a departure from the traditional concept that Panama's economy but be largely dependent upon commercial pursuits because of its exceptional geographical location.

Eligible Enterprises:

Agricultural and livestock activities, extractive industries -- forestry, mining, fishery industries, and manufacturing industries of any kind are eligible to receive the benefits of the law upon conclusion of a contract with the Government.

Contract Procedures

Written application must be made to the Minister of Agriculture, Commerce, and Industries, who signs the contract for the Government upon approval of the Council of Ministers. Such a contract does not require the approval of the National Assembly. There is no discrimination with respect to such contracts. Whenever such privileges or concessions are granted to a specific enterprise they may also be granted to any other enterprise engaged in the same economic activity.

Privileges and Concessions2/

The law is especially favorable to foreign capital and grants the following privileges and concessions, to enterprises qualifying under its terms, for periods ranging up to a maximum of twenty-five years:

1/ Subsequently modified by Decree No. 191 of January 15, 1953.

2/ Import duty exemptions must be requested in advance and approved by the Minister of Finance.
(1) exemptions from all taxes, levies, or duties on the importation of machinery, equipment, fuels, lubricants, and other consumables used in the factories and installations;

(2) exemptions from all taxes, levies, or duties on the importation of raw materials not obtainable economically or in sufficient quantities within the Republic;

(3) exemption of foreign technicians and experts from the limiting provisions of Art. 605 of the Labor Code;

(4) exemption from all operation, production, distribution and consumption taxes—however, payment must be made on income taxes; social security taxes; stamp, registration, and notorial fees; and fees for public services supplied by the Government—but with a guarantee that taxes will not be increased during the lifetime of the agreement;

(5) exemption from all taxes on exports of products—and the re-exportation of excess raw materials, machinery or equipment;

(6) exemption from income taxes on earnings outside the Republic, even though operations are directed from within the Republic;

(7) under certain conditions tariff protection may be provided against competitive foreign imports.

**Obligations**

To enjoy the concessions granted certain minimum obligations must be observed:

(1) to invest a certain minimum amount of cash, fixed by the Government, and to maintain it during the period of concession;

(2) to produce and offer to the public articles of good quality;

(3) to commence investment within the period specified by the Government, not to exceed six months, and to commence production within a period not exceeding two years;

(4) to sell products in the domestic market at wholesale prices within limits fixed by the Office of Price Regulation;

(5) to refrain from retail selling;

(6) to submit all disputes to the National Courts, renouncing diplomatic intervention.
LABOR CODE

General

"The present Code regulates the relations between Capital and Labor, placing them on a basis of social justice, so that without prejudice to either of the parties, the worker may be guaranteed the conditions necessary for normal life and capital and equitable compensation for its investment!". (Preliminary Title, Article I of the Labor Code).

The Labor Code, Law No. 67 of November 11, 1947, designates the Office of the Inspector General of Labor, Ministry of Labor, Social Welfare, and Public Health to supervise labor laws and regulations. Article 66 of the Constitution and Article 184 of the Labor Code provide that for equal work, under identical conditions there shall be equal wages or salary, regardless of age, sex, nationality, or race. Title XIX, Chapter I of the Labor Code authorizes the formation of Unions or Cooperatives of employees or employers, with juridical personality, and limits their activities to the study, improvement, and protection of their respective common social and economic interests. The right to strike and the right of a lockout are recognized under Article 68 of the Constitution -- acts of violence or coercion against persons or property are outlawed--Title XX of the Labor Code contains pertinent regulatory provisions. Panama has been relatively free from labor troubles -- the record indicates that there have been some 10 strikes in the past 24 years.

Labor Contracts

The law provides that there shall be a labor contract specifically describing the terms of work in writing -- either individually (contrato individual), or collective (contrato colectivo o contrato sindical) with a labor union or unions representing the workers. Exemptions are provided for agricultural and livestock workers, domestic servants, occasional or temporary work which does not exceed three months; a specific piece of work which does not exceed $100 in value, or work or services contracted for in towns of not more than 500 inhabitants.
Working Conditions

Hours of Work -- A maximum 8 hour day with a 48 hour week is provided under Article 150 of the Labor Code for Day Work (from 5 AM to 7 PM). The maximum for night work (between 7 PM and 5 AM) is 7 hours daily with a 42 hour week. The maximum for mixed work -- or a combination of day and night work is 7 1/2 hours daily with a 48 hour week. (Managers, administrators, those who do not work under immediate supervision, commission workers, those occupying positions of vigilance and trust and those whose cannot be fitted into the regular work week are not subject to the eight hour day, but may not work more than 12 hours per day.)

Sunday Rest -- A worker must have one day of rest per week, which should be Sunday, unless it is impossible to interrupt work for reasons cited in Articles 164 and 165 of the Labor Code.

Overtime -- Day work is paid at the rate of time and a quarter (125%); night work at the rate of time and a half (150%); Sunday and holiday work at the rate of time and a half (150%), although the worker retains his right to his weekly day of rest.

Vacations and Leave -- After 11 months of continuous service and for each succeeding period of 11 consecutive months, the employer must grant one month's paid vacation. (Art. 170 of Labor Code)

Pregnancy and Childbirth -- A pregnant woman worker is entitled to leave with pay for six weeks preceding childbirth and eight weeks thereafter and shall retain her employment. In the payment of wages the employer pays the difference between the social security benefit and regular wages. In actual practice payments work out as approximately six weeks paid by Social Security and eight weeks by the employer.

Notice of Termination -- For other than casual or temporary employment, adequate notice of dismissal must be given in accordance with length of service. Twenty four hours notice must be given for service of less than three months, and additional notice on a sliding scale upward -- to one month for service of between one and two years -- with a maximum of two months for service of over two years. Upon receiving notice the worker has the option of continuing to render service until the end of the contract or exacting from the employer immediate payment in full for the period of notice. (Article 76, Labor Code)
Percentage of Panamanian Workers

The general rule is that at least 75% of the workers in every commercial or industrial enterprise operating in Panama must be Panamanian -- or certain specified foreigners. Exempted from this rule are experts and technicians required in the operation of commercial or industrial enterprises. Approval must be granted by the Minister of Labor, Social Welfare and Public Health.

The law also requires that 75% of the wages and salaries must be received by Panamanians and others included under that category. The Chief Executive is authorized to vary the proportions indicated for either personnel or wages, in accordance with economic conditions of the country. (Article 605 of Labor Code)

Occupational Risks and Workmen's Compensation

Legislation concerning "Occupational Risks" is contained in Title XXVIII, Articles 207 to 268 of the Labor Code. The section defines such risks and the employers' liabilities resulting therefrom, the compensation to be paid for permanent partial disability, permanent total disability, medical attention and similar services, and specifies those cases in which compulsory insurance against such occupational risks is required.

Every employer is responsible for occupational accidents or diseases suffered by a worker as a result of his work or any injury, disease or complication suffered as a direct, immediate and unquestionable result of a work accident or occupational disease.

Insurance against occupational risks is obligatory in the following categories: (1) construction work of all kinds; (2) mines, quarries, excavations, sawmills and salt works providing machinery is used in the latter; (3) maritime, river, aerial, and land transportation; (4) work relative to warehousing and loading and unloading at docks; (5) production of gas and electricity, its distribution, operations and storage; (6) factories and workshops; (7) theatres and places of public entertainment; (8) work in which explosive, inflammable, unhealthful or toxic materials are used; (9) permanent fire departments; (10) other work requiring use of cutting, filing or crushing machinery.

Insurance against occupational risks shall be exclusively at the expense of the employer and benefits shall not be less than those granted by law. Benefits are generally broader than usually found in the United States and rates are generally higher than in most states, but appear roughly comparable to those in effect in New York State. Insurance rates were fixed originally by the Minister of Labor, Social Welfare and Public Health in consultation with the Social Security Fund (the regulatory bodies) and were based upon direct
negotiations with the insurance companies involved. Rates may not be changed without the direct consent of the regulatory bodies.

The Labor Courts adjudicate compensation cases normally, unless the risk has been due to a felony or offense blamable on third parties in which case the claim may be pressed in the ordinary courts in accord with common law, without prejudice to the worker's rights or claims he may have under the provisions of Title XXVIII.

Employer-Employee Disputes

Initial conciliation and arbitration of employer-employee disputes are functions of the Office of the Inspector General of Labor, Ministry of Labor, Social Welfare and Public Health which maintains a headquarters office in Panama City and subordinate offices in every province except Panama Province, which is served from the main office.

Disputes which cannot be settled in the Labor Office are brought to the appropriate labor courts which are classified as follows:

(1) The sectional labor courts, which are courts of first instance and which also serve as courts of conciliation. They are distributed throughout the Republic.

(2) The Superior Labor Court (Tribunal Superior de Trabajo), located in the capital of the Republic which hears appeals from the decisions of the sectional labor courts.

(3) The Supreme Labor Court (Corte Suprema de Trabajo) which is to serve as a court of appeals for matters involving $500 or more. This court does not exist at present but its functions are performed by the Court of Administrative Claims (Tribunal de lo Contencioso Administrativo).
SOCIAL SECURITY

A system of Social Security covering sickness, maternity, disability, old-age and death benefits is provided by law. 1/ Old age pensions are payable to men when they reach the age of 60 and to women upon reaching age 55 providing they comply with other provisions of the law. In those categories in which Social Security payments are obligatory employers and employees each contribute 4 percent of wages or salaries (sueldos)2/ paid, while self-employed workers may pay into the Fund at the rate of 5 percent of income or profits and if otherwise qualified receive the same general benefits.

Social Security coverage is obligatory in the following categories (except as certain classifications are specifically exempted under provisions cited in the paragraph immediately following):

(1) all employees in the service of the State, provinces, municipalities, autonomous and semi-autonomous agencies and the decentralized public organizations;

(2) all employees in the services of private persons or private enterprises.

Exempt from provisions of the Social Security Law are the following:

(1) persons who are entering service covered by Social Security for the first time and who have arrived at the age of 60 for men and 55 for women;

(2) the husband or wife, parents or children under sixteen years of age of the owner (patrono)3/ who are working for him;

1/ The Social Security Fund (Caja de Seguro Social) an autonomous Government Agency was established by Law No. 23 of 1941 which was amended by Law No. 124 of 1943 and further amended by Decree-Law No. 14 of August 27, 1954.

2/ Wages and salaries (sueldos) include every payment of value or other recompense received from the owner (patrono) or any natural or juridical person in payment of services in accordance with definitions established for salaries in Article 28 of Decree Law No. 38 of 1941. In effect this includes all payments to employees for services whether in money or in kind except profit-sharing distributions.

3/ "Patrono" is defined as every natural person, or juridical entity and every public or private enterprise which uses the services of paid employees.
(3) occasional or part time workers in conformance with standards established by the Social Security Fund;

(4) domestic workers;

(5) persons contracted for periods of no more than 2 months.

Social Security coverage is voluntary in the following:

(1) self-employed workers;

(2) persons not considered to fall under the obligatory provisions of Social Security;

(3) the husband or wife and children of less than 16 years of age of a person obliged to be insured who meet conditions required under Family Security regulations;

(4) workers in Panamanian territory who are outside of its jurisdiction;

(5) employees of diplomatic and consular missions accredited to this country;

(6) employees of international organizations living in this country;

(7) employees of persons or private enterprises who do not maintain legal residences in the districts where social security is mandatory.

The Social Security Fund (Caja de Seguro Social) is an autonomous Government agency administered by a Director General who is its legal representative, and a board of directors. The Director General is nominated by the President of the Republic, subject to the approval of the National Assembly, and serves for a term of six years.

