

In collaboration with



**PANAMA AS A HUB:  
NEARSHORING  
& CONNECTIVITY**  
SPECIAL REPORT

**thebusiness|year**

## 2

## 3

Laurentino Cortizo Cohen  
President,  
Republic of Panama  
• Interview

## 4

Ever Given Opportunities  
• Focus: Nearshoring & Connectivity

## 6

Ramón Martínez de la Guardia  
Minister of Commerce and Industries  
• Interview

## 8

Luis Eduardo Ocando B.,  
Country Managing Partner  
& Tax Leader, EY Panama &  
MeCAR Market Segment Leader  
EY Latam North Region  
• Interview

## 10

Ambassador Carmen Gisela Vergara  
Executive Director,  
PROPANAMA  
• Interview

## 12

Nearshoring opportunities  
in panama  
• Communique: EY

## 14

Giovanni Bruno Ferrari  
General Manager,  
Colón Free Zone Administration  
• Interview

## 16

Jared H. Zerbe  
CEO,  
Hutchison Ports PPC  
• Interview

## 18

Rodolfo De La Guardia  
President,  
The Logistics Business Council of Panama  
(COEL)  
• Interview

## 20

Alejandro Canakis  
General Manager, GlaxoSmithKline Central  
America & Caribbean  
• Interview

## 22

Ernesto Lara  
Chairman,  
British Chamber of Commerce Panama  
• Interview

In collaboration with



Read more at [thebusinessyear.com/panama](https://thebusinessyear.com/panama)

The Business Year is published by The Business Year International, Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands. The Business Year is a registered trademark of The Business Year International. Copyright The Business Year International Inc. 2020. All rights reserved. No part of this publication may be reproduced, stored in a retrievable system, or transmitted in any form or by any means, electronic, mechanical, photocopied, recorded, or otherwise without prior permission of The Business Year International Inc. The Business Year International Inc. has made every effort to ensure that the content of this publication is accurate at the time of printing. The Business Year International Inc. makes no warranty, representation, or undertaking, whether expressed or implied, nor does it assume any legal liability, direct or indirect, or responsibility for the accuracy, completeness, or usefulness of any information contained in this publication. The paper used in the production of this publication comes from well-managed sources.

CEO  
Ayşe Valentin  
Managing Director Latam  
Han Le  
Regional Director  
Federica Fermo  
Country Manager  
Andrea Tsiachtsiri  
Editorial  
Terry Whitlam, Aidan McMahon

# STEADFAST & DETERMINED



Laurentino Cortizo Cohen  
PRESIDENT,  
REPUBLIC OF PANAMA

**Panama worked to keep its main economic arteries, including the Panama Canal, moving during the COVID-19 pandemic, while also bolstering the healthcare sector. With the end now in sight, the president hopes that emerging sectors such as nearshoring could play a key role in future growth.**

**BIO**

President Laurentino "Nito" Cortizo Cohen obtained his degree in business administration from the University of Norwich in the US and his MBA and doctorate in international trade and marketing from the University of Austin, Texas. He was a member of the legislative assembly from 1994-2004, and between 2004 and 2006 he was appointed Minister of Agricultural Development during the administration of President Martín Torrijos Espino. In 2016, he decided to run as a presidential candidate, winning the primaries of his party. In 2019, he became the President-Elect of the Republic of Panama.

**How would you assess the response and/or resiliency of the Panamanian economy with regards to the impact of the COVID-19 pandemic?**

The response of the Panamanian economy to the impacts of the pandemic has been pragmatic. Like other countries in the world, Panama has suffered the consequences of the pandemic by seeing most of its productive activities paralyzed, especially in sectors that are significant to us, such as services, banking, and construction. From the beginning, like the majority of nations, we had to reconcile the needs of protecting human life by strengthening healthcare and preventing the destruction of our productive sectors. But, at the same time, we show great resilience leveraged in the uninterrupted operation of the Panama Canal and our port system, determining pillars of our income that have allowed a sustainable operation of the state. It should be noted the importance that the Panama Canal has had during this crisis by allowing the expeditious transit of medical resources and assistance to neighboring countries. In addition, in the midst of the pandemic, we were able to issue debt under highly favorable conditions for our country, underlining the great confidence that Panama has in the capital markets. One factor that has contributed to the non-traumatic continuity of our economic system has been the structured institutional support for the country's most vulnerable population, which, if it had not been given, could have suffered even greater damage due to the pandemic. This has made it possible to provide assistance to 1.5 million Panamanians, becoming an insurance of stability for the social peace that has always characterized our society. I should also point out that Panama has a historical ca-

capacity to recover in adverse conditions. This is how we saw it during the crisis in 1989, when our economy was devastated, and all forecasts projected it would take decades to reestablish our production scheme. However, we did it in a much shorter time than expected.

**Panama has thus far made significant progress in developing the country's capacity in connectivity and nearshoring. What are your priorities or strategies to further increase Panama's attractiveness as a nearshoring hub for the Americas?**

Panama is the country with the greatest maritime and air competitiveness in Latin America and the Caribbean. The connectivity developed from this enhances a national orientation to nearshoring that allows a strategic partnership with other countries in the region for mutually beneficial ventures. It is an area to promote, since traditionally we have brought countries distant from ours closer together. Hence, it is time to look at our immediate surroundings and acquire all of the benefits that this can offer. As it is essentially about bringing products closer to customers, Panama can offer an ideal platform for this concept. Proximity, culture, and language combined would make us the true nearshoring hub on the continent.

**What role will nearshoring play in the reactivation of the Panamanian economy? What are your administration's broader goals or strategic focuses for growing the Panamanian economy in the post-COVID-19 era?**

Our government has established, and is currently executing, an aggressive and, at the same time, realistic recovery plan that includes stimulus to various economic areas, emphasizing public investment in infrastructure to generate employment in the different regions of the country, as well as financing to banking and micro, small, and medium enterprises. This plan took into account in a specific way private companies and specific actions to attract FDI. Without having completely come out of this critical juncture, the country demonstrates extremely positive signs of recovery, and this can be seen in its growing progress towards a new normal. We are highly optimistic about our future as Panamanians overcome these monumental adversities and challenges together. ✖

# EVER GIVEN OPPORTUNITIES

**The recent Suez Canal incident has Latam nations, Panama included, contemplating the prospect of grabbing a chunk of China's exports to the US, while an established BPO sector continues to pay dividends in the services-driven economy.**

**THE COVID-19** pandemic has proven, as adversity frequently does, that out of crisis comes opportunity. Just think telcos and online services providers in the era of remote working and isolation. In a similar vein, the recent blockage in the Suez Canal resulting from cargo ship Ever Given saw costly trade delays that recommended more proximate commercial solutions.

