

© Panama: Strategic Business Connection

By:

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“We facilitate your business connection from and to Panama”

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Panama: Strategic Business Connection

*Panama is fertile ground for doing clean business, with corporate integrity and business profitability.
Also, because after all, to connect with the business world, it makes more sense
when you are in a country that connects your business with the world: Panama.*



Introduction

To begin with, **Panama** is a small country, **located in the narrowest part of Central America**, between Costa Rica to the west and Colombia to the east, and between the Atlantic Ocean (Caribbean Sea) to the north, and the Pacific Ocean to the south. **Its territorial surface** is 75,517.2 km²; and **its population** is 4 million people, according to the preliminary report of the 2023 Census carried out by the National Institute of Statistics and Census (INEC), as of March 2, 2023.

Due to its strategic geographic location, Panama has a **comparative advantage** (natural geographic advantage), which it has transformed into **competitive advantages**. In that sense, although the size of its market is small, Panama facilitates the reduction of costs and times of international trade, since the crux of the matter when doing business in Panama is taking advantage of **its geostrategic positioning of global connectivity**, as a

platform, springboard or bridge, to enter the markets of North America, Latin America, the Caribbean, Europe, Asia or the Middle East.

Panama offers you an excellent location, just to mention one of its several **competitive advantages**. That is, with the location or relocation of your business in Panama, you will have the facilities to reach other markets in the world, with a reduction in costs and times. It is, of course, a very significant and effective **global business connection to do business to and from Panama**.

Now, only by observing and correctly judging the Panamanian business environment, we can then reliably confirm that there is a set of conditions or factors that give us certainty of the facilities inherent to the favorable business environment that Panama boasts. So, let's make a brief evaluation about it.

1. Benefits that Panama Offers.

In that sense, then, there is a long list of foreign SMEs and Multinational companies that have chosen Panama as the headquarters of their businesses, they are making successful investments in various economic sectors, they are reaching other markets in the region, from Panama; and **they are taking advantage of the benefits that Panama offers**:

- ✓ *Geostrategic Positioning of Global Connectivity.*
- ✓ *Digital Connectivity Hub of the Region.*
- ✓ *Booming Economy.*
- ✓ *Sophisticated, Solid and Stable Financial Sector.*
- ✓ *Territorial Tax System.*
- ✓ *Political and Economic Stability.*
- ✓ *Legal Certainty.*
- ✓ *Citizen Security.*
- ✓ *Economic Freedom.*
- ✓ *Respect for Private Property.*
- ✓ *Trust.*
- ✓ *Tourist, Immigration and Real Estate Facilities.*
- ✓ *Attractive and Varied Business and Investment Opportunities.*

2. Panama Logistics Platform.

Panama's geostrategic positioning of global connectivity is based on **its formidable logistics platform**, whose effectiveness and usefulness has been verified and confirmed by three (3) international evaluations, namely:

1. In the **2023 Logistics Performance Index (LPI)**, Panama occupied the No. 2 position with a 3.1 score in Latin America and the Caribbean, after Brazil (No. 1 with a 3.2 score). The LPI is prepared every two years by the World Bank, after evaluating 139 countries, in the components of customs, infrastructure, ease of arranging shipments, logistics competence and quality, timeliness, tracking and tracing.
2. In the **2023 Liner Shipping Connectivity Index (LSCI)**, Panama is located in position No. 28 globally, and occupied the position No. 1 in Latin America and the Caribbean. The United Nations Conference on Trade and Development (UNCTAD) prepared the LSCI by evaluating the economies best connected to the global maritime transport network. 178 countries were evaluated in six components, namely: number of ships, capacity to transport containers, TEU's of the largest ship, number of services provided, number of companies that provide shipping line services to/from the country's ports and the number of maritime connections in the country.
3. In the **Air Transport Competitiveness Index in Latin America and the Caribbean 2022**, Panama occupied position No. 3 with a score of 3.42 (Brazil was 1st with 3.43 and Mexico 2nd with 3.69). This index was prepared by the Latin American and Caribbean Air Transport Association (ALTA) and the company dedicated to promoting the development of the travel sector, Amadeus; who highlighted Panama for its air connectivity due to the number of international routes, airlines and frequencies it handles.

Likewise, Panama's logistics platform is made up of **seven (7) logistics components** that make its global connectivity possible, and in effect, facilitate the connection of businesses, to and from Panama; namely:

- *The Panama Canal.*
- *The Ports in Both Oceans.*
- *The Tocumen International Airport.*
- *The Interoceanic Railroad.*
- *The Pan-American Highway.*
- *The Special Investment Regimes.*
- *The Human Capital.*

2.1 The Panama Canal.

Let's dwell, now, on its first logistics component, since Panamanian connectivity is led by **the Panama Canal**; which has been the subject of tribute as one of the greatest achievements of civil engineering of the 20th century, by the American Society of Civil Engineers (ASCE), who chose **the Panama Canal as one of the Seven Wonders of the Modern World**; as shown in the following link:
http://www.ce.memphis.edu/1101/interesting_stuff/7wonders.html

When talking about **the Panama Canal**, we are not only talking about 108 years as a facilitator of world trade, but **we are also talking about something colossal, of willpower and of the future; we speak of "opportunities, new challenges and market to conquer"**; we are talking about **"The Great Connection"**, as the ACP video eloquently illustrates, at the following link: <https://www.youtube.com/watch?v=wr2PmZrdqXc>

The Panama Canal is the maritime route that **connects the world**, because with an approximate extension of 80 kilometers (50 miles), it **facilitates** the two-way **connection** between the Atlantic and Pacific Oceans. Indeed, **this maritime connectivity allows the emergence of relevant strategic facilities.**

2.1.1 Water Crisis of the Panama Canal, according to the 2023 Annual Report.

Notwithstanding the above, the Panama Canal Authority (ACP), in its 2023 Annual Report, has highlighted the effects of the water crisis, as follows:

Climate variability is felt globally, increasing the vulnerability of crucial maritime infrastructure to extreme and recurring conditions. Recent droughts have hindered trade in waterways, from the Amazon to the Yangtze. In 2022, some vessels were forced to reduce their cargo to only 25% of their capacity along the Rhine, as Europe suffered its worst drought in 500 years. Later, experts estimated that the total damage and economic losses caused by historically low basin levels of the Mississippi River and related supply chain issues added up to approximately \$20 billion.

In 2023, this had an impact on the Panama Canal, as it is facing a drought with unprecedented consequences, testing our ability to solve the most difficult problems as a nation. Although we live in a country known to have plenty of rainfall, we do not have enough reservoirs to store the freshwater we require for human consumption and Canal operations in times of prolonged drought, such as the current one.

2023 was one of the driest years in Canal history. Year 2023 brought 30% less rain than usual, which allowed the Canal to store just 50% of the water needed to meet the hydraulic demands for the 2024 dry season. Historical records indicate that this is the second driest of the last 73 years.

Indeed, as ACP has said in its 2023 Annual Report, the Panama Canal has been facing a water crisis that worsened in 2023, with which the ACP opted to the restrictions on draft and the maximum number of daily vessel transits, among other measures. **The normal scenario of 36 daily transits was changed to 24 daily transits to date.**

Given the lack of rain and the limitations of freshwater reserves in lakes Alhajuela and Gatún, which have historically facilitated the movement of ships through this interoceanic route, the ACP has said: *“We need to take measures to guarantee water reserves for human use and waterway operations, which have been studied by the Panama Canal for years.”*

The ACP contemplates a water project that would solve the water crisis, but is pending legal reforms that warrant an expansion of the territory that is considered the Canal basin and the eventual elimination of a rule that restricts the construction of reservoirs.

In that sense, **the ACP project consists of the construction of a reservoir on the Indio River, which is the most efficient alternative, for a new water reservoir, which would facilitate the regular transit of ships through the Panama Canal.**

The project would affect about 2,500 people; It has an approximate cost of 900 million dollars; It would last between four and six years and would include the social plan, the construction and filling of the reservoir; and currently the ACP is developing the terms of reference for its tender.

In the aforementioned 2023 Annual Report, the **Minister for Canal Affairs and President of the Board of Directors of the ACP**, has said: “*In 109 years of service to world trade, commemorated on August 15, the Panama Canal has demonstrated its ability to reinvent itself, overcome challenges, and seek new opportunities to enhance its operational capacity, as well as strengthen the geographical position of our country.*”. **While the Administrator of the Panama Canal has said the following:**

Together, we have tested our capacity and determination as a nation in two previous phases: first, we proved that we can efficiently manage the Canal and adapt to meet the needs of global trade. 30 years ago, Panama took control of the Canal. Later, in the second phase, we expanded it to generate more benefits and satisfy international trade.

To continue growing, a third component involves developing activities that are complementary to Panama Canal operations, including the acquisition and comprehensive development of the west bank and the establishment of an Intermodal Logistics Center.

For some time, there has been talk of alternatives that aim to compete with the Panama route, and recently, countries such as Mexico, Colombia, and Costa Rica have announced these projects. The Canal is aware of these initiatives and is working to capitalize on Panama’s natural geographical advantage, as the most efficient route to transport products internationally.

2.1.2 Performance of the Panama Canal in its Fiscal Year 2023, according to the 2023 Annual Report.

- **Volume of Cargo Transported through the Panama Canal:** 511.1 million PC/UMS tons (Panama Canal Universal Measurement System), reflecting a 1.5% decrease compared to the previous fiscal year’s tonnage.
- **Total Revenue Collected:** US\$ 4,968 million (US\$ 645 million or 14.9% more than fiscal year 2022).
- **Direct contributions to the National Treasury:** US\$ 2,545 million (the greatest historical contribution).
- **Direct and indirect contributions to the national economy:** US\$ 3,630 million.
- **Direct contribution of the Canal to the Gross Domestic Product (GDP):** 3.1 %.
- **Workforce:** 8,549 colaboradores.
- **Vessel Transits:** 14,080 (In 2022, 14,239 vessels transited and 13,342 in 2021).
- **Vessel Transits by Market Segments:** *Container ships: 2,787; Tankers: 2,695; Dry Bulk: 2,649; LPG Carrier: 1,757; Vehicle Carrier/RoRo: 813; Refrigerated: 546; General Cargo: 526; LNG Carrier: 326; Passengers: 251; Others: 1,730.*
- **Main Commodities (Long Tons) Transported:** *Crude Petroleum, Petroleum Products; Grains (corn, soybeans, sorghum, wheat, grains, misc.); Coal and Coke (Excl. Petroleum Coke); Container Cargo; Autos, trucks, accessories and parts; Canned and refrigerated foods; Nitrates, phosphates and potash; Lumber and products; Manufactures of iron and steel; Chemicals and petroleum chemicals; Ores and Metals.*

- **Top 20 Main User Countries of the Panama Canal, by origin and destination of the cargo (long tons):** *United States (No. 1 with 40% of the cargo), China, Japan, South Korea, Chile, Mexico, Peru, Colombia, Ecuador, Panama, Canada, Guatemala, Taiwan, Spain, Trinidad and Tobago, Russia, Netherlands, Brazil, Australia and El Salvador.*

2.1.3 Worldwide positioning of the Panama Canal, according to the 2023 Annual Report.

- The Panama Canal's main trade routes (by tonnage):
 - U.S. East Coast - Asia
 - U.S. East Coast - South America's West Coast
 - South America's West Coast - Europe
 - South America's Intercostal route
 - South America's East Coast - Asia
- Nearly 3% of Global Maritime Trade Transits the Panama Canal.
- The Canal connects 180 routes in 170 countries, through 1,920 ports worldwide.

2.2 Los Puertos en Ambos Océanos.

The second logistics component is the ports, located in both oceans. The importance of Panama's maritime connectivity is significant, since in addition to the interoceanic canal, it is supported by world-class ports, made up of the ports of *Cristóbal, Manzanillo International Terminal (MIT) and Colon Container Terminal (CCT), in the Atlantic*; and through the ports of *Balboa and PSA Panama International Terminal, on the Pacific*.

According to the 2021 annual report carried out by ECLAC and published in May 2022, Panamanian ports have been leading the port movement of containers from the ports of Latin America and the Caribbean, namely: Cristóbal, MIT and CCT in the Atlantic Ocean, they occupied the No. 1 position, while Balboa and PSA in the Pacific, occupied the No. 3 position.

Likewise, according to statistics from the Panama Maritime Authority, these Panamanian ports together added 8.3M in container movement in 2023 (TEU volume), lower than the 8.5M in 2022 and 8.6M in 2021.

2.3 The Tocumen International Airport.

On the other hand, in terms of air connectivity, it has its greatest representation in the **Tocumen International Airport (AIT)**, which is the third logistics component of the Panamanian logistics platform, which facilitates air connectivity, which is valued as one of the most modern and advanced airport infrastructure in Latin America, and with the expansion achieved in Terminal 2 in 2022, it now has the capacity to comfortably move up to 21 million passengers annually.

It should also be said that on March 20, 2023, for the second consecutive year, the AIT was distinguished as the "**Best Airport in Central America and the Caribbean**", according to the satisfaction survey carried out by the consultancy Skytrax, within the framework of the **World Airport Awards 2023**, considered one of the most important quality references for the world airport industry.

The AIT connects passengers with more than 80 commercial destinations; and connects with more than 50 air cargo destinations in America, Europe and Asia; with the operation of 31 airlines, 15 cargo and 16 passengers. **In 2023, the AIT closed with traffic of 17.8 million passengers**, exceeding the historical maximum of 16,582,601 passengers registered in 2019. At the end of 2023 it also managed to move 208,573 metric tons of cargo; This air Hub is also supported by other regional terminals located in other parts of the country.

Added to this is that **the first airport free zone in the region**, composed of a Cargo Terminal and Logistics Zone, will soon be operational at the AIT. It will be focused on the development of value-added activities, cold chain, manufacturing, labeling and packaging, consolidation and deconsolidation, cargo storage, transportation and cargo handling, for the management of perishable products, textiles, footwear, fragrances and cosmetics, medical and pharmaceutical products, technological products and e-commerce.

2.4 The Interoceanic Railroad.

The fourth logistics component is the interoceanic **Panama Canal Railway**, which facilitates rail connectivity, and is mainly focused on **facilitating the transshipment of containers** between both oceans (Atlantic and Pacific), and additionally, it has 5 luxurious wagons enabled for the transport of passengers.

El cuarto componente logístico es el **Panama Canal Railway**, que facilita la conectividad ferroviaria, y está enfocado principalmente en **facilitar el transbordo de contenedores** entre ambos océanos (Atlántico y Pacífico), y complementariamente, tiene habilitado 5 lujosos vagones para el transporte de pasajeros.

2.5 The Pan-American Highway.

The fifth logistical component is the Pan-American Highway, which facilitates land connectivity, and which, complemented by other road infrastructure, facilitates the connection between the countries of Central America, Mexico, the United States and Canada. In addition, there are other land routes duly equipped to connect with the locations of the special investment regimes and special economic zones.

Precisely the Pan-American Highway, in the border area (Paso Canoas) between Panama and Costa Rica, is part of the **Framework Agreement to Implement Binational Integrated Control Systems at the Border Crossings between Costa Rica and Panama**, signed by both countries on June 29 2017; and that promotes the modernization and integration of its land border posts, under the “*Customs Logistics Integration Program (PILA)*” of Panama and the “*Border Integration Program (PIF)*” of Costa Rica; both with the sponsorship, technical support and financing of the Inter-American Development Bank.

With the PILA - PIF, the States of Panama and Costa Rica agreed to operate jointly in Integrated Control Centers (CCI) at their border crossings, under the juxtaposed or double-header binational customs model, where Costa Rican and Panamanian officials will work. , attending to cargo and passenger flows. This means a single control stop for land transit of cargo and passengers between both countries, which will be controlled only in the country of entry; and in effect, it will facilitate the simplification, modernization and harmonization of customs export and import procedures.

2.6 Special Investment Regimes.

The sixth logistical component **corresponds to the Special Investment Regimes (REIs)**, which with their Special Economic Zones and other productive structures, provide driving facilities for international trade in Panama, because they facilitate tax, migratory and labor benefits; **they facilitate logistics services and international trade**, with their export, import and re-export activities; **they facilitate** job creation, technology and knowledge transfer; and **also facilitate** the consumption of goods and services.

2.7 The Human Capital.

The seventh component of the Panamanian logistics platform corresponds to qualified, talented and productive human capital, which facilitates the administration and effective performance of the aforementioned logistics components.

Human capital in Panama is developed in technical and professional skills, by the Instituto Técnico Superior Especializado (ITSE), Universidad Tecnológica de Panamá (UTP), Universidad Santa María la Antigua (USMA), Universidad Latina de Panamá, Universidad Interamericana de Panamá (UIP), Universidad Latinoamericana de Comercio Exterior (ULACEX), among other academic institutions.

Thus, the seven components of the Panamanian logistics platform make it possible to **facilitate international trade in Panama**, namely: movement of passengers and merchandise; production, exchange, transfer, transformation and internationalization of companies, goods and services; land, sea and air cargo transportation, storage and communications; distribution, export, import and re-export of merchandise, **from and to Panama**.

3. Booming Economy.

It is worth highlighting that the Panamanian economy has at least three essential characteristics related to its strength, namely:

The first. It is a Dollarized Economy. Since 1904, the legal circulation of the US dollar and its multiples and divisions has been in force, with a nominal value equal to the Panamanian currency (the Balboa). This monetary system operates **without a central bank, without paper money, or exchange policies or exchange risks**.

The second. It is an Economy Open to international Trade. In addition to the strength of its logistics platform, the Panamanian economy is supported by more than twenty bilateral and multilateral trade agreements.

Third. It is a Service Economy. Services have been the traditional strength of the Panamanian economy, contributing 83% of its Gross Domestic Product (GDP).

In the services sector of the Panamanian economy, the following are notable:

- Panama Canal and related logistics activities: 30%.
- Wholesale and retail trade: 17.8%.
- Construction: 14.8%.
- Activities related to Tourism: 14%.

- Financial Intermediation: 7.3%.
- Real estate, business and rental activities: 7.2%
- Colón Free Zone: 6%.

The Inter-American Development Bank (IDB), in its February 2024 publication, *'Panorama of opportunities in PANAMA'*, has referred to the Panamanian economy as follows: *One of the best performing economies in the region. Panama is a growth benchmark for Latin America and the Caribbean. The average annual increase in GDP between 2000 and 2019 has been close to 6 percent. Even despite the post-pandemic challenges, the average increase has been 4 percent until 2023.*

Despite the fall that the Panamanian economy had in 2020 (-17.9%), this was recovered with GDP growth to 15.3% in 2021, **10.8% in 2022 and is estimated to have closed with 7% in 2023**, about some notes are important:

- The Economic Commission for Latin America and the Caribbean (ECLAC), in its “*Preliminary Balance of the Economies of Latin America and the Caribbean, 2023*”, published in December 2023, has said that the *projection of the GDP growth rate 2023, for Latin America and the Caribbean*, it will be 2.2%, but **for Panama it will be 6.1% (2023)**; while the *projection of the 2024 GDP growth rate for Latin America and the Caribbean* will be 1.9%, but for **Panama it will be 4.2% (2024)**.
- During the first nine months of 2023, there were internal activities that presented a positive performance: Construction, local wholesale and retail businesses, manufacturing industries, electricity and water, hotels and restaurants, passenger transportation by land, telecommunications, banking, real estate and business activities, arts, entertainment and creativity; among other.
- 2023 closed with the unemployment rate of **7.4%**, labor informality with 47%; and with **an inflation rate of 1.4% (one of the lowest in the region)**.
- The main international **risk rating agencies** (Moody's, Fitch Ratings and Standard & Poor's) **maintain the investment grade in favor of Panama**, considering prospects for solid and continuