

Panama's Foreign Trade

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I.

THE unique geographical position which characterizes the Isthmus of Panama has caused the foreign trade relations of the country to show some particular features which well deserve analysis and some detailed explanation, in view of the great and still growing importance of Panama as a focal point of international, and particularly inter-American, traffic and trade relations.

The Spaniards considered the Isthmus of Panama almost exclusively from the viewpoint of its strategic value as a center of trade and communications with their colonies in the western part of the Americas, especially South America. Obviously this region needed strong defensive measures, but it was not looked upon as a land that offered attractive opportunities for farming, stock raising or cultural activities. The hot and humid climate made the country unhealthy, even for Spaniards, in comparison with the regions at higher altitude to be found in abundance in South and Central America. Tropical diseases gave it notoriety as a deadly place for white people; and the gold and silver which were so plentiful in Peru, Bolivia and Mexico caused many enterprising

¹The author is indebted to Mr. H. J. Müller for furnishing valuable and hitherto unpublished data with regard to the development of Panama's foreign trade. (For lack of space, the editors have been obliged to cut down somewhat the original manuscript as submitted by Professor Behrendt, and to eliminate some of the statistical tables. The full article is later to appear in Spanish, so that those who are interested in further details will find them in *Boletín de Trabajo, Comercio e Industrias*, published by the Secretaria de Trabajo, Panama, R. P., No. 22, 1940.—Ed.)

men to prefer those lands to Panama. Of course, there was some mining in Panama during the greater part of the colonial period, and in some places even up to the nineteenth century. Nevertheless, scarcity of labor, lack of means of transport, generally high prices for most commodities, coupled with frequent attacks of the Indians, pirates and *cimarrones* (run-away Negro slaves) brought about repeated suspensions and, finally, abandonment of practically all mining activities on the Isthmus of Panama².

There was even less development of agriculture and stock raising on the Isthmus. Most Spaniards who came there preferred, naturally, to stay in the city of Panama or in one of the ports on the Atlantic side, in order to take advantage of the business opportunities which were offered by trade passing through those places from Spain to South America and vice versa. The interior regions of the *Tierra Firme*, in their accessible parts consisting mostly of hot and humid low lands infested by malaria and exposed to attacks of Indians and Negroes, attracted very few settlers and farmers. Thus, during more than four centuries the interior of Panama has remained exceedingly sparsely populated³ and, up to a relatively short time ago, virtually unknown to the outer world.

After the beginning of the modern era, which means for Panama the construction of the transisthmian railroad (1850-55) and the Canal, a great number of people from the interior flocked to the cities of Panama and Colon, attracted by better living conditions and the hope of making money. This tendency increased after the construction of highways in some parts of the country. These roads have up to now contributed probably more

² Cf. Juan B. Sosa and Enrique Arce, *Compendio de Historia de Panamá*, Panama, 1911, p. 173; Ernesto J. Castellero, *Panamá. Breve historia de la República*, 1939, pp. 27 ff.—For this and other details, see also Richard F. Behrendt, *Economic and Social Development of the Isthmus of Panama* (in preparation).

³ In colonial times, there were never so many as 30,000 residents of Spanish origin on the Isthmus. In 1793 the total population was estimated at 71,888, of whom 7,857 lived in the district of Panama City. Cf. Eusebio A. Morales, "La población del Istmo." *Ensayos, Documentos y Discursos*, Panama, Vol. II (1927), pp. 9 ff.

THE INTER-AMERICAN QUARTERLY

to the emigration of peasants to the cities than to an intensification of population and economic activities in the farming regions.

It goes without saying that under such conditions the productive capacities of the country have never been developed to any considerable degree. Even in Spanish times it was necessary to bring to the Isthmus the greater part of the provisions for the residents of the cities and for the fleets calling at Porto Bello and Panama City. Thus flour, fruits and vegetables were imported from Nicaragua and other parts of Central America; sugar from Truxillo in Peru, wine from Pisco, cacao from Guayaquil, etc.⁴ In marked distinction to the neighboring countries of Central and South America, the native elements of Panama have never developed as much as a single agricultural commodity for exportation. If North American interests had not developed the cultivation and exportation of bananas, and more recently, cacao, Panama would have remained without a single product exported on a relatively large scale.

Nor has there ever been any great development of manufacturing industries. Absence of most basic raw materials in commercial quantities, scarcity of trained and permanent labor, a small market with very limited purchasing power, and lack of initiative, experience and capital among the native elements, are the principal factors responsible for this. The comparatively high costs of production which necessarily resulted have only recently permitted the development of a few branches of production (goods for local consumption) under the protection of high tariffs.⁵

⁴ Cf. Don Juan Requejo Salcedo, *Relación histórica y geográfica de la Provincia de Panamá*, 1640. *Colección de Libros y Documentos Referentes a la Historia de América*, tomo VIII.