To give some perspective, around 15% of global trade passes through the Suez Canal. In wider terms, United Nations Conference on Trade and Development (UNCTAD) research from 2020 indicates that global seaborne trade had grown by 3.5% per annum over the previous decade. And being around 14 times cheaper than air, seven times cheaper than road, and 3.5 times cheaper than rail transportation, in terms of global trade seaborne shipment claims 80% in volume and 70% in monetary terms. Essentially, the maritime sector remains the most strategic for global commerce.

## THINKING LOCAL(ISH)...

Given the critical dependence of global commerce on established supply chains, the Suez Canal incident has unsurprisingly made many manufacturers more determined to relocate factories closer to home to avoid dependence on shipping components from manufacturing giant China. Indeed, the Suez blockage was caused by a ship bound for the Netherlands from China, delaying 300 other cargo vessels in the process.

Enter nearshoring, an economic model that promises to become a trend enabling Latam nations to better capitalize on the US market. Current data from Inter-American Development Bank suggests that LatAm stands to generate annual income of USD70 billion should it manage to capture a mere 10% of current shipments from China. Moreover, the LatAm economies, already producers of such prod-

ucts as brown goods, autos and textiles are experienced and in some cases tooled for the task in terms of infrastructure and manpower.

## ...THINKING PANAMA

The writing was on the wall when a Gartner Consulting survey in 2020 revealed that 33% of companies out of 260 polled had relocated factories out of China or were set to do so by 2023. Beijing-Washington tension and inadequate hygienic supplies from China during the pandemic only heightened concerns over excessive dependence on Chinese products. And among several nations keen to become nearshore suppliers including Colombia, Costa Rica, Uruguay, the Dominican Republic is the address of the world's other major commercial waterway, Panama. There are perennial obstacles to overcome first however in many Central American nations, such as prohibitively expensive transportation costs and infrastructure insufficiency, as well as off-putting bureaucracy. Fortunately, this is not the case for Panama. As Nearshore Americas reveals Panama's economy saw an annual growth rate of 5.6% over the five years to 2019, sprinting to the higher echelons of the global league, and as an English-speaking nation, it is a prime nearshore destination, and...

## ...NOT JUST FOR MANUFACTURING

Nearshoring is also a model very much applicable to the services sectors, notably taking the form of Business Process Outsourcing (BPO)—where call centers boast multi-lingual staff as capable as a more costly workforce on US soil. Indeed, Panama has excelled in the international services market, and services overall account for around 70% of GDP.

Panama has also made notable inroads higher up the services value chain, giving the more familiar global offshore addresses of India,

the Philippines and China a run for their money. The four economic sectors focused on by government in recent years have been finance and banking services, hotels and tourism, construction, and naturally enough, information technology workers to man those phones, but also to provide higher valued services, known as Knowledge Process Outsourcing (KPO). Moreover, the local workforce is relatively affluent and hence stable, unlike elsewhere in the region where economic migration is high. And meanwhile, Panama's installed ICT and telco infrastructure is of the quality required for high volume international traffic. This has won over leading BPO providers including US Dell and international call and contact-center Sitel. Accountancy firms are relying on Panama's nearshore credentials

for back-office services, including the processing and recording of invoices and sales transactions, as well as accounts management, and information reporting. And meanwhile, IT, HR, customer service, procurement, payroll, real estate and marketing services are delivered by the highly educated workforce to financial services sector clients.

Panama has clearly demonstrated its capacity to retain the technically and linguistically skilled workforce required of a nearshore hub. Furthermore, the swift acceptance of the post-Covid-19 'new normal' can only have a catalytic effect on the decision to seek more proximate solutions to supply needs, be they delivered by ship or encoded in zeroes and ones. ✘





## THE PLACE TO BE

Ramón Martínez de la Guardia  
MINISTER OF COMMERCE AND  
INDUSTRIES

**Ramón Martínez De La Guardia, Minister of Commerce and Industries, discusses Panama's potential to be a hub for nearshoring and logistics.**

### BIO

With more than 15 years of experience practicing commercial and corporate Law, Ramón Martínez De La Guardia has been an advisor to local and international companies in various industries. He also has extensive experience in regulatory matters and in negotiation of commercial transactions. He is a graduate of the Santa María La Antigua Catholic University, and has a master's degree in corporate law from the University of Minnesota as well as master's degrees in business administration from ADEN Business School and EUNCET Business School. He is a member of the National Bar Association.

**THE TERM "NEARSHORING"** has become a trendy name for a practice of outsourcing or moving business processes to a nearby country. It is important to understand that COVID-19 disrupted the way the supply chain was designed, whereby most companies had all their "eggs in one basket" and manufactured in one single place. Reality struck when a limited capability to produce goods in other parts of the world (nearer) to the end consumer had not been foreseen, hence making nearshoring a new solution to possible future crises.

In this sense, finding alternatives to make global commerce flow is not new to Panama. By nature, we are a service-driven economy and from historic times we have been facilitators in doing business. We are also not new to logistics; on the contrary, we have a history and key role from the Spanish colonization of the Americas, where goods converged for transfers to Europe; to the railroad construction that provided a secure and alternate path from the west coast to the east coast of the US for both gold and mail; and afterwards, Panama Canal construction, a megaproject that has enabled Panama to offer continuous global services moving all sorts of products quickly and efficiently to boost trade.

Furthermore, we have matured to become a multimodal lo-

gistics center. We are currently the leading maritime hub of all of Latin America with five major shipping ports, three on the Atlantic and two on the Pacific. The geographical location of Panama together with the continuous development of large infrastructures motivates both nationals and foreigners to look at Panama as a great potential distribution center for the markets of the US, Canada, and Latin America through cargo transshipment and as a great consolidation center. Panama's high level of connectivity attracts investors and multinational companies to the country.

Panama achieved an 8.8% increase in transshipment cargo in 2020 vs. 2019, despite the pandemic. The global health crisis accelerated in Panama the implementation of the automation of logistics processes such as the release of cargo online, which cuts delivery times and allows greater efficiency.

An automated liaison system was created between the Ministry of Health and the ports, allowing an expedited line of attention to the ship crew in order to control and manage COVID-19 and mitigate possible cases of contagion. This service and the high rates of biosafety management gave confidence to the crew members of top shipping companies that have a presence in Panama, keeping the maritime routes served by the canal operational and guaranteeing the continuity of all supplies and especially food and medicines.

Panama is also considered the air hub of the Americas due to an extensive network of airlines providing global air transport capabilities as well as a hub for telecommunications, with seven major sub oceanic fiber optic cables all converging here, with over 90% of all digital communication throughout the region passing through Panama. We are also considered the financial hub of the region with over 60 international banks operating out of Panama City. It is important to point out that Panama has been a dollarized economy since its independence

from Colombia in 1903 and does not have a central bank like other countries in Latin America. So, not having a central bank and being tied to the US dollar has enabled us to have little-to-no inflation throughout the years.

For these and other reasons, Panama has once again positioned itself as an ideal location for companies to move part or all their supply chain or nearshoring operations here.

We have also developed laws that are geared toward attracting FDI, such as Law 54, which automatically provides judicial security in the sense that it guarantees that the conditions under which a multinational enterprise invests in Panama cannot be changed for a period of 10 years.

Or laws such as our multinational headquarters law, otherwise known as (SEM) in Spanish, which provides excellent benefits for multinational companies to set up their back office operations here. Since the implementation of the SEM Law in 2007, more than 171 multinational companies have established operations here. This in turn has created over 7,000 jobs and provided for more than USD1.1 billion in FDI. Some of those multinationals that have brought their regional operations to Panama and have experienced the benefits of our country include P&G, Dell, 3M, Samsung, Phillips, Maersk, Nestlé, and LG among many others.

We also recently passed a new law EMMA that provides tremendous incentives for multinational manufacturing companies. The new EMMA Law, which was developed specifically to attract manufacturing companies to Panama, was adopted and reformed from our experience with our pre-existing SEM Law. With the foresight on how more and more multinational companies are transitioning their supply chain services to nearshore markets, we are certain that our new EMMA Law, in conjunction with all our other special investment regimes, will make Panama the ideal location for any multinational enter-

prise to establish operations here.

Among the manufacturing services permitted by EMMA are assembling, manufacturing, re-manufacturing, conditioning, maintenance, repair, and logistics services including distribution centers and warehousing. The permitted activities also include research, product development, and innovation to the same economic group.

One of the top objectives of this regime is to capitalize on technology transfer aiming to attract investments from technology and innovation companies around the world to encourage entrepreneurship and education and enhance Panamanian talent.

Among the greatest advantages and incentives of the EMMA regime are special visas for foreign employees and their dependents, as well as automatically guarantees established by Law 54 of 1998 on the Legal Stability of Investments. Nonetheless, the law also contemplates fiscal and labor incentives.

The diversity of attractions that we have created for FDI must be accompanied by a robust industrial sector. That is why, next to the National Industrial Competitiveness Program (PNCI), we promote and articulate the strategic and regulations processes from the different relevant actors in the country, which seek to enhance the competitive development of our industries and the national industrial ecosystem, making it more efficient.

The theme of nearshoring is real, and we have noticed that many American/Canadian companies that were originally manufacturing their goods in Asia have started to look at bringing those activities to other countries a little closer to home. In this regard, we offer an ideal ecosystem between geography, services, unparalleled connectivity, special regimes, and a business-friendly government; Panama is a top player in this role, and we welcome those companies seeking to relocate and nearshore to a great option. ✖



## THE ROAD TO NORMALITY

Luis Eduardo Ocando B.,  
COUNTRY MANAGING PARTNER  
& TAX LEADER,  
EY PANAMA &  
MECAR MARKET SEGMENT LEADER  
EY LATAM NORTH REGION

**EY is proud to espouse the benefits of doing business in Panama, and sees a quick return to form in 2022 post COVID-19.**

### BIO

Luis Eduardo Ocando B. is Country Managing Partner & Tax Leader of EY's Panama Office and MeCAR Market Segment Leader for EY's Latam North Region. He is a member of the expanded executive committee of the Panama, Central America & Dominican Republic firm of EY (EYCA) and member of the EYCA Tax Executive Committee. He is a tax lawyer with more than 36 years of experience in international taxation.

### How do you see COVID-19 impacting supply chains?

Many companies began to consider their future when the pandemic began. Many companies are based in Asia and most of them are major players in the supply chain of goods and products. For three months after the pandemic started these companies tried to adapt to the situation; to the new normal. With the pandemic, companies are changing their supply chains. They will continue producing in China, because it is costly to compete with China because of the low labor costs. However, something that is happening is that companies will have distribution chains all around the world. Right now, we are seeing that multinational companies have warehouses very close to the consumers. Panama plays a specific role in that sense since it is the hub for connectivity in this region. In Panama there is only around 80km between the Pacific and the Atlantic. The

companies that want to be very close to the consumer choose Panama. The production will remain in China, but the companies that want to serve their consumers faster will consider being in a country like Panama in order to do that. Panama is the hub for the Americas.

### What else sets Panama apart, especially in terms of nearshoring?

The products need to be very close to the consumers and Panama is playing a big role in that. The widened Panama Canal expansion is very important. A problem at the Suez Canal recently caused big problems in the global supply chain. In Panama we have two different sets of locks. Warehouses within the country and the different regimes that Panama has, like the Panama Pacifico and the new EMA law for manufacturing anywhere in the country, are all important to promote nearshoring. Also, it is not only about connectivity via the Panama Canal; Tocumen Airport also works 24/7 for the distribution of goods within the region.

### What challenges does the country face to increase foreign investment?

Panama has to work very hard to reduce the cost of energy as it is a big issue that this country is facing. At the end of the day, the companies that want to establish a warehouse for distribution to the region will be evaluating the country, which offers many advantages thanks to its geographical location, although the cost to be here in Panama is higher than other countries. Our understanding is that Panama is working on reducing

costs and being more competitive, then multinational companies are evaluating Panama as place to establish their supply chain. Even though the cost of electricity and labor is higher than other countries in the region, Panama offers a more secure environment for companies. Considering the pros and cons, Panama shines thanks to its multinational warehouses and nearshoring strategy.

**How attractive is Panama's infrastructure, and what advice do you offer companies looking to set up shop here?**

The infrastructure in Panama is very good. And it is not only maritime infrastructure; air connectivity is also strong. So, when you combine air and maritime cargo, the country is very well connected. Companies tell us that Panama is a great country to be in to be close to consumers. Another important factor that Panama has compared to the region is that Panama uses the US dollar as its currency. All transactions are happening in US dollars and that is very important because the companies that have facilities, maritime routes, or air routes do not need to worry about currency fluctuations like in other countries in the region. We always mention to our clients that Panama is great for connectivity. However, there can be different issues that arise. For example, for a US multinational, maybe being in Panama could generate additional tax costs in the US. However, with the proper structure and consulting a company could have the best of both worlds. In other words, a company could be a US multinational with operations in Panama and can con-

solidate everything for tax purposes in the US, meaning there is no incremental cost of operating in Panama. If a company has some issues with labor costs, it can have a production facility in another country in Central America where the cost is lower and a distribution center in Panama. When we have clients that want to reduce production costs, we advise them to use Panama as a center for distribution and the place where they can get their materials, and then to send that to other countries in region.

**What is your outlook for the future?**

Last year was a big transition and I think we are in a strong place now to begin opening up. However, the world has changed and we cannot ignore that. Our opinion is that people won't be working in the same way they used to work in the past. For example, we did a survey and we found that people won't be going back to the office seven days a week again. People might go in for three or four days a week. In the past we talked about needing to travel to meet a client on the other side of the world because the business is confidential. Now those types of trips will be reduced significantly. Now when we need to travel overseas it will be for something very important. Panama is doing very well with the vaccine. Right now, we see the country's recovery clearly. We see rush hour again in Panama; people are starting to go out, albeit with reduced capacity, but what is important is that if things continue like this, by the end of the year we will be at the pre-pandemic level. ✖



## RECOVER BETTER

Ambassador Carmen Gisela Vergara  
EXECUTIVE DIRECTOR,  
PROPANAMA

**Panama has many virtues, from a broad range of tax-free corporate incentives, globally recognized free trade zones and financial services, and the Panama Canal, all of which PROPANAMA is happy to shout from the rooftops.**

### BIO

Ambassador Carmen Gisela Vergara holds a bachelor's degree in law and political science from the University of Panama, a master's degree in banking and financial law from the University of Externado in Colombia, and a postgraduate degree in international trade negotiations from the University of Santiago de Chile. Prior to her position as Executive Director of PROPANAMA, Ambassador Vergara served as secretary general of the Secretariat of Central American Economic Integration, executive director of the Federation of Chambers and Industrial Associations of Central America and the Dominican Republic, director to the board of the Central American Bank for Economic Integration, and minister of trade and industries, deputy minister of foreign trade, and national director of investment and export promotion at the Ministry of Trade and Industries of Panama.

**How has PROPANAMA leveraged the country's connectivity—whether in terms of logistics, finance, nearshoring capacity, or as a regional headquarters destination—to attract more FDI and trade?**

In today's world, most everything is a click away. Connectivity is a very important part of our lives. And it is only going to grow as the world embarks on a recovery process. Being connected is crucial to do so many things like watching a movie, ordering food, or buying any article we need from books and music to clothes and computers. And Panama is no stranger to fostering connectivity. At a glance, we have two of the most active ports in Latin America, with access to 144 maritime routes and 1,700 ports all over the world, and 89 aerial destinations reaching 38 countries directly from the Hub of the Americas; we are also the meeting point of seven continental fiber optic cables, with two additional ones on the way, which account for 100% of regional internet traffic, 97% of international voice traffic, and 90% of data transmission. We also have one of the broadest networks of commercial trade agreements in Latin America, totaling 21

agreements that give preferential access to over 55 countries and 1.3 billion consumers worldwide. PROPANAMA coordinates the national effort to boost the country's participation in the international economy, attract investment, and promote exports. The privileged geographic position of our country and our proven track record as a logistics hub and a services center are characteristics that make our offer for nearshoring and regional headquarters interesting for FDI. In fact, over 170 companies have already made Panama their regional headquarters, six of them last year in the mist of the pandemic. Our logistics hub, digital hub and food hub, as well as drivers like tourism and manufacturing, are amongst the principal areas where Panama is aiming to attract FDI.

**Looking ahead, what must Panama do to further increase its connectivity advantages?**

Panama, as the rest of the global economy, understands the need to generate decisive action to rebuild its economy after the COVID-19 pandemic. To do so, it is crucial not just to revise our medium and long-term goals, but instead to introduce fresh thinking about the ways those ambitions and aspirations can set in motion a multi-stakeholder change process. Panama is in a privileged position to do this. For years, my country has been successfully leveraging its strategic position in the global trade and investment landscape, generating sustained growth to graduate from a middle-income country to a high-income country in a single generation. However, we firmly believe that the benefits of growth need to be more evenly distributed. This is the reason our national investment strategy targets sustainable investments with a social impact. It accounts for indicators that ensure all investments have a positive impact in key mea-

sures, including gender equality, the environment, and generating shared prosperity, especially among those communities traditionally left behind. Communications, data management, and the creation of innovative content and solutions to old and new problems will be an intrinsic part of the global recovery process. Both countries and companies will rely on data and communications to reach their stakeholders, plan their strategies, and generate innovation in their products and services. Panama is in a unique position to help companies recover better, as our digital platform offers the opportunity for safe and reliable data storage and the management and development of content, for areas such as logistics, aviation, pharma, financial services, agriculture, and many others.

**What would your message be to potential international investors and trade partners regarding what the future holds in store for the country?** Panama has always been a center for connection, mobility, and sustainability. Since we emerged from the ocean to connect the land masses of North and South America, we have always served as a bridge for people and trade. True to our purpose, we have consolidated our mission with the expansion of the Panama Canal to ensure cargo movement for another 100 years; the Hub of the Americas expanding with a new terminal at Tocumen Airport, to ensure more people will be able to move safely and comfortably within the Americas and connect to other continents; and more recently, the integration of fiber-optic cables that pass through our country, becoming also a communication highway, moving data to and from the region, that is also growing with the addition of Google's Curie Cable. Panama is no stranger to sustainable investments like the Panama

Canal, which essentially moves over 6% of the world's trade, with a renewable resource like water. And we want to help companies recover better by making use of the unique advantages and expertise we have to offer. Especially now that the global value chains are becoming more regional and there are so many opportunities in sustainable development for corporate investors to rebalance their global value chains by expanding, relocating, or consolidating operations. With a broad range of tax-free corporate incentives, globally recognized free trade zones and financial services, the one-and-only Panama Canal, and great quality of life in one of the fastest-growing economies in Latin America, we are truly the place to be to recover better.

**What is your outlook for the rest of 2021?**

In 2021, Panama is seeking to build up the lessons it has learned in all the economic sectors we have promoted, into a system-wide transformation. This means recalibrating the collaboration between the public and private sector, exploring new avenues, and generating incentives for innovation across finance, trade, investment, human capital, and agriculture, and striving for both consistency and ambition. This is of course a huge challenge, and this is where governments can greatly benefit from partnerships with the private and academic sectors and multilateral entities looking to make a difference and help countries recover better. Thinking ahead, we have now elevated the status of the agency to an independent authority that will consolidate the mandate of attracting investments and promoting exports, in alliance with the public and private sector stakeholders, making our country's value proposition more interesting and accessible to potential investors. ✖



In research carried out by EY, as an example, a company in the retail business with services and operations in Europe and Asia requested to have a mapping of potential savings and opportunities if it was to establish a hub in Latin America to supply mainly the Latin American market. Some manufacturing was to be performed in Panama, but mainly service-related activities. EY teams conducted taxes and customs modellings and found savings of 20% compared to previous supply chain model. Customs savings accounted for more than 20% savings in duties. Logistics and direct tax savings were also in the range of 20%.

Due to strategic positioning, economic stability, the Panama Canal, and incentive regimes, Panama, among other countries, surged as a perfect option for companies in need of faster, better

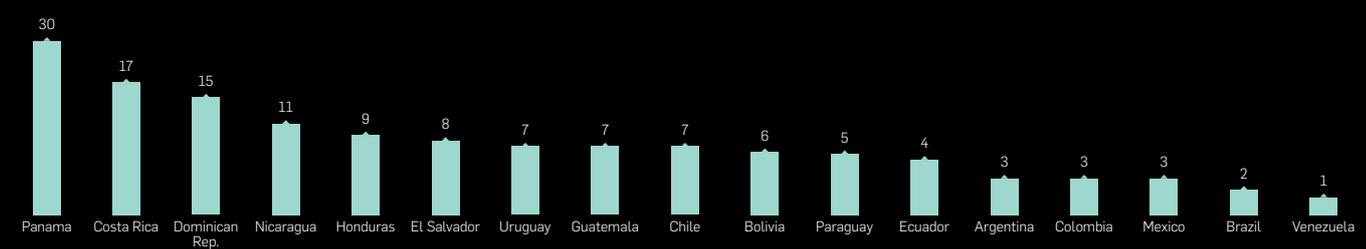
solutions, with cost savings and efficiencies that they could benefit from given the COVID-19 uncertainty back then, and the slow recovery that it would entail.

**PANAMA AS THE PERFECT NEARSHORING DESTINATION**

As mentioned, due to Panama’s strategic location, skilled work force, the Panama Canal, infrastructure, and business friendly environment, it emerges as the perfect destination for nearshoring. In addition, incentives in Panama are attractive for multinational companies, where they enjoy a number of tax incentives.

Research shows that even years ago, investment increased in Panama, which stands out as the country with the most services exports in the region, as presented by the ECLAC in the below chart

**SERVICE EXPORTS AS A PERCENTAGE OF SERVICES GDP (2013)**  
SOURCE: ECLAC



As an example, the Colon Free Trade Zone (CFZ) was restructured by Law 8 of April 4, 2016. Its operations began in a segregated area of 35 hectares originally in downtown Colon and with 10 companies. Now, this free trade zone is divided into nine different sectors totaling 1,064 hectares for exhibition with more than 2,000 companies. The main objective of CFZ is to promote international trade.

Logistics services, as well as the sale of merchandise, are part of the allowed activities. From a practical perspective, traded goods need to flow through the CFZ for sale.

The special area is located on the Atlantic side of Panama. The CFZ supposes several tax incentives such as:

- CIT: 0% on exports and sales within the CFZ;
- REPAT TAX (if subsidiary): 0% if only foreign source;
- REPAT TAX (if branch): 0% if only foreign source;
- Withholding Tax: 0% given no deduction of service or royalty payments;
- NOTICE OF OPERATION payment: 2% on capital with a

min. of USD100,000 and max. USD60,000,000;

- VAT: 0% on exports, 0% on sales within CFZ.

Depending on the chosen regime, they provide for CIT, Dividend WHT, VAT, customs, labour, and immigration benefits.

As the CFZ, there are a number of other options, including Panama Pacifico and Multinational Headquarters, which also bring companies substantial benefits and cost savings. As such, Panama is one of the countries in Latin America with the best offering for nearshoring firms looking into exports into North America and supplying the Latin American market. Manufacturing, services, and logistics activities may be performed depending on the regime and complying with the rules and regulations of each option.

World crises have been more evident with the pandemic, but they made evident the fragility and the need for constant improvement. Moreover, experts have stated that this crisis will be the new constant, with new challenges for firms. So, supply chain resilience is crucial for companies around the world and this is the right moment to move forward with such nearshoring planning. ✖



## FREE TO GROW

Giovanni Bruno Ferrari  
GENERAL MANAGER,  
COLÓN FREE ZONE ADMINISTRATION

**The Colón Free Zone is one of Panama's most significant tools in its mission to attract trade and investment to its shores over regional competitors.**

### BIO

Giovanni Bruno Ferrari has been the General Manager of the Colon Free Zone since 2019. Prior to his current role, Ferrari was the CEO of Farmazona S.A. Other positions held by Ferrari include Vice-President of the Franco-Panamanian Chamber of Commerce and President of the User Association of the Colon Free Zone. He is currently also a member of the Panamanian-German Chamber of Commerce and Industries and the Peruvian-Panamanian Chamber of Commerce.

### How do you see Panama's evolving role in the context of current trends in global logistics?

Logistics trends call for an ever-growing need for solutions for transportation and inventory placement close to the intended markets in order to prevent any effect caused by climate, sanitary, or geopolitical situations that may arise. In this regard, Panama and the Colón Free Zone offer outstanding solutions proven over time. Nearshoring is not a fad, but a longstanding commercial tool that has provided excellent returns in terms of transit time and overall cost reduction.

**Panama has established itself as a logistics hub and a destination for regional headquarters for multinationals. How would you characterize the role of the free zones such as the Colón Free Zone for increasing the country's international FDI/trade attractiveness, and how do you see this role expanding in the future?**

The Colón Free Zone has the largest tally of global firms operating their regional distribution supply chain solutions. A number of these firms have applied for SEMM status, which grants

additional advantages for expatriates that make it an extremely attractive place from where to run regional operations. The strategy in the future is to continue offering a wider array of alternatives to entice more activity within the country. The latest example of this is the law that provides incentives to value-added processes that is meant to complement the previously stated activities already hosted in Panama.

**What is your vision for Panama's true potential in re-exporting, and what are the biggest challenges or obstacles that the country must overcome to reach this potential?**

Panama will have to compete against a growing number of countries that are eager to gain market share in terms of global firms establishing their regional centers and attracting the flow of goods within their logistics capabilities. Our country still has great advantages, and while achieving the level of efficiency that Panama has is a not an easy task, we must continuously strive to add more features and improve on the current ones.

**What is your outlook for Panama's economy by the end of 2021 and the role the country's free zones will play in the country's economic recovery from the COVID-19 pandemic?**

International commerce through our logistics hub provides demand for goods and services, which decreased recently due to the pandemic. This year, we predict the volume of activity will improve on last year, and it will provide a needed boost to the local economy. According to estimates, Panama will achieve the third-highest per capita income in the region by 2025. 2021 will be an excellent indicator as to how quickly we will achieve this superior growth. ✖

The Panama Canal forms the backbone of Panama's logistics and transshipment offering

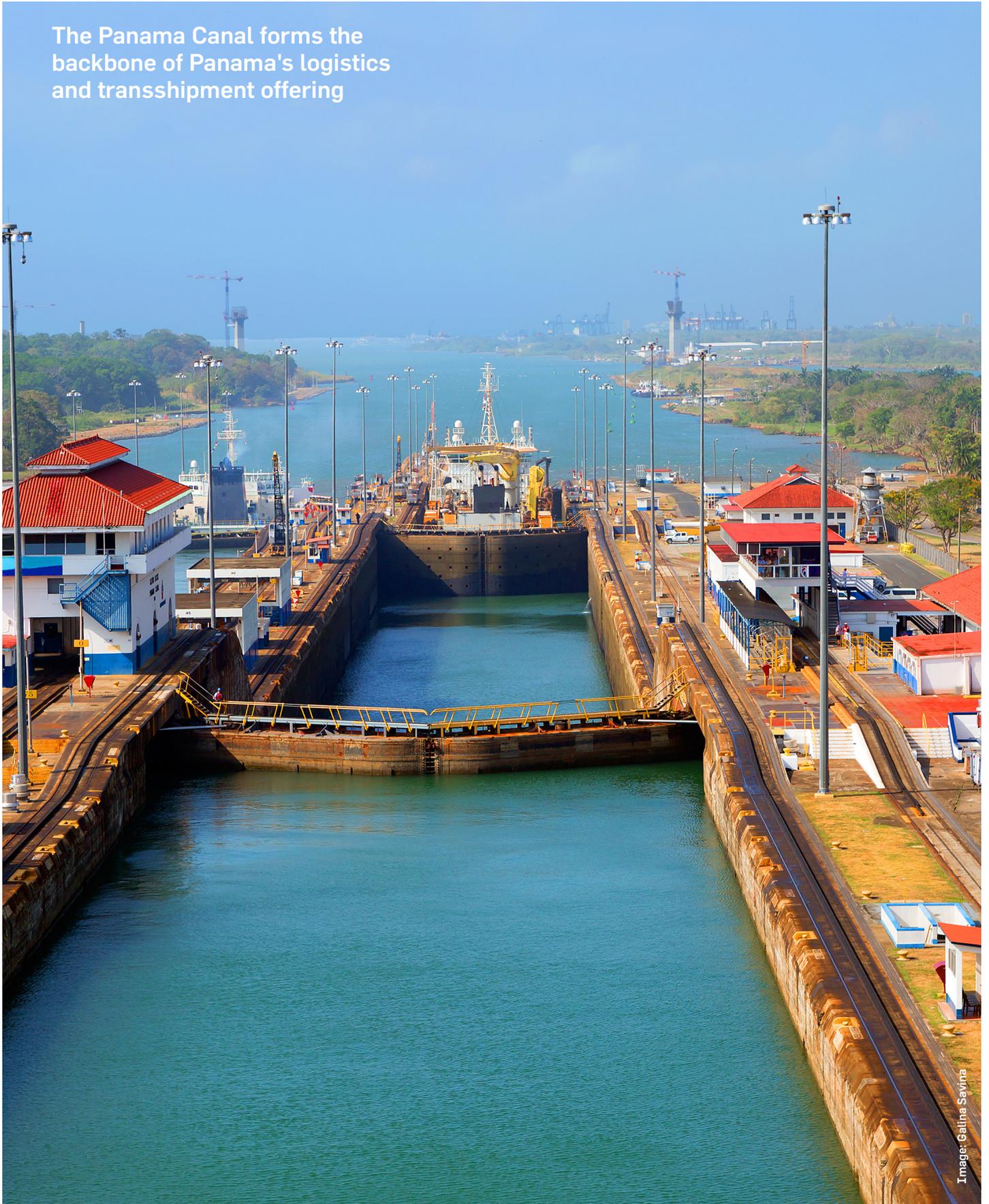


Image: Galina Savina



## SMOOTH SAILING

Jared H. Zerbe  
CEO,  
HUTCHISON PORTS PPC

**Panama has an edge on its regional transshipment rivals in the form of the Panama Canal, making it the most important country in the region for firms such as Hutchison Ports PPC.**

### BIO

Before coming to Panama as the CEO of Hutchison Ports PPC, Jared H. Zerbe was the CEO of Tanzania International Container Terminal as well executive director of China Merchants Group's international division, looking after the portfolio of 18 global terminals and board director in 12 port operating companies. He is licensed as a solicitor in England and Wales. With a JD from Boston University, he is a licensed attorney in the US. Zerbe also has a master's in international corporate management from the University of Pittsburgh and studied law in the UK, obtaining his qualified foreign lawyer certificates at BPPE in London.

### What has been the impact of COVID-19 on Panama's logistics and transportation sector?

Our numbers for container traffic in 2020 were better than in 2019, but we started to see a slowdown in June, with some of the lines not serving calls they were planning for a few weeks. However, with the reopening of the economies of our region, movement of containers saw a positive increase, as stores had to restock for the opening, which allowed PPC and the Panama system to go from an estimated annual drop of 4% in 2Q2020 to grow 1.7% in Balboa and 2.4% in Cristobal when comparing with 2019 figures. This was also possible due to the continuity provided by the Panama system, allowing shipping lines to trust that we would have the capacity to serve and collab-

orate in the supply chain. Proof of this is that during August 2020, that in the middle of COVID-19 effects worldwide, PPC received new services from global customers to concentrate on regional cargo from/to Panama. The reason we have not been impacted when comparing to other ports that had 10-20% declines is because many of the lines that were making direct calls to certain countries did not make sense for the amount of business they had to make all those direct calls. It was a cost-cutting optimization for them to dump or leave it at a hub and use smaller feeder vessels or less frequent callings to other ports. We, therefore, have not suffered as bad as a transshipment hub though our revenue has declined significantly because our local cargo declined by about 27%.

**“Already, we see some manufacturing shifting out of China, although much of it is moving to Southeast and South Asia, but some part of shift is moving to Mexico, Colombia, and Brazil.”**

**How do you see Panama maintaining its role as a logistics hub, particularly for transshipment, versus other regional competitors with similar ambitions and government initiatives?**

Two major competitive advantages that Panama has over regional competitors such as Jamaica and the Dominican Republic are a key strategic location and the canal. Panama has been a regional hub for Central America for a long time, and over this time the local workforce has developed a skill set. The Dominican Republic has a good cost base and lots of space, so it is a strong competitor, but Panama has other competitive advantages to offer. Government policies will play an important role in the future. In Panama, the government is pro-business as it wants to see the country realize its potential as a regional logistics hub. It has already developed some economic policies to support this hub status to encourage companies like Walmart to set up here. Whether implementation happens or not is a question because Panama has one of the highest labor costs in the region.

**How can Panama stand to benefit from evolving global trade dynamics, such as changes to the US-China trade/supply chain relationship?**

Already, we see some manufacturing shifting out of China, although much of it is moving to Southeast and South Asia, but some part of the shift is moving to Mexico, Colombia, and Brazil so in the medium term we expect more exports from the region to the US, and with that Panama is in a good position as a hub in the region.

**What role will Panama's ports play in the country's post-COVID-19 recovery? What is your outlook for the logistics and transportation sectors by the end of 2021?** We recently signed an MoU with the Canal Authority (ACP) to explore developing together a major vaccine distribution hub for Latin America so as Panama has been a hub overall for container traffic there is a lot of logic for it to be a hub for vaccine distribution in the region. By the end of 2021, I expect an increase in the logistics and transport sector that hopefully in 2022 will really start to take hold, and we will start to see some good positive growth. ✖

---

***Expects container cargo to rebound to 2019 levels by 2021***

---

***Manages and operates Balboa and Cristobal ports***

# LOGICAL LOGISTICS



Rodolfo De La Guardia  
PRESIDENT,  
THE LOGISTICS BUSINESS COUNCIL OF  
PANAMA (COEL)

**COEL believes that logistics saved the world over 2020, and it is certainly the hope upon which much of Panama's economic fortunes rest.**

## BIO

Rodolfo De La Guardia is President of COEL. He has ample experience in the logistics service industry, with an emphasis on corporate sales and marketing. He is president and general manager of Panamerican Transit Corp.

**What is your view on certain logistics trends—such as an evolving US-China trade relationship and rising demand for regional transshipment—and how they relate to Panama? How can the country benefit from these changing dynamics?**

Logistics is a sector that is constantly changing. Improvements in port efficiencies have pushed logistics into the realm of true competition. Ports are now partnering with logistics service providers to give carriers and shippers additional space to compete. Nowadays, port calls are not only selected by geography, but also by the existence of additional services and, most importantly, by its connectivity to global value chains. New trends in logistics, such as digitalization and automated deliv-

eries, will continue to push the envelope. Geopolitical trends, such as the tensions in China-US relations, will also push the envelope. Pragmatically, while there will be some changes in the supply chains due to the frictions, these will be mostly artificial, and possibly, temporary, since these are based on stances like national security or human rights, which could change in terms of policy, and not values. When we look at production costs, just the sheer size of China's economies of scale makes alternative production for some products uncompetitive. Panama, a point that connects 144 maritime routes and 1,700 ports, is well suited to remain an important node in global val-

**“Already, we see some manufacturing shifting out of China, although much of it is moving to Southeast and South Asia, but some part of shift is moving to Mexico, Colombia, and Brazil.”**

ue chains and thus benefit from these changes. Panama can capitalize on its positions and new environment to attract investment from the US as well as from China to push the envelope and generate sufficient income to promote its development. The choosing of a port is becoming more complex due to increased port efficiency. In this ecosystem, some ports will win, and others will lose; however, Panama is well suited to win. It should continue to be a top actor in all maritime forums offering its competitive and comparative advantages to multinational firms in order to attract investment.

**What is your outlook for Panama's logistics sector by the end of 2021 and the role that this sector will play in the country's economic recovery from the COVID-19 pandemic?**

The logistics sector saved the world in 2020. Given the great uncertainty with respect to protectionism, many analysts, including those at WTO, were expecting falls between 11% and 32%; however, the response from the logistics sector was swift action, and consequently, in hand with economic stimulus measures in developed countries, the sector is helping global trade rebound and help exporting countries to earn income to compensate for fiscal unbalances due to COVID-19 expendi-

tures. For 2021, we expect the sector to continue to grow, albeit restricted by the extent of the evolution of COVID-19 and the economic measures used to mitigate its impact.

**What would be your final message to international companies or investors looking at Panama today, particularly regarding its connectivity?**

We are one of the most important nodes in global value chains. We have the Panama Canal, which is a top driver of maritime activity, Tocumen Airport, which is the aerial hub of the region, and we are pushing to become a top regional hub for data services. It is a great opportunity for any firm wanting to access regional markets. Panama can provide an excellent location and economic benefits to any firm that wants to access regional markets. It has many special regimes and economic zones that allow logistics firms to provide enhanced services to the cargo while getting lucrative margins in the operations. Its global banking center and the use of the dollar also serve to enhance Panama's value offer and, consequently, its location as a center for world logistic services. Companies interested in locating in Panama or finding out more about Panama should not hesitate to contact COEL or PROPANAMA. ✖

# HIGHLY RECOMMENDED



Alejandro Canakis  
GENERAL MANAGER, GLAXOSMITHKLINE  
CENTRAL AMERICA & CARIBBEAN

**GSK has its regional HQ in Panama, taking advantage of the country's generous tax regime and modern logistics infrastructure.**

## BIO

Alejandro Canakis is the General Manager of GlaxoSmithKline Pharmaceuticals Central America & Caribbean. He is an industrial engineer and holds an MBA. He has more than 15 years of experience in the pharmaceutical industry in Venezuela, Mexico, Brazil, the US, and Central America. He has developed his career in commercial and business development roles of increasing responsibility.

**How would you assess GSK's experience as a multinational with a regional HQ based in Panama, and what impact has this had on GSK's ability to carry out its strategy for the region?**

GSK has been in Panama for over 70 years and counting. Our experience has been extremely positive, and the impact goes not only to our business in Central America and the Caribbean, but also extends to the rest of Latin America. Among the reasons why we choose Panama to establish our regional operations, I should highlight its great location in terms of logistics along with the tax regimes that benefits both the company and our employees. In addition, the support structure from governments to SME companies has been a catalyzer to evolve

together as they have historically been open to feedback, and the dialog is always open for continuous improvement.

**In 2020, GSK celebrated the expansion of its production facility in Juan Díaz, Panama City. How did Panama's logistical connectivity factor into this investment decision? How can the country further strengthen its position as a regional headquarters and/or manufacturing and export base for multinationals?**

Regarding our export model, it is worth mentioning that only at our Juan Díaz plant, we produce more than USD50 million annually in products such as Panadol, Dolex, and Teraflu, which are exported to more than 15 Latin American countries. This contributes to the economy of Panama and positions the country as a strategic place at the logistics level to implement

**“I would encourage anyone to consider Panama as a location to establish its regional operations.”**

regional operations. In February 2020, we shared the acquisition of new equipment and remodeling efforts for our manufacturing plant; these included: state-of-the-art technology in the industry, as well as the modernization of different areas to ensure ergonomic and efficient environment for its employees. The continuous investment that GSK has made over the years in expanding and improving its production infrastructure is a sign of its commitment to the country and its economy. That is closely related to our conviction of Panama a prime location for our regional operations. Regarding how Panama can continue to strengthen its position as attractive destination for a regional HQ/logistics hub, I would mention two points related to human capital: investment in technical professionals' education and English as a second language for both college and technical graduates.

**As an example of a multinational success story in Panama, what would your message be to the international business community in the audience looking to expand their footprint in the country?**

I would encourage anyone to consider Panama as a location to establish its regional operations. Each business has its own needs and particularities to be considered in the equa-

tion; however, if their needs involves solid connectivity and a stable environment in terms of stable macroeconomics, excellent personal security, and investment friendly regimes, Panama should be among the top three choices. Besides the benefits of Panama's logistic infrastructure and the benefits of the location, not only for the overall commercial activity, but for travelling across the region (Copa, Hub de las Americas), we have found a great value in the country's economic stability and social safety net, both factors that are key to attracting talent from all over the world, which is a significant factor in establishing strong regional and global operations in the country.

**What are your expectations and targets for 2021 in Panama?**

Our expectation, like any company in the world facing the embattles of the pandemic, is to regain access to our normal life, which will depend on the COVID-19 vaccine roll out. That will be the first and basic step to maintain a healthy financial state from which to translate into securing jobs, continuing to invest in the country, and keep bringing innovative products to Panama and the region; that is our commitment to patients and will continue to be our main driver. ✖

# INTERESTING OPPORTUNITIES



Ernesto Lara  
CHAIRMAN,  
BRITISH CHAMBER OF COMMERCE  
PANAMA

**UK-Panama business ties are going from strength to strength, with Brexit providing extra impetus for the development of new trade opportunities.**

## BIO

Ernesto Lara is Chairman of the British Chamber of Commerce Panama and principal of Wellington Chambers, a boutique legal advisory and financial services with an international client base. His work has allowed him to advise clients on investments and legal matters in different sectors from mining to forestry. He completed his higher education in New Zealand and has worked in UK, New Zealand, and Panama.

**In recent years, the UK has been between the fifth- and second-largest investor in Panama. What is your outlook regarding the future of UK-Panamanian investments post Brexit and, hopefully soon, COVID-19?**

I believe the UK will continue to pursue Panama as an important commercial ally in the region. Brexit was freedom to do business, which means British businesses will continue developing markets all around the world. Panama represents an interesting potential for the UK. Today, Panama produces some of the best coffee, rum, cacao, chocolate, and other products. Additionally, the Panamanian government recently passed laws that benefit and support foreign investment. Also, there is a second investment law oriented in favor of the hospitality sector. The most interesting element of the tourism law—100%

credit to investors—will attract more British investment. The UK is also trying to develop new markets. There are big ambitious infrastructure projects such as the fourth transmission line and the construction of the fourth bridge over the Panama Canal that will attract several British companies. There are also many opportunities in the education sector. We must note there are currently two British groups that operate schools in Panama. In the hospitality sector, there is a clear need for project designs. Panamanian tourism is under developed, and we need to take advantage of the new hospitality law. In addition, real estate is a sector with a great deal of potential, and this is the perfect time to buy. Everybody knows it is a buyer's market. In Latin American, Panama is one of the best countries to do business.

**“There are big ambitious infrastructure projects such as the fourth transmission line and the construction of the fourth bridge over the Panama Canal that will attract several British companies.”**

**What opportunities do you see for British companies in Panama, both for the market itself and as a gateway to the region?**

Several companies established their headquarters in Panama. There are some 180 SEMs registered in the country, and they are doing well and have success stories. We can mention London and Regional, who worked hard to develop Panama Pacifico and did an excellent job representing Panama. Financial stability provides guarantees of success. Panama does not have currency depreciation, which is great advantage. We are liberal on the free flow of money; this has been a permanent feature of the economy. Unfortunately, other countries in Latin America make this extremely difficult. Not to mention Panama also has a free trade zone, a logistics and transportation sector that will continue growing steadily in the future, and several other advantages that almost everyone already knows.

**How can your member companies best take advantage of Panama's connectivity to the wider region, whether as a financial, logistics, or regional headquarters hub? From your view, how can the country's connectivity be further strengthened?**

Panama's connectivity is seen as highly developed on a regional scale. Thanks to the geographical location and the Panama Canal, the country has developed an extremely

strong logistics sector. Additionally, there is a similar situation for SMEs and the financial sector. The government has become aware of the importance of these sectors' development, which will result in many more opportunities for British companies. For the financial sector, there is a major opportunity if we offer multicurrency accounts. This will facilitate domestic affairs, and business will be easier. Panama will continue to offer the best connectivity in the region.

**What are the priorities for the chamber in 2021? What is your general outlook for this year?**

As a chamber, we are nonprofit; we operate from donations. Our members have been extremely supportive, and we thank them all. We will continue to support their initiatives as we have done in 2020. They are our priority. We will continue as best as we can to help the needy, orphanages, and hospitals. In terms of our regular events that are part of the social and business calendar, we are exploring the possibility of holding our golf tournament and the British Business Forum. We are not going to be able to do A Day at the Races, which is known as the Tropical Ascot. We will continue to promote opportunities for UK and Panama, which is our main objective. 2021 will be a better year with the vaccines, and we will be able to do greater things now we know how to manage the problem. ✖

thebusiness|year