The Board of Directors of the Fund is composed of the following principals or their alternates: The Minister of Finance and Treasury, a representative of public employees, a representative of private employees, a representative of private enterprise (patronos), the Manager of the National Bank. The Controller General (or the Assistant Controller General) also attends meetings with the same rights as other directors except that he may not vote. The three representatives and alternates of employees and employers are appointed by the President, subject to the approval of the National Assembly. The Minister and Controller General and alternates are members "ex officio".

The Social Security Fund establishes the conditions for admittance of the voluntary assured and fixes the rules to be followed.
### Labor Force Composition by Economic Activity, Employment Status, Sex
(Data of 1950 Census)

<table>
<thead>
<tr>
<th>Type of Activity</th>
<th>Pop. Employed</th>
<th>Pop. Unemployed</th>
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<tbody>
<tr>
<td>Republic Total</td>
<td>241,104</td>
<td>195,974</td>
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<tr>
<td>Agriculture, Forestry, Hunting and Fishing</td>
<td>131,839</td>
<td>124,434</td>
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<tr>
<td>Mines and Quarries</td>
<td>359</td>
<td>356</td>
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<tr>
<td>Manufacturing Industries</td>
<td>18,018</td>
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<tr>
<td>Construction</td>
<td>6,657</td>
<td>6,577</td>
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<td>Utilities - Gas, Water, Electricity</td>
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<tr>
<td>Commerce</td>
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<td>14,631</td>
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<tr>
<td>Transportation, Warehouse, Communication</td>
<td>6,700</td>
<td>6,058</td>
</tr>
<tr>
<td>Services</td>
<td>37,646</td>
<td>14,995</td>
</tr>
<tr>
<td>Canal Zone</td>
<td>18,003</td>
<td>14,564</td>
</tr>
<tr>
<td>Activities not well specified</td>
<td>847</td>
<td>695</td>
</tr>
</tbody>
</table>

1/ Data covers population 10 years of age and over -- excluding Indian Population

2/ There were a total of 19,482 Government employees in the year 1950, who were excluded in the above data. Under types of economic activity roughly comparable to work activity.
COURSES RELATED TO INDUSTRY

Offered by
Vocational Schools and High Schools
and the
University of Panama

Trade Training Offered in the Vocational Schools

1. Auto Mechanics
2. Aviation Mechanics
3. Bricklaying
4. Building Construction
5. Carpentry
6. Cement Finishing
7. Electricity
   a) House Wiring
   b) Motor and Power Wiring
   c) Motor Repair
8. Diesel Mechanics
9. Furniture Making
10. Leather Work
11. Machine Shop
12. Ornamental Iron Work
13. Plumbing
14. Printing and Linotype
15. Radio Mechanics
16. Refrigeration Mechanics
17. Tailoring - Industrial
18. Tile Laying
19. Upholstery
20. Welding, Acetylene and Electricity

Commercial High School courses are available in several public and private high schools covering bookkeeping; shorthand (dictation in both Spanish and English); typing; business letter composition; filing; business machine operation.

Courses at the College Level

School of Engineering and Architecture

Civil Engineering
Architectural Engineering

School of Commerce

Business Administration
Cost Accounting
Auditing
Commercial Law
Economics
Money, Credit & Banking
Statistical Methods
International Economic Relations

School of Public Administration

Government & Public Administration

Political Science
Public Finance
Constitutional Law
Business Administration
Economics
Money, Credit & Banking
Statistical Methods

There are in addition, Schools of Medicine, Pharmacy, Social Service, Diplomatic and Consular Services, Education, Philosophy.
### Salary and Wage Scale—Province of Panama

#### Office

<table>
<thead>
<tr>
<th>Position</th>
<th>Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager</td>
<td>$400.00</td>
</tr>
<tr>
<td>Accountant</td>
<td>$200.00</td>
</tr>
<tr>
<td>Stenographer (Private Secretary)</td>
<td>$175.00</td>
</tr>
<tr>
<td>Secretary</td>
<td>$135.00</td>
</tr>
<tr>
<td>Bookkeeper</td>
<td>$135.00</td>
</tr>
<tr>
<td>Office Clerk (First Class)</td>
<td>$135.00</td>
</tr>
<tr>
<td>Typist</td>
<td>$100.00</td>
</tr>
</tbody>
</table>

#### Production and Construction

<table>
<thead>
<tr>
<th>Position</th>
<th>Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreman (Floor Manager)</td>
<td>$250.00</td>
</tr>
<tr>
<td>Mechanic</td>
<td>$160.00</td>
</tr>
<tr>
<td>Laboratory Worker</td>
<td>$150.00</td>
</tr>
<tr>
<td>Electrician</td>
<td>$150.00</td>
</tr>
<tr>
<td>Machine Operator</td>
<td>$135.00</td>
</tr>
<tr>
<td>Plumber</td>
<td>$120.00</td>
</tr>
<tr>
<td>Welder</td>
<td>$110.00</td>
</tr>
<tr>
<td>Tinsmith</td>
<td>$110.00</td>
</tr>
<tr>
<td>Blacksmith</td>
<td>$110.00</td>
</tr>
<tr>
<td>Tile Layer</td>
<td>$105.00</td>
</tr>
<tr>
<td>Carpenter</td>
<td>$105.00</td>
</tr>
<tr>
<td>Chauffeur (includes truck drivers)</td>
<td>$100.00</td>
</tr>
<tr>
<td>Seamstress</td>
<td>$50.00</td>
</tr>
<tr>
<td>Unskilled Worker (Male)</td>
<td>$70.00</td>
</tr>
<tr>
<td>Unskilled Worker (Female)</td>
<td>$40.00</td>
</tr>
</tbody>
</table>

---

1/ Salary and wages shown are averages obtained from a study of Social Security Fund records covering the month of October 1954, for the Province of Panama only. It should be noted that this is the highest wage area in the Republic. However, since the data given represent average salaries it is suggested that 10 to 20% leeway be allowed in estimating actual labor costs. In the final analysis qualifications, experience and ability would determine exact scales.
BANKING AND CREDIT FACILITIES

Commercial Banks

Commercial banks operating in the Republic include three Government banks -- The National Bank, with agencies throughout the Republic, and two Provincial banks; branches of two large United States banks -- extending worldwide commercial banking accommodations and offering especially good facilities for business throughout Latin America; and a French bank subsidiary.

Government Banks

**Banco Nacional** (The National Bank) -- Panama City, R. de P. with agencies at Aguadulce, Almirante, Bocas del Toro, Chitré, Colón, Concepción, David, Ocu, Penonomé, Puerto Armuelles, Santiago, Las Tablas.

**Banco de Colón** (Bank of Colon) -- Colón, R. de P.

**Banco de Chiriquí** (Bank of Chiriqui) -- David, R. de P.

Private Banks

**Chase National Bank** (branch of Chase National Bank of N. Y.) -- branches in Colón, David, Panama City, R. de P.; and Canal Zone branches in Balboa and Cristóbal.

---

1/ The basic banking law for the Republic is No. 101 of July 8, 1941. In practice, it applies to private banks since each official bank has a much more detailed specific law. The law provides for commercial banks, mortgage banks, and savings banks. It provides **minimum capital requirements**, reserves, and certain operating rules. No regular banking examination procedure exists, but banks are required to submit periodic reports to the Comptroller General, whose duty it is to verify the reports by having the books of the bank audited. Reserve requirements are 20 percent for demand deposits, and 10 percent for time deposits, and are held as cash by banks in their vaults.
National City Bank of N. Y., -- branches in Panama, R. de P. and Canal Zone branches in Balboa and Cristobal.

Panama Bank & Trust Co., Inc. (controlled by Banque Nationale pour le Commerce et l'Industrie, Paris, France) -- Panama City, R. de P.

Other Credit Facilities

Instituto de Fomento Económico

Supplementing the lending facilities of the existing banks, and as a stimulus to economic expansion, the Institute for Economic Development, an autonomous Government Institution, conducts the following activities through three major operating divisions; Department of Development -- loans for agricultural and industrial development; Department of Urbanization and Rehabilitation -- loans for housing improvement and construction, and, in its own name, engages in housing development projects, for subsequent resale; Commercial Banking Department -- all commercial banking functions, but mortgage loans are limited to five years -- operates rural branches in Herrera, Veraguas, Cocle and Los Santos. (There are banking and credit functions only -- for outline of complete activities see Appendix "Institute for Economic Development")

Caja de Seguro Social

The Social Security Fund, a Government institution with major functions similar to the U. S. Social Security Agency, is also a factor in the investment market. Among other legal investments it may make agricultural, utility and industrial loans up to a limit of 25 percent of capital on any one enterprise, with a total investment limit in this type of loan of 10 percent of funds set aside for annual investment. Interest rates for such loans must not be less than 5 percent nor more than 6 percent. Such investments must be backed by first mortgages and liens on income or preferred stocks which must have had an unbroken dividend record for the last five years immediately preceding the loan request. It may make especially attractive first mortgage loans of up to 80 percent of official appraised valuations of land and housing, at 4 percent interest rates to individuals who are building their own homes, who own no other property in major urban areas, and who meet other conditions prescribed in regulations. Total appraised valuations of land and housing cannot exceed $15,000. In addition to the foregoing, the Fund may make general first mortgage loans to firms or individuals up to 60 percent of appraised values, at 6 percent interest rates, in accordance with established regulations. It may also make loans against pension payments under special regulations prescribed.
Caja de Ahorros

The Savings Bank, Panama City, R. de P., a Government institution, operates a branch in Colon and conducts the following activities: accepts savings accounts and -- makes loans against first mortgages on urban income-producing properties; makes collateral loans, within certain limits, on precious metals, stocks, bonds, or securities, which have an open market value and produce interest or revenue; may acquire real estate or personal property pledged as collateral against loans; may acquire real estate and personal property for its own use.
CURRENCY AND EXCHANGE -- INTEREST RATES - SECURITIES MARKET

THE BALBOA IS THE UNIT OF CURRENCY, at par with the United States Dollar, however, Panama has not issued paper money -- and in actual practice THE UNITED STATES DOLLAR IS THE CIRCULATING MEDIUM.

THERE IS NO EXCHANGE CONTROL IN PANAMA--TRANSFER OF FUNDS HAS NEVER BEEN BLOCKED.

PURCHASE OR SALE OF FOREIGN EXCHANGE IS NOT SUBJECT TO TAX OF ANY KIND.

CLAUSES REQUIRING PAYMENT OF OBLIGATIONS IN GOLD OR FOREIGN EXCHANGE ARE LEGALLY VALID. (Exports of foreign gold and silver coins, with the exception of those of the United States, if authorized by the Ministry of Finance, are taxed one half of one percent of their value -- Article 210 of the Fiscal Code).

Money

In practice the United States dollar is the circulating medium--United States dollar paper money and United States and Panamanian fractional metal coins are freely used (at face value) both in the Republic of Panama and in the Canal Zone for all ordinary transactions. At present there are only fractional Panamanian coins in existence or circulation. The reporting banks showed on hand equivalent of 1,427,000 Balboas on March 31, 1954.

Article I of Law No. 84 states that the monetary unit of the Republic of Panama is the Balboa, a gold coin, with weight and fineness conforming to the definition of the United States gold dollar. The article also provides that the current United States gold dollar and its multiples shall be legal tender in Panama and equivalent to one Balboa. The Monetary Convention of 1904 limits the issuance of Panamanian fractional currency to the equivalent of $1,500,000. Article 214 of the Constitution states "There will not be in the Republic paper money of obligatory acceptance" -- a restriction on the issuance of paper money which as long as it stands, seems to prevent the issuance of any effective paper currency in Panama.
Interest Rates

The Official Banks are limited to a charge of 6 percent on loans. Private banks may charge up to 9 percent per annum, but in general, the current rate does not exceed 7 percent. The private American banks do not pay interest on savings accounts, but the Official Banks and the Panama Bank and Trust Company pay 2 percent interest.

Securities Market

There is no established securities market in Panama. Sales of Government bonds, and of private stocks and bonds are negotiated between the buyer and the seller, sometimes with the assistance of a broker or banker as intermediary, sometimes through advertisements in local newspapers or both. New issues are announced by advertisement. A branch office of a New York Stock Exchange firm has recently been opened in Panama City offering trading facilities in all United States markets.
PANAMA'S BASIC TAX STRUCTURE

General Principles

Panama levies only national and municipal taxes. The former may be imposed by laws enacted by the National Assembly in accordance with provisions of Section 22 of Article 118 of the Constitution. Municipal taxes are levied in accordance with Article 205 of the Constitution and Articles 93 to 106 of Law No. 8 of February 1, 1954. Within the limitations of these articles each municipality imposes its own taxes and the rates vary in each.

National Taxes

Internal Taxes

The principal internal taxes are the following:

1/ Income Taxes: Every natural or juridical person is required to pay an income tax on his annual net profits or earnings obtained within the territory of the Republic. See Income Tax Table and notes in Appendix immediately following, for details.

2/ Social Security Taxes: Tax of 8 percent of payrolls with half (or 4 percent) paid by the employer and half by the employee, is levied.

3/ License (Patente) Fee: All commercial or industrial enterprises are required to obtain a license to do business. The fee, based upon declared capital, is paid annually and ranges from $4 to a maximum of $125. In places having a population of less than 35,000 inhabitants the license fee is reduced by 50 percent. (Law No. 24 of March 24, 1941).

1/ Basic Income Tax laws are: Law No. 52 of May 23, 1941; Decree Law No. 2 of January 4, 1947; Law No. 2 of January 19, 1953 and Law No. 13 of February 8, 1954.

2/ All legally organized commercial companies have a juridical personality distinct from that of their members or partners with respect to all its acts and contracts. There is no difference in tax rate regardless of type (corporation, partnership, proprietorship, etc.) of business organization.
(4) Real Estate Tax -- Real estate tax rates are in process of change and all real estate in the country is being re-valued. Four months following the date of official revaluation of a piece of property it will be subject to annual tax at the rate of 1/2 of one percent of the new valuation, providing it has a minimum value of $1,000 or more. The owner has the right of appeal within a thirty day period following the date of the new official valuation.

Considerable time will be required to make this changeover. Pending re-valuation of specific property the following old rates will remain in effect: Real property valued at $1,000 or more will still be subject to tax at the rate of 1 percent of assessed value, except that real property consisting of living quarters occupied exclusively by the owners and their legal dependents, whose value does not exceed $15,000 is taxed at the rate of 1/2 of one percent of assessed value. (Decree Law No. 28 of June 12, 1947 and Law No. 9 of February 4, 1954).

(5) Stamp Taxes -- Stamp taxes are of two general types: (a) stamped paper sold by the Government at $1.00 per sheet, upon which certain documents specified by law, must be written; (b) 2 cent fiscal stamps which must be affixed to all documents representing an amount payable in money or which contain a contract. As a general rule the tax is one/thousandth of the amount specified in the document. Bank checks, bills of exchange and similar documents pay a fixed charge of 1 cent at sight but on foreign time drafts the stamp tax is 5 cents for each one hundred dollars of value and on local drafts or bills the stamp tax is 10 cents per one hundred dollars of value. Fiscal stamps are also attached to certain imported products such as liquors, cigarettes, perfumes, and similar articles, the rates varying according to the article.

(6) Liquor Taxes -- Taxes on the manufacture and sale of liquors are covered in "Dirección del Impuesto Licores", 1952 -- a compilation of laws, decrees, and resolutions covering the administration of liquor laws and taxes levied -- published by the Internal Revenue Administration, Ministry of Finance and Treasury.

(7) Mining -- Taxes and Royalties -- See Appendix "Mining Law".

(8) Petroleum -- Taxes and Royalties -- See Appendix "Petroleum Law".

(9) Patents, Trademarks, Copyrights -- Patents are subject to a nominal tax of $5 per annum for the lifetime of the patent; trade marks are subject to a registration fee of $25 for each period of ten years; copyrights are not taxed. On all of the foregoing there are small registration fees and stamp taxes on official documents required.

(10) Tourism Tax -- An annual tourism tax is levied on all licensed businesses, the proceeds being used to promote tourism in Panama. Taxes range from $1.50 on very small businesses or industries to a maximum of $30 for businesses or industries with declared capital of $33,000 and over.
(11) Inheritance and Gift Taxes -- All transfers of property (bienes) situated in the Republic of Panama by inheritance or by gratuitous transfer between living persons are subject to the tax on inheritance and gifts (Impuesto sobre Asignaciones Hereditarias y Donaciones). Gifts and inheritances of property located outside the Republic are not subject to this tax. The law applies equally to nationals and foreigners.

The tax is payable in accordance with the progressive scale provided in Law No. 4 of February 5, 1953 as amended by Law No. 50 of December 15, 1954. The latter Law provides for a 30 percent reduction of tax imposed, retroactive to inheritance and gifts subject to Law No. 4 of 1953.

Progressive estate and gift taxes on property given outright range from a minimum of 4 percent on the first $5,000 to a maximum of 32.35 percent on $401,000 and over for relatives of first degree (spouses, blood descendants and adopted children) and on a slightly higher scale upward through various degrees of relationship to the maximum rate fixed for inheritances and gifts for relations not specified and non-relatives. In the latter case the progressive rates range from 5.5 percent on the first $5,000 to 33.75 percent on $401,000 and upward. Foregoing rates are subject to the 30 percent reduction offered by provisions of Law No. 50 of 1954.

Lifetime or temporary trusts are taxed at the same rates as those given above. However, both original annuitant and the ultimate beneficiary share in the payment of the tax. In the case of lifetime trusts tax for both is in accordance with the sliding scale provided in Article 6 of Law No. 4 of February 5, 1953. In the case of temporary trusts tax is paid on 30 percent of the full value of the property for each ten years or fraction thereof.

(12) Ships registered under the Panamanian Flag -- Every ship registered under the Panamanian flag is subject to a registration fee of $1.00 per net ton and a property tax of 20 cents per registered net ton. These imposts are paid once only. In addition, there is an annual tax of ten cents per registered net ton.

Customs Duties

(1) Import Duties are levied on all articles of foreign origin entering the country, except those specifically exempted under provisions of Public Law No. 12 of 1950, goods entering the Free Zone in Colon and those special

1/ Import duties for the past couple of years appear to range generally from 8 to 20 percent of value, with an average of approximately 19 percent based upon value of annual duties paid. There are, however, special protective imposts at higher rates on a limited number of items.

65
exemptions provided in specific laws. An import tariff classifies all permissible imports and lists the rate of duty on each.

Some articles are taxed at ad valorem rates and other duties are based upon quantity, weight, measure, or volume. Some goods are exempted from this tax and their entry is said to be "free". However, in those cases in which items are on the so-called "free" list, an 8 percent consular fee is charged so that in effect minimum duty is 8 percent on ordinary imports with actual free entry limited solely to goods brought in under terms of Public Law 12 of 1950 or imports into the Free Zone in Colon and those special exemptions provided in specific laws.

(2) Consular Fees/1/ or duties are levied on all ordinary imports entering the country. As pointed out above, the consular fees amount to additional duties and are levied at rates varying from 5 percent when normal duties are imposed to 8 percent ad valorem for goods on the so-called "free" list.

(3) Export Duties - a relatively small export tax is levied on a limited number of items.

(4) Re-export Tax - This is levied on goods which are imported in bond for re-export and which do not pay import duties. (This tax does not apply to the Free Zone in Colon (unless goods are shipped into the Republic) and may not apply to contracts covered under Public Law 12 of 1950 -- an investment incentive act which is described in an attached Appendix).

Municipal Taxes

Municipal taxes are limited by law to certain fields, but each municipality sets its own tariffs on those taxable objects specified in Article 93 of Law No. 8 of February 1, 1954. The following are the principle municipal taxes imposed in the District of Panama, (Panama City and its suburbs):

Municipal license fees based upon the nature and volume of business ranging from $5 to $300 per month; annual private automobile and commer-

/1/ A new tariff schedule is being prepared in which it is expected that consular fees as they now exist, will be eliminated as a separate charge and included in actual duties listed so that there will be no future misunderstanding of actual rates. Normal small charges for preparing and certifying consular documents will still continue. It is expected that in reclassification of tariff schedules United Nations' standards, definitions, and classifications of goods will be used.
mercial vehicle license plates ranging from $24 to $34 for private cars, $15 to $72 for taxicabs and busses, and $40 for a half ton truck with a maximum of $110 for trucks with capacities of 3 tons or over; on commercial signs there is an annual fee of $5 if the sign is within the building line and $15 if outside of the line, but there is no charge at all for electrically illuminated signs; and poster and advertising bills pay a monthly fee of 25 cents per square meter.
**INCOME TAX RATES**

**BUSINESS INCOME TAX** - Annual gross profits or earnings from all sources within the Republic of Panama (before dividends and interest on capital invested and profit sharing payment) are subjected to a basic tax rate of 2 percent on all income above $900 up to and including $2,400 and to a progressively higher tax rate on larger incomes. See Tax Table below.

### INCOME TAX TABLE

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Taxable Increment</th>
<th>Progressive Tax Rate</th>
<th>Tax Increment</th>
<th>Total Normal Tax Due</th>
<th>Effective Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 2,400</td>
<td>$ 2,400</td>
<td>2.00 %</td>
<td>$ 48</td>
<td>48</td>
<td>2.00 %</td>
</tr>
<tr>
<td>3,600</td>
<td>1,200</td>
<td>2.50</td>
<td>30</td>
<td>78</td>
<td>2.17</td>
</tr>
<tr>
<td>4,800</td>
<td>1,200</td>
<td>3.00</td>
<td>36</td>
<td>114</td>
<td>2.38</td>
</tr>
<tr>
<td>6,000</td>
<td>1,200</td>
<td>4.00</td>
<td>48</td>
<td>162</td>
<td>2.70</td>
</tr>
<tr>
<td>8,400</td>
<td>2,400</td>
<td>5.00</td>
<td>120</td>
<td>282</td>
<td>3.36</td>
</tr>
<tr>
<td>12,000</td>
<td>3,600</td>
<td>6.00</td>
<td>216</td>
<td>498</td>
<td>4.15</td>
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<td>15,800</td>
<td>4,800</td>
<td>7.00</td>
<td>336</td>
<td>834</td>
<td>5.00</td>
</tr>
<tr>
<td>22,800</td>
<td>6,000</td>
<td>8.00</td>
<td>480</td>
<td>1,314</td>
<td>5.76</td>
</tr>
<tr>
<td>30,000</td>
<td>7,200</td>
<td>9.00</td>
<td>648</td>
<td>1,962</td>
<td>6.54</td>
</tr>
<tr>
<td>40,000</td>
<td>10,000</td>
<td>10.25</td>
<td>1,025</td>
<td>2,987</td>
<td>7.47</td>
</tr>
<tr>
<td>50,000</td>
<td>10,000</td>
<td>11.50</td>
<td>1,150</td>
<td>4,137</td>
<td>8.27</td>
</tr>
<tr>
<td>60,000</td>
<td>10,000</td>
<td>12.75</td>
<td>1,275</td>
<td>5,412</td>
<td>9.02</td>
</tr>
<tr>
<td>70,000</td>
<td>10,000</td>
<td>14.00</td>
<td>1,400</td>
<td>6,812</td>
<td>9.73</td>
</tr>
<tr>
<td>80,000</td>
<td>10,000</td>
<td>15.25</td>
<td>1,525</td>
<td>8,337</td>
<td>10.42</td>
</tr>
<tr>
<td>90,000</td>
<td>10,000</td>
<td>16.50</td>
<td>1,650</td>
<td>9,987</td>
<td>11.10</td>
</tr>
<tr>
<td>100,000</td>
<td>10,000</td>
<td>17.75</td>
<td>1,775</td>
<td>11,762</td>
<td>11.76</td>
</tr>
<tr>
<td>150,000</td>
<td>50,000</td>
<td>19.25</td>
<td>9,625</td>
<td>21,387</td>
<td>14.26</td>
</tr>
<tr>
<td>200,000</td>
<td>50,000</td>
<td>20.75</td>
<td>10,375</td>
<td>31,762</td>
<td>15.89</td>
</tr>
<tr>
<td>300,000</td>
<td>100,000</td>
<td>22.50</td>
<td>22,500</td>
<td>54,262</td>
<td>18.09</td>
</tr>
<tr>
<td>400,000</td>
<td>100,000</td>
<td>24.25</td>
<td>24,250</td>
<td>78,512</td>
<td>19.63</td>
</tr>
<tr>
<td>550,000</td>
<td>150,000</td>
<td>26.25</td>
<td>39,375</td>
<td>117,887</td>
<td>21.43</td>
</tr>
<tr>
<td>750,000</td>
<td>200,000</td>
<td>28.50</td>
<td>57,000</td>
<td>174,887</td>
<td>23.32</td>
</tr>
<tr>
<td>1,000,000</td>
<td>250,000</td>
<td>31.00</td>
<td>77,500</td>
<td>252,387</td>
<td>25.24</td>
</tr>
</tbody>
</table>

More than $1,000,000 - the normal tax is $252,387 plus 34% of the excess over $1,000,000.

**Surtax** - 20 percent of the tax computed above is levied as surtax, and added to normal tax.

No Double Tax on Investment Income - dividends, interest on bond issues, profit sharing payments are taxed at the source and are not again subject to personal income tax.

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1/ There is no difference in tax rate regardless of type (corporation, partnership, proprietorship, etc.) of business organization.

2/ Income not directly derived from human labor (that is, investment
PERSONAL INCOME TAX -- Rates are identical with those in Business Income Tax Table. Annual gross income on earnings from all sources in the Republic of Panama, less allowed deductions and expenses, are subject to income tax. (Taxes are computed on total income, including dividend and other investment income earned in Panama, less allowable deductions and expenses. Investment income taxes already paid at the source are then deducted from taxes due. There is no surtax on Personal income. There is no tax on foreign investment income).

Personal Exemptions

(1) single persons -- the initial $900 of income is exempted from tax;
(2) married persons -- the initial $1,800 of combined income is exempted;
(3) dependents -- $100 is allowed for each dependent minor, dependent physically or mentally incapacitated, or student over 21 still continuing studies at the taxpayer's expense.

Deductible Expenses are those paid or incurred, in accordance with sound accounting practices, in the production of income and are generally similar to United States allowables.

Withholding Tax -- Employers are required to withhold income tax on wages of all employees and make monthly payments to the Internal Revenue Office. Failure to deduct the tax makes the employer liable for payment.

income) is subject to a surtax of 20 percent of computed normal tax. The President in his discretion may reduce this surtax to 10 percent. The Law does not stipulate conditions.
UNITED STATES -- FOREIGN TAX CREDITS

No Double Taxation

While Panama and the United States have no general convention to avoid double taxation U.S. Tax Regulations provide credits or deductions for taxes paid foreign governments and income exemptions as outlined below. By an exchange of notes (January 15, February 8, and March 28, 1941) the two governments specifically exempted the shipping companies of the other from taxation. Following are pertinent provisions of the U.S. Internal Revenue Code of 1954 covering taxation of foreign income received by U.S. taxpayers:

Credit for Foreign Taxes

Either a credit or a deduction, within limits, are allowed for income, war profits, and excess profits taxes paid or accrued during the taxable year to any foreign country or possession of the United States. (Section 901-905)

Personal Income Tax Exemptions

Bona Fide Resident of Foreign Country

Income received for personal services (except that part of compensation

1/ Section 902 of the Revenue Act of 1953 permits a U.S. corporation receiving Dividends from a foreign company to enjoy a tax credit if it owns 10 percent or more of the foreign company.

2/ Exemptions do not apply to amounts paid by the United States or any Agency thereof. (Section 911).
which represents a distribution of earnings or profits) may be excluded from
gross income of a U.S. citizen --if he has been a bona fide resident of a
foreign country for an uninterrupted period which includes the entire taxable
year (Section 911 (a) (1)). A taxpayer engaged in a trade or business in
which both personal services and capital are material income-producing
factors, may, under regulations prescribed by the Secretary of his delegate,
deduct a reasonable allowance as personal services rendered by the tax-
payer, not in excess of 30 percent of his share of the net profits of such
trade or business. (911 (b)).

Non-Resident Engaged in a Trade or Business in a Foreign Country

A U.S. citizen engaged in a trade or business and present in foreign
country or countries for at least 510 days of any consecutive 18 months
period may deduct gross income compensation for personal services (except
compensation representing a distribution of earnings or profits) up to a
maximum of $20,000, providing the 18 month period includes the entire
taxable year. If only part of the taxable year is included income deduction
may be prorated in accordance with provisions of Article 911 (2). If
personal services and capital are material-income producing factors, he
may deduct as an allowance for personal services a maximum of 30 per-
cent of his share of net profits, but only up to a maximum of $20,000.

Western Hemisphere Trade Corporation Deduction

A deduction of 14 percentage points or approximately 27 percent of
tax due is allowed corporations qualifying as Western Hemisphere Trade
Corporations (Section 922).

\[1\] The President of the United States message to Congress on Foreign
Economic Policy, January 10, 1955, recommended legislation pro-
viding for taxation of business income from foreign subsidiaries or
branches at a rate 14 percentage points lower than the domestic rate
on corporate income (same as provisions affecting Western Hemis-
phere Corporations) and a deferral of tax on income from foreign
branches until it is removed from the country where it is earned.
He further proposed that under proper safeguards credit could be
given for foreign income taxes which are waived for an initial pe-
riod as credit is now granted for taxes which are imposed--to give
maximum effect to foreign tax laws designed to encourage new
enterprise.
Definition -- A Western Hemisphere Trade Corporation is a U. S. corporation which: (1) does all of its business in North, Central, or South America, or in the West Indies; (2) derived at least 95 percent or more of its gross income for the three year period immediately preceding the close of the taxable year (or for such part of such period that the corporation was in existence) from sources without the U. S.; (3) derived at least 90 percent of its gross income for such period or part thereof from the active conduct of a trade or business. (Section 921).
MINING: LAW AND REGULATIONS

Legal Provisions

All mines belong to the State and may not be put to private use except through a concession granted for their exploitation. (Article 208 sections 5 and 6 of the Constitution).

Article 2 of Law No. 100 of 1941 provides:

"Salt beds and mines of all kinds belong to the Republic of Panama and may not be put to private use; but rights to their exploitation may be granted by concession to natural or juridical persons in accordance with this law. . . . salt, coal beds, and deposits of hydrocarbons are subject to the same conditions".

"Mineral substances of any kind found in public lands also belong to the Nation and may be exploited under contract".

Mining activities are basically governed by the Mining Code as supplemented and amended by Law No. 100 of 1941.

Rights of Foreign Investors

Foreign investors, whether natural (individuals) or juridical persons (corporations, etc.) may freely engage in mining activities and possess the same rights as nationals. There are certain legal requirements to be met in organizing any business in Panama which are covered under the appendix entitled "Business Law".

Mining Concessions

Application may be made to the Minister of Agriculture, Commerce and Industries for a mining zone concession with exclusive rights to explore a stated area for a period of three years. This period may not be extended, (Article 1, Law No. 19, 24 February, 1953). The zone including all mines may not be more than 2,500 hectares (6,177.5 acres) in area. All mines discovered by the concessionnaire must be claimed in accordance with pro-
Concessions to work specific mines are granted for a period of twenty years with the privilege of renewal for an additional ten year period, if consistent with laws in effect at the time of application for extension. Permanent titles to mines are no longer granted, and such permanent concessions as were in effect when the 1941 mining law was passed were reduced to twenty years from that date with the same ten year privilege of renewal previously mentioned.

Concessions may be transferred between living persons or upon the death of the holder, in the same manner as real property (Article 15, Law 100 of 1941). In the event of transfer both the purchaser and the holder of the usufruct (dominio útil) is required to give notice to the Minister of Agriculture, Commerce, and Industries.

Claiming a Mine

A concession to exploit a specific mine is obtained in the following manner: The discoverer of an alluvial deposit or mineral vein must give notice of the discovery to the Mayor of the local city or town. The discoverer must then publish the original announcement in the newspapers of the Province or on bulletin boards of the Town or City Hall and must publish it also in the Official Gazette. Within 90 days following he must excavate, in an appropriate site, a test pit or shaft which will serve to precisely locate the mine. Within the same 90 days and following the digging of the test shaft, he must reaffirm the discovery to the same local Mayor.

If there is no opposition he must then request authenticated copies of the original proclamation and the Mayor's approval and these copies together with published material and the certification of the Mayor that there has been no contest, are sent to the Minister of Agriculture, Commerce, and Industries with the request that he assign a surveyor to measure the mine area (which is limited to 15 hectareas or 37.1 acres), draw a sketch and make an authenticated written report before a Circuit Judge. All costs are borne by the defendant.

Upon presenting the sketch and legal report and upon payment of requisite fees, a contract may be signed by the Minister, upon the approval of the Cabinet Council, the Controller-General and the President of the Republic.

The discoverer of a mine is entitled to three claims (pertenencias). A claim is defined as a solid having a rectangular base and indefinite depth with sides of vertical planes bounded by and included in a surface area of a maximum of 5 hectareas and a minimum of 1 hectarea (2.471 acres). (Articles 41 and 42 - Mining Code).
Exploitation of Specific Minerals

Precious stones and metals found isolated in their natural state, in open ground on the surface, belong to the first occupant, but the State is entitled to 25 percent of their net value as a royalty. Concealment of such finding is subject to a fine of 50 percent of the value of the stones or metals concealed. The person reporting such concealment is entitled to one half the amount of the fine. (Article 3 of Law No. 100 of 1941).

Taxes and Royalties

Taxes

Taxes are payable annually between January 1 and January 31 at the Office of Internal Revenue of the district in which the mine or mineral deposit is located. The amount of tax due is proportional to the time remaining until the following January 1. (Article 582 of the Fiscal Code).

The Fiscal Code went into effect on July 1, 1917. The tax due differs depending upon whether title to the mine or mineral deposit was obtained before or after the effective date of the Fiscal Code. The following rates cover mines or mineral deposits on which title was taken after the effective date of the Code:

(1) Mining zone concessions are taxed at the rate of 15 cents per hectarea (2.471 acres) per annum. (Article 2 of Law 19, 24 February, 1953).

(2) Mineral deposits in veins or layers are taxed at the rate of $1 per hectarea per annum.

(3) All other deposits are taxed at the rate of $2 per hectarea per annum.

Mines or mineral deposits to which title had already been taken before the effective date of the Fiscal Code are subject to the following taxes:

(1) Alluvial deposits are taxed at the rate of $10 for each 15 hectares per annum.

(2) A mine from which precious stones are extracted is taxed at the rate of $10 per square kilometer or any fraction thereof.