⁵ On the problem of promotion of manufacturing industries in Panama, see: Eusebio A. Morales, *op. cit.*, Vol. II, pp. 169 ff.; *Investigación económica de la República de Panamá, llevado a cabo bajo la dirección de George E. Roberts* (1929), Panama, 1933, pp. 217-219; Eusebio A. González, *Panamá ante el problema de la protección y del libre comercio*, Panama, 1936; Ernesto Méndez, "Aspectos de nuestra economía nacional," *Universidad de Panamá*, No. 10 (1937), pp. 104-106.—In the last few months the exportation of clay products, especially tiles to Colombia, has been initiated by a local factory. This is the first case of this kind.

THE INTER-AMERICAN QUARTERLY

The economic activity and importance of Panama—which is by no means negligible—has thus remained limited, almost exclusively, to its function as a “cross roads of the world,” a natural center of transit of goods and passengers. From the day of the *conquista*, the merchants of Panama derived their chief income from transporting commodities and travelers across the Isthmus, and catering to strangers, with occasional commission jobs for merchants in other parts of the world. After the construction of the Panama Railroad the situation remained essentially the same. It changed somewhat after the establishment of the Canal Zone and the opening of the Panama Canal.

II.

Since the establishment of the Canal Zone in 1904, certain unusual conditions have existed on the Isthmus in regard to the division of jurisdiction. Since this division exercises a decisive influence upon the structure of foreign trade of the Republic of Panama, it will be necessary to give here a few words of explanation.

As is well known, the Canal Zone comprises a strip of territory five miles broad on either side of the Canal. Several minor additions of territory have been made, while on the other hand the cities of Panama and Colon, though situated within this strip, do not form part of the Canal Zone. The United States exercises jurisdiction over the Canal Zone as fully *as if* it enjoyed sovereignty. The Canal Zone divides the territory of the independent Republic of Panama into two parts of almost equal size, but of different economic significance, the Pacific region north of the Canal being by far the most important part of the country, aside from the two terminal cities.

These two cities, Panama and Colon, do not possess ports open to large seagoing vessels as they did before the opening of the Canal. Such ports have now been established at Balboa and Cristobal, within the Canal Zone. Balboa and Cristobal mark,

THE INTER-AMERICAN QUARTERLY

respectively, the Pacific and Atlantic entrances to the Canal, and serve at the same time as ports for the cities of Panama and Colon. At these ports practically all of the imports destined, not only for the Canal Zone but for the Republic as well, are handled. The two ports open to ocean going vessels which lie within the territory of the Republic, namely Bocas del Toro on the Atlantic and Puerto Armuelles on the Pacific, handle very limited quantities of imports and these purely for local use. They serve primarily for the shipping of fruits.

After the Canal Zone was taken over by the United States administration, in 1904, it was included in the United States customs area, and the Dingley tariff was applied to all goods entering the Isthmus for private use, either in the Canal Zone or in the Republic of Panama. This measure, obviously, was highly detrimental to the economic life of the Republic, since it subjected all imports to a double burden. A repeal of this measure was therefore agreed upon, and together with several other regulations concerning postal organization, commissaries, etc., was included in the Taft Convention of 1905, which, in spite of minor modifications, has remained the basis of the customs and commercial relations between the two jurisdictions existing on the Isthmus.⁹

Under this arrangement the Canal Zone does not form part of the United States customs area. Customs duties on all imports destined for, and exports originating in, the territory under the jurisdiction of the Republic are exclusively levied by the Panamanian government and subject to its jurisdiction only. According to the new treaty of 1936 between the United States and Panama, the latter has the right to maintain its own customs houses in the Canal Zone ports, where all goods destined for, and coming from, the Republic are to be handled. All imports destined for official use in the Canal Zone, or the personal use of Canal Zone residents, are imported free of duties and taxes. Imports made by Canal

⁹ For details see William McCain, *The United States and the Republic of Panama*, Durham, N. C., 1937, pp. 43 ff.

THE INTER-AMERICAN QUARTERLY

Zone residents for sale to other people, however, are subject to the customs tariff of the Republic of Panama. The same applies to such goods brought into the Republic from the Canal Zone as have entered the Isthmus free of duty.

Residence in the Canal Zone is limited to employees of the Panama Canal and the Panama Railroad, members of the United States army and navy forces, ministers of religious organizations functioning in the Zone, and employees of steamship agencies, oil companies and a few other business establishments which are immediately connected with the Canal ports. All other business activity must take place exclusively in the territory under the jurisdiction of the Republic.

Panama has no monetary system of its own, since the Republic issues no paper money and United States paper money as well as coins are legal tender in the country. The national monetary unit of the balboa (B.) has therefore a nominal character and is on a par with the dollar. This puts Panama in the fortunate position of being able to dispense with all those exchange restrictions, quotas, compensation agreements, etc., which nowadays play such an important and troublesome role in most other Latin American nations.

These arrangements were devised in order to permit the population of the Republic to obtain a fair share of the business activity which was created by the construction and operation of the great interoceanic waterway, and to disprove the gloomy prophecy of Eusebio A. Morales, a distinguished Panamanian statesman who, as author of a note directed by the Panamanian Minister at Washington to the Secretary of State, in 1904, had predicted: "If things go on as they have begun, the principal cities of the Republic of Panama will soon be converted into uninhabited places, isolated from all direct commercial contact with the outside world." It can not now be doubted that, quite to the contrary, the material and sanitary development of the two ter-

⁷ Eusebio A. Morales, *op. cit.*, Vol. I, pp. 77 ff.

THE INTER-AMERICAN QUARTERLY

minal cities has been tremendously stimulated through the direct as well as the indirect effects of the Canal. Undoubtedly, even greater benefits could have been obtained had it not been for the annoying monopoly exercised by the Panama Railroad. Although a United States Government property, this railroad has taken advantage of its strong position to foist upon the people of the Republic extremely high traffic rates, to charge exorbitant rents for lots owned by it in the Panamanian cities of Colon and Panama, and to impose certain economically unjustified regulations with regard to the transport of goods across the Isthmus.

Another problem which was not settled satisfactorily, and which probably will never be settled to the entire satisfaction of Panama, is that created by the commissaries, post exchanges and movie houses operated in the Canal Zone by United States authorities. Although the use of all these establishments has been limited to employees of the Canal Zone and members of the United States armed forces, it has proved extremely difficult to enforce this regulation in view of the fact that the Canal Zone towns of Ancon and Balboa on the Pacific, and Cristobal on the Atlantic, are practically united with the cities of Panama and Colon, respectively, and that in some cases the commissaries are separated only by a street from Panamanian territory. There is no customs control on the boundary between the Canal Zone and territory under Panamanian jurisdiction, nor would this be practicable, in view of the intensive urban traffic between the two territories.

An additional difficulty is caused by the fact that great numbers of Canal Zone employees, especially those on the "silver roll" (manual workers, mostly colored) live in Panamanian territory, but are entitled to the use of the commissaries. There is no doubt that many of these people engage in smuggling into Panama articles that have been bought in the Canal Zone.

Moreover, prices of most articles, particularly those of prime necessity, are considerably cheaper in the Canal Zone. They do not have to pay duties and consular fees upon importation, they

THE INTER-AMERICAN QUARTERLY

are purchased and handled in large scale, they pay preference rates on the vessels of the Panama Railroad operating between New York and Cristobal, as well as on the railroad itself. Besides, there are no taxes or rents levied on any of the official sales organizations operating in the Canal Zone. The resulting competition with Panamanian business is very strong, especially in the case of those articles which are protected by high tariffs in Panama due to the fact that they are products of certain national industries. Examples are sugar, condensed milk, soap, shoes, etc.⁸

Another serious complaint has been caused by the fact that the Panama Railroad, through its commissaries, has handled the sale of supplies to vessels in the Canal ports, thus excluding the merchants of the Republic from a very important and profitable business. This situation, however, has been improved in the past few years through the development of facilities for duty-free re-exportation by means of bonded warehouses in Panama. Moreover, in the treaty of 1936 (ratified by the United States Senate in 1939), it is stipulated that the commissaries will restrict themselves in the future to selling to ships, passengers and crews, only those articles which cannot be obtained, or cannot be obtained at reasonable prices, from merchants in Panama.

On the basis of the circumstances outlined above, it is obvious that the Canal Zone must, from the viewpoint of the Republic of Panama, be considered for all economic purposes as a foreign territory, despite the fact that from a strictly legalistic aspect, the Canal Zone is still part of the territory of the Republic of Panama.

It now becomes clear that the establishment of the Canal Zone has brought at least one major change in the economic structure of Panama: the actual transfer of goods and passengers from one ocean to the other now takes place under the jurisdiction of the United States and to the practical exclusion of elements permanently settled in the Republic. Nevertheless, the economy of

⁸ For detailed information on the commissary problem, see McCay, *op cit.*, pp. 225 ff; for the Panamanian viewpoint, Ernesto J. Castellero, *Breve curso de historia de comercio*, Panama, 1935, pp. 135 ff.

THE INTER-AMERICAN QUARTERLY

the Republic continues to be based primarily upon international traffic and trade, although the relation today is more indirect than direct. Instead of taking care of the actual transportation of freight and passengers, the Panama of today profits from selling goods and services to residents of the Canal Zone who are in charge of the operation, maintenance and defense of the Canal and the Panama Railroad, as well as to passengers and crews of the ships which annually transit the Canal or call at one of its terminal ports. In the fiscal year 1938, for example, there were 5,524 ships transiting the Canal; 131,837 transient passengers on vessels calling at Canal ports; and 401,458 crew members on vessels and airplanes.⁹

III.

In spite of such changes, one basic feature of Panama's foreign trade has remained the same since colonial times: the visible imports are much larger than the visible exports. The reason is, of course, that a very considerable part of the imported goods are brought to Panama only to be sold there locally to people who have their permanent residence outside of the jurisdiction of the country, no matter whether they be travellers, tourists, or residents of the Canal Zone. Far from constituting an "economic wonder" or an "exception to economic rules," as certain writers have argued, this situation was merely a natural outcome of the geographical position and general development of the country. Panama was dependent upon the profits to be derived from selling services and goods to strangers. These goods, moreover, had to be bought abroad, in view of limited productive capacity at home, and the comparatively ample and cheap facilities for international transportation which are the main advantage of Panama.

⁹ Cf. *Annual Report of the Governor of The Panama Canal for the fiscal year ending June 30, 1938*. U. S. Government Printing Office, Washington, D. C., 1938, pp. 29, 95 ff.

THE INTER-AMERICAN QUARTERLY

Due to the lack or insufficiency of statistics during the time when the Isthmus was a part of Colombia, we have to depend on estimates even with regard to its visible foreign trade during that period. A foreign resident with long and intimate experience of the country estimated that at the close of the nineteenth century the value of imported goods exceeded that of exported products in the proportion of ten to one.¹⁰

Regular statistical records of foreign trade have been available in Panama only since 1908. Even since then, not all data published by official statisticians can be considered entirely correct. Nevertheless, the development during the last 31 years is shown in the following table, which indicates, on percentage basis, the ratio of total "visible" exports to total imports.

1908	1913	1918	1929	1932	1934	1937	1938
23.4	47.4	37.1	22.1	23.3	35.1	39.5	43.4

It is clear that the visible exports of Panama have never amounted to more than a small part of the country's imports. The main part of the exports are represented by retail sales across the counter or in personal services to be paid for directly, and thus are not subject to any customs control. Nor do they enter into any statistical record. This fact has always made it extremely difficult to compile an even approximately correct balance of international payments for Panama.

The principal lines of business making up the exports of the Republic can be grouped as follows:

- a) "visible" exports, of domestic as well as imported goods
 - I) to foreign countries
 - II) to United States authorities and residents in the Canal Zone
- b) "invisible" exports:
 - I) through the sale of domestic as well as imported goods, to Canal Zone residents, tourists, passengers, and crews of vessels calling at Canal ports, in stores, restaurants, clubs, hotels, etc.
 - II) through services rendered to the same types of customers by local transport agencies, casinos, race tracks, the National Lottery, etc.
 - III) through the lease of quarters in the terminal cities to persons employed by United States authorities in the Canal Zone
 - IV) through construction work done for United States authorities in the Canal Zone by contractors in the Republic of Panama

Limitations of space do not permit a detailed analysis of these items.¹¹ Even so it becomes clear that the "invisible" exports which are not easily subject to statistical control are very important and probably exceed the total "visible"

¹⁰ Cf. Tracy Robinson, *Panama, 1861-1907*, New York and Panama, 1907, p. 194.

¹¹ A detailed survey of all principal factors involving the country's "invisible" exports and other items of its balance of international payments is being conducted by the first named author at the University of Panama. Its results will be presented in his book on the Economic and Social Development of the Isthmus of Panama, under preparation.

THE INTER-AMERICAN QUARTERLY

exportation (including re-exportation) of the country. In this way it is easily understood how the import surplus, which seems at first sight surprisingly high, is covered. In no country in the world is there such an immense difference between balance of (registered) trade and balance of payments as there is in Panama. And few other countries depend to such a high degree on foreign trade relations, while having so small a basis of domestic production.

It follows that in Panama not so much the value of (statistically registered) exports, as the value of imports, has always been considered the safest symptom of business activity. But there are other consequences of the considerations outlined above. Since 1933, when a new tariff policy was devised, with the aim of promoting re-export trade, practically all imported articles of prime necessity for the masses of the local population pay higher duties than luxury goods destined primarily for sale to tourists and residents of the Canal Zone. This latter class of commodities, for the most part, enjoys even duty-free entrance. While not an ideal situation from a social point of view, nevertheless it is economically justifiable, in view of the fact that the so-called luxury goods constitute the principal and almost sole articles for re-exportation, and that the profits derived from these are the main source of income for the country. To meet the competition of other Carribbean regions, such as Havana, Curaçao, Jamaica, Mexico, etc., Panama has done everything possible to lower the prices of articles appealing to visitors from outside. This policy at the same time constitutes the most efficient defense of the Panama merchants against the competition which they have to face from the commissaries and post exchanges in the Canal Zone.

In view of the very peculiar conditions which prevail in Panama, it is not surprising that the per capita value of her foreign trade reaches a figure which is unusual for Central or South America. In 1937, the per capita value of imports, as measured in dollars, was 40.85 in Panama, as compared to 36.75 in Argentina, 20.65 in the neighboring country of Costa Rica, 11.10 in Colombia, 5.60 in Nicaragua, and only 4.60 in Brazil. The ratio attained in Panama is almost equal to that of France, and considerably exceeds that of Germany (32.50).

Although Panama's population represents not quite 10 per cent of that of all the rest of Central America (550,000 as against 6,300,000), the value of Panamanian imports in 1938 amounted to 25.2 per cent of the total imports of the other five Central American republics combined. Guatemala, Bolivia and Ecuador, with a population of about 3,000,000 each, imported in 1937 less than Panama (\$12,400,000, \$12,300,000 and \$7,100,000, as compared to \$12,900,000). Haiti, with almost 3,000,000 people, bought less than half of what Panama bought abroad (\$5,600,000, as compared to \$12,900,000).¹²

For the export trade of the United States, Panama is more important than any other Central American country. In 1936, of 756,250 tons of goods shipped from United States ports and destined to Central America, 552,373 tons or 73 per cent were destined for the Canal Zone and the Republic of Panama. In 1937, 10,933 passengers left United States ports with the Isthmus of Panama as their destination, while only 4,438 passengers embarked for all the rest of Central America.¹³

¹² All amounts in gold dollars.

¹³ *The Balance of International Payments of the United States in 1937*, U. S. Department of Commerce, Economic Series, No. 3, Washington, D. C., 1938, p. 99.

THE INTER-AMERICAN QUARTERLY

IV.

The development of the total "visible" foreign trade of Panama, as compared with that of the United States, is shown in the following table.

TOTAL EXPORTS AND IMPORTS

<i>Year</i>	<i>Republic of Panama</i>			<i>United States</i>		
	<i>Value in dollars</i>	<i>% of 1908</i>	<i>% of 1913</i>	<i>Value in dollars</i>	<i>% of 1908</i>	<i>% of 1913</i>
1908	9,633,863	100.0	57.6	3,055,115,000	100	71
1913	16,735,192	173.7	100.0	4,278,892,000	140	100
1918	10,721,217	111.3	64.1	9,180,301,000	300	215
1929	23,540,113	244.3	140.7	9,640,356,000	315	225
1932	10,913,885	113.3	65.2	2,933,790,000	96	69
1934	18,333,599	190.3	109.6	3,787,855,000	124	89
1937	30,447,370	316.0	181.9	6,432,835,000	210	150
1938	25,320,020	262.8	151.3	5,055,000,000	165	118

These data show that the development of the visible foreign trade of Panama has, as a whole, been much more marked during the last 31 years, than that of the United States, due to the fact that the growth of business on the Isthmus, and particularly in the terminal cities, has received an essential stimulus through the Canal, on the development of which it has entirely depended ever since. While in the United States the peak years of foreign trade were 1918, 1929 and 1937, the outstanding years in Panama's foreign trade development were 1913, 1929 and 1937. Panama had her boom shortly before the end of the Canal construction period, while the United States experienced the most intensive foreign trade activity toward the end of the first world war.

There is no doubt that the trend of economic development of Panama, as expressed in its foreign commerce, is decidedly upward. The amounts reached in every peak year are larger than in the former peak year, while deep points are each time less deep than previously.

During the years from 1904 to 1914, there was decided prosperity in Panama, due to the huge expenditures made by United States authorities as well as by individual workers employed in canal construction. As many as 70,000 employees were connected with the Isthmian Canal Commission, practically all of

THE INTER-AMERICAN QUARTERLY

whom had to come to the Isthmus from outside and were, therefore, new customers. Although they purchased the greater part of their prime necessities in the Commissaries of the Canal Commission and thus outside the jurisdiction of the Republic, they nevertheless turned to the terminal cities for many of their purchases of "luxury goods" and services of all kinds, including the rental of living quarters.

After completion of work on the Canal in 1915, the total population of the Canal Zone was reduced to about 40,000. A marked depression followed which was aggravated by the difficulties in obtaining supplies from abroad, due to the First World War. The interruption of regular international maritime traffic via the Isthmus caused a decided slackening in all forms of business activity. Public works could not be continued because state revenues, based primarily on customs receipts, diminished greatly. On the other hand, Panama was unable to profit appreciably from the enlarged demand for raw materials in Europe and the United States because of the undeveloped condition of her agriculture and mining. The war created a depression in Panama instead of causing a boom as it did in the United States and many Latin American countries.

After the War, the development of the Canal traffic resulted in a practically uninterrupted upward trend which continued until 1929. Imports reached the record value of almost B. 20,000,000 in 1929. This reflected the very satisfactory business relations with Canal Zone residents and travellers, as well as inhabitants of neighboring countries who came to Panama for treatment in local hospitals, on business or on vacation.

After 1929, the effects of the depression are clearly discernible in the foreign trade data of Panama as of all other Latin American countries. Between 1929 and 1932, imports as well as visible exports sank to less than half of their former value while registered re-exports, though comparatively insignificant even in 1929, diminished to less than a third.

THE INTER-AMERICAN QUARTERLY

The surprisingly rapid recovery which can be noted in the years between 1932 and 1934, and in fact up to 1937, has been due to two factors: first, the general upward trend of world economy; and, secondly, the revision of Panama's customs legislation with the aim of fostering visible as well as invisible re-exports.

Panama's tariff policy had been determined primarily by the requirements of the treasury which, as in almost all Latin American nations, depended, and still depends in a high degree, on customs house receipts. However, a number of protective tariffs had been established in favor of certain "national industries." These industries require protection because of their high costs of production, and this, in turn, is due to the lack or the poor quality of native raw materials, the absence of modern methods and machinery, the inefficiency of labor and the small scale production which results from the limited purchasing power of the local market. The principal protected commodities are sugar, rice, condensed milk, liquors, laundry soap, shoes, clothes, hats, ceramic products and ordinary furniture. Most other articles paid a duty of 15 per cent ad valorem, no matter whether they were imported for domestic consumption or for sale to Canal Zone residents and tourists.

As a result of the unfavorable business situation, a campaign was started in 1932 aiming at a revision of the customs tariff in order to lower, or completely eliminate duties on goods imported primarily for re-export. Early in 1933 duties on perfumes, silks, rugs, fancy articles, liquors and other so-called tourist commodities were practically abolished. In 1934, a considerable number of other articles of the same category were exempted from import duties. These measures produced remarkable results.

The year 1938 brought a reduction of foreign trade values, as it did in the United States. This depressed condition has continued through 1939, and has been even more accentuated in Panama, because the new general depression coincided with the suspension of two important lines of passenger vessels in the intercoastal traffic which had brought great numbers of tourists to the Isthmus. It is feared that another blow to business will result from the announced decision of the Army command in the Canal Zone, effective December 1, 1939, to buy all foodstuffs directly in the United States and thus discontinue the very considerable purchases which it has made for the last few years from Panamanian merchants. On the other hand, a certain encouragement to business may be expected from the impending increase of the armed forces stationed in the Canal Zone (these forces are to be increased by about 7,000 men), the inauguration of the work on the third set of locks, and other defense measures which will provide employment

THE INTER-AMERICAN QUARTERLY

for several thousand additional workmen. The improvement of a sector of the National Highway, with the cooperation of the United States, may also help.

V.

An analysis of Panama's imports according to commodities, shows the great variety of goods on the importation of which the Republic depends. Even live animals, mostly cattle, have been imported, although in limited quantity, nor have they always been imported for breeding alone. Sometimes, as in 1938, they have been made necessary by the country's insufficient supply of domestic cattle. In foodstuffs and beverages a slight decrease of imports can be noted, due to greater local production of sugar, rice, condensed milk, beer, liquors and soft beverages. However, a long line of foodstuffs are being imported in considerable quantities—among them flour, tinned meat, fish, butter, vegetable oils, eggs, potatoes, rice, and even fruit. The increased import of mineral oils is easily explained by the development of motor car transportation, which is more extensive on the Isthmus of Panama than in all the rest of Central America. A peculiar fact is the importation of timber, valued at B. 322,000 in 1938, into a country which is literally full of all sorts of valuable wood. The development of cement imports can well serve as a symptom of business activity on the Isthmus, since the extent of construction work is closely related to it. Manufactured articles have always accounted for approximately two-thirds of total imports. Most re-exported commodities belong to this category.

As far as the origin of imports into Panama is concerned, the United States has held a dominant position since the beginning of Panama's independent existence. Its share in total imports has always amounted to more than half. An extremely close relationship existed even before the United States government took over the construction of the Canal. During the California gold rush in 1849, North Americans were instrumental in establishing mod-

ern business enterprises on the Isthmus, and thus terminating the economic decay from which the country had been suffering for a century. The Panama Railroad was constructed by North American interests and capital, and depended almost entirely on equipment and other material brought from the United States. Even the French Canal Companies bought a great part of their equipment in the United States and had contracts with North American construction firms.

Nevertheless, up to the beginning of the First World War, Great Britain retained a considerable share of Panama's imports. She supplied between a fourth and a fifth part of the total, while Germany followed in third place with approximately 10 per cent. The World War constituted, as in all Latin American countries, a great stimulus to imports from the United States. By 1918, these had jumped to 81.3 per cent of the total. Their value, however, remained almost on the same level as that of 1913, indicating that the reverse in percentage was due rather to difficulties in securing supplies from Europe than to a genuine intensification of trade relations with the United States. On the other hand, during the years from 1918 to 1929, while the share of imports from the United States diminished from 81.3 per cent to 68 per cent, their value more than doubled, due to a remarkable increase in total imports. By 1929 Germany had reconquered more than 5 per cent of total imports, representing almost the same value German imports had had in 1913. Since then imports from Germany have always amounted to between 3 per cent and 6.2 per cent, this latter figure having been reached in 1938. During the depression years, imports from the United States grew proportionately less. They touched bottom in 1937, when they amounted to only 52 per cent. A slight recovery could be noted in 1938, when the figure rose to 57 per cent.

Imports from Great Britain have decreased continuously since the First World War. This seems to reflect a general trend in the Caribbean and most of the South American countries. During the

THE INTER-AMERICAN QUARTERLY

last year these imports amounted to less than a million balboas and to only 4.8 per cent of the total.

Purchases made in France were relatively insignificant even before the World War, and they received during that war a blow almost as severe as did imports from Germany. Although they recovered after 1918, their share has never exceeded 4.3 per cent. Some typical French export commodities, such as champagne and wines, are much less consumed today than they were when the French were connected with Canal construction work and greatly influenced the drinking and living habits of well-to-do natives. Under the influence of the North Americans, beer, whisky, brandies, liquors and soft drinks have replaced wines, champagne and cognacs. French perfumes are still important, however.

Imports from China show a steady but not spectacular increase. They consist partly of rice for the consumption of the masses. These rice imports, however, have been considerably reduced in the last few years, due to larger local production. Another item in Chinese imports are luxury goods, such as silk-ware, rugs, furniture, china and art objects. These are among the main articles sold to tourists and Canal Zone residents in the numerous stores kept by Chinese, Japanese, Hindus and Europeans in the terminal cities.

A relatively new phenomenon is represented by imports from Japan. These were non-existent before the First World War, and though they were stimulated during that war, because of the difficulty in obtaining supplies from the usual sources in Europe, these gains proved temporary. Since 1931, however, when the effects of the economic depression made themselves felt and cheapness became a compelling consideration, imports from Japan began a really spectacular rise. At the same time imports from all other countries shrank to half or a third part of what they used to be.

In 1934, Japan's share in Panama's imports amounted to 12.1 per cent of the total. She thus attained second place among all nations, displacing Great Britain. This position Japan has been able to maintain ever since. During the years 1936 and 1937,

THE INTER-AMERICAN QUARTERLY

however, when relative prosperity seemed to be restored and imports from the United States increased by B. 1,600,000 those from Japan remained practically stationary. In 1937 they reached their highest level with B. 3,100,000, representing 14.2 per cent of total imports. This percentage was the highest attained by Japanese trade in the total imports of any Latin American nation. It must be taken into account, however, that in a number of other Latin American countries imports from Japan have been severely restricted upon a compensation basis, and that such is not the case in Panama.

In 1938, Japan's share in Panamanian imports decreased to 9.2 per cent. This is partly caused by boycott measures. Yet these measures seem to be limited in general to Chinese merchants and to North American residents. The poor native population continues to buy those goods which are the cheapest, and in most cases these are goods of Japanese manufacture. Even in the interior of the country, where the Chinese are usually the only shopkeepers, the extremely limited purchasing power of the population forces it to buy goods of Japanese make because of their cheapness, considerations of quality or political ethics notwithstanding.

Japanese imports have been promoted by an intensive and systematic propaganda and sales campaign carried out by representatives of the semi-official Japanese Export and Import Association for Central America, in close cooperation with the consular and diplomatic representatives of Japan in Panama. A great number of Japanese magazines and leaflets printed in Spanish and English are continually distributed. On the occasion of the Central American and Caribbean Olympic Games in Panama in February, 1938, a Japanese trade exposition was opened. It has since been maintained on a permanent basis. It is worth mentioning, too, that the official representation of Japan in the Republic of Panama was raised in 1937 from a consulate to a legation. This latter was originally headed by a *chargé d'affaires*, but a resident Minister has recently been appointed for the first time. He presented his credentials in October, 1939. During the same period,

THE INTER-AMERICAN QUARTERLY

the staff of the official Japanese representation was augmented and it now includes a commercial attaché.

As in most Latin American countries, imports from Italy have remained almost insignificant during the entire period under consideration. They are in quantity, as well as in composition, comparable to those from Spain.

Imports from certain other countries have steadily increased, principally those from the Netherlands, Belgium, Czechoslovakia and the Scandinavian countries. Purchases in Latin America, on the other hand, have remained very small. There are a few exceptions, such as imports of wine from Chile during the last few years.

In the immediate future, Panamanian imports from the United States and Japan will undoubtedly, as in 1914-1918, receive a decided stimulus as the result of difficulties in obtaining supplies from a war-stricken Europe.

VI.

As far as Panamanian exports are concerned, there is really only one commodity on the large-scale export of which the country can rely, namely the banana. It accounts for about three-fourths of total exports of domestic products. Nearly all is shipped to the United States, the trade being in the hands of two North American corporations. However, banana production has not shown a marked upward trend. By 1938 it had hardly regained the level of 1913, after a long decline which expressed itself chiefly in values, due to depressed prices. Panama's banana exports have in the last few years equalled in value those of Costa Rica, and, as a matter of fact, have been larger in quantity.

No other tropical fruit is exported in commercial quantity, and the only other export commodity of real importance has been, for the last ten years, cacao. Although Panamanian cacao is considered to be among the very best on the world market, its exported quantities remained exceedingly small until its systematic cultivation was developed by a North American fruit corporation.

THE INTER-AMERICAN QUARTERLY

Exports of coconuts have declined, due partly to a parasite plague on the San Blas Islands, their chief production area, partly to the fact that they are increasingly used by local factories of vegetable oil.

Panama, unlike her neighbors, has exported practically no coffee, and in some years the production has hardly been sufficient for local consumption. It is true that from 1932 to 1934 there was some coffee exported to Germany, in barter deals for machinery.

The decline in exports of hides can be explained by the development of a local shoe industry which absorbs a greater part of this commodity than it used to. Cattle has been sold exclusively to the Canal Zone administration, and since 1935 practically the entire fresh meat supply of the Canal Zone has been secured from cattle dealers in Panama. A part of the cattle thus "exported," however, had to be brought from neighboring countries, since the local supply was sometimes insufficient.

Exportation of rubber had practically ceased, despite the fact that it had been exploited in former years in relatively considerable quantities, though mostly in crude form. Restoration of rubber exports on a large scale is expected in not too distant a future however, when the plantation which is now being developed by a big United States corporation begins operations. The surprising decline and practical abandonment of timber exports can partly be explained by the fact that the most easily accessible stocks, immediately adjoining the navigable waterways, have largely been cut, and that exploitation of those further away is considered too costly, in view of the inadequate means of transportation. The marked decline in foreign sales of ivory nuts, mother-of-pearl and tortoise shells (which in former times used to be considerable), has been caused by a small demand and unattractive prices, due to changes in fashion.

On the whole, the development of Panama's exports, as far as her domestic products are concerned, is far from encouraging. The year 1913 marked the peak, in general as well as for the great majority of individual commodities.

THE INTER-AMERICAN QUARTERLY

The United States (including the Canal Zone) has always taken more than 90 per cent of Panama's exports. Before the First World War, a certain proportion of foreign sales of hides, rubber, timber, medicinal plants and mother-of-pearl used to go to Great Britain, Germany and France. In recent years occasional sales have been made to these same countries, and Holland has bought cacao, coffee, tortoise shells and gold. Small quantities of ivory nuts have been shipped to Japan. All these sales, however, have remained too insignificant to affect the virtually exclusive orientation of the country's exports of domestic products toward the big northern neighbor. No other nation sells such a great proportion of its exported products to the United States as does Panama.

The Republic of Panama has never really been in a position to pursue an active trade policy by means of commercial treaties or compensation agreements, nor has it felt the need of such devices. The reasons are obvious: the greater part of the country's foreign sales are "invisible" and cannot therefore be promoted by trade agreements; of the exports of domestic products, approximately 95 per cent are absorbed by the United States, where they enter duty-free; stimulation of exports to other countries would be of no use as long as local production remains so little developed.

A broader and more even development of the country's foreign trade may be expected only as the result of a long range policy of systematic promotion of the productive capacities of the population, in agriculture, cattle raising, fishing and forestry—possibilities which have remained virtually undeveloped up to now. This in turn would require a comprehensive and carefully planned campaign, including sanitation, research, highway construction, training of the rural population, immigration of easily assimilable elements, colonization of unexploited regions, and organization of production and marketing by means of cooperatives.