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COUNTRY PAPER FROM PANAMA INDUSTRIAL

FREE ZONES

- I. *General Government Policy*
- II. *Industrial Development*
- III. *Actual situation of the Industrial Free Zones.*
- IV. *Future plans of Industrial Free Zone for the establishment of exported oriented industries.*

I. *General Government Policy*

The fundamental base of the General Policy of our government at the present time is directed to obtain an economical and industrial growth based on a balance between capital and labor, in such a way that they can complement each other so that both may be equally benefited. This desire is revealed in the different documents approved by the Cabinet Council.

II. *Industrial Development*

This specific field is where our government has worked the most, approving laws such as Law 172 and 143 of 1971, referring to encouragement the growth of industries.

These inducements embrace from total exoneration of import taxes on machines and raw materials for 20 years, up to the exoneration on real estate taxes if such industries are established at the industrial parks approved by government, for a period which varies according to the type of industry.

Also the planning office of the Presidency has published different documents referring to development politics, such as "Strategy for National Development", during the 1970-1980 decade, in which the Government's objectives were laid out:

- 1-Economic diversification through better exploitation of the country's natural resources and of the opportunities provided by our especial geographic location.
- 2-Expansion of the domestic economy through integration of areas and social groups that have so far remained outside of the development process.

The role of the Government foreseen on this respect, is outlined to be:

- 1-to maintain a favourable climate for private investment;
- 2-to increase the rate of investment in the fields of infrastructure and social overhead;
- 3-to improve public services;
- 4-to play a more active role in project preparation and sector studies.

The relatively small size of our domestic market (1.5 million people), the comparatively high level of wages (effected by the wage systems in the Canal Zone subject to the United States Minimum Wage Law) and the limited technological capacity, are factors among others causing great problems to the policy of government protection, and thus, badly affecting the productive efficiency of many enterprises. Statistics indicate that only about

10% of the export figures account for manufactured articles.

1. Actual Situation of the Industrial Free Zones.

Since the year of 1948, when by Decree Law N°.18 the Colon Free Trade Zones was established as an autonomous institution of the state, the government has increased his preoccupation in the field of Industrial Zones. This Law N°.18 defined the permissible activities of the zone as, to bring in, store, exhibit, unpack, manufacture, put in containers, mount, assemble, refine, purify, blend, alter and in general to perform operation with, and handle all kinds of merchandise, products, raw materials, containers and others articles of commerce with the sole exception of articles prohibited of import by the Laws of the Republic, thus in 1953, 10 companies with a total area of 14 acres, gave a start to the Colon free trade zone, which since has mushroomed into a 100 acre commercial enclave. Latest statistics indicate:

- a- 180 commercial firms existing representing over 600 firms from all over the world.
- b- 3500 employees with a total monthly earhng of B/.800,000.00
- c- Total turnover input into zone in the year of 1970 B/193,816,134.00
 - Reexport form zone 274,069,035.00
 - of which to Panamá 80,252,901.00

Of the 600 firms established or represented in the zone, there are only 4 companies which are operating in the true sense of industrial manufacturing, a textile confection factory, a print-

ing and binding plant, and a pharmaceutical factory.

It can therefore, be said that the Colon Free Zone is overwhelming of a commercial nature, or in other words, a real free trade zone. The Colon Free Zone management presently has the strong desire to expand its area, in order to give additional possibilities of accommodation to those firms desiring to join the commercial activities of the zone. On the other hand, the management is also seeking the possibilities of expanding its industrial activities by creating a free industrial sector in the zone. These attempts, unfortunately, are being kept pending due to the fact that there is simply no free space of land available in the immediate vicinity of the present zone. Two prospects are nevertheless being looked upon, although it may be some time until either of them may become actual.

One of the possibilities is the small bay facing the zone with an area of about 22 ha. This bay may again be divided into a smaller portion of about 12 ha, directly encaving into the present free zone area. A British engineering firm, with the financing made by the Ministry of Commerce and Industry, is undertaking at present a survey study, mainly as to the possibilities of filling up part or all of the bay. This study has been presented to the Colon Free Zone management, and at present a cost/benefit analysis of the land reclaiming makes this alternative not practical because of the high cost of square meter obtained from such filling.

We are also actually working, to establish industrial parks in the interior of Panama with the purpose of developing such areas and diminish or finish the high rate of immigration from these zones,

towards the capital.

In this sense we have finished a study prepared jointly with the Conway Research, Inc. of Atlanta, Ga., and our Government tending to present the development plans of an Industrial Park in the surroundings of the Enrique Malek Airport, in the City of David, Province of Chiriqui.

We are also working in the establishment of another Industrial Park in the Province of Herrera specifically in the Capital, Chitre. This is the one among all under development which is mostly developed.

IV. Future Plans of Industrial Free Zone for the Establishment of Exported Oriented Industries.

The development of the air transportation in the recent years has changed the possibilities of industrial production and marketing operations.

This fact can be easily recognized through the increase of usage of air transportation of the goods to and from the Colon Free Zone which at the time of its establishment was chiefly dependent on means of sea transportation.

As a mean of solving the serious problem of unemployment particularly increasing in the urban area, the above tendency has encouraged the government to consider the planning of another free zone, this time, however, with more emphasis on industrial production oriented towards export rather than simple commercial operations (entrepot activities) as is the case of Colon, and also relying chiefly on transportation by means of air.

Being connected by direct flights with the North, Central and South American countries, as well as with Europe, by a number of international airlines, the geographical position can be said to be ideal.

The new expansion plan of the Tocumen International Airport, providing facilities to enable the accommodation of Jumbo Jets, and for which the government has finished a feasibility study, envisages, of the total area of 1035 ha., and industrial zone of about 50 ha. The World Bank has already studied the same, and given approval for a loan of U.S.\$18 million. Together with about U.S. \$12 million of self-financing. The government has already started the construction work in October, 1971 and expects its completion by the end of 1974.

The area of about 50 ha. reserved for the industrial zone in the existing master plan, is located immediately adjacent to the airfield, and is believed to justify a profitable operation of industries established in the zone. The physical advantages itself, however, will not be sufficient to ensure a success, particularly if the free zone is to be chiefly oriented towards export production.

A homogeneously well armonized set-up, of and administrative organization coupled with various incentive measures for the attraction and promotion of viable industries would have to be thoroughly studied and carefully arranged.

Due to this the Panamanian Government has selected Arq. Arie Cohen, United Nations expert who's going to study this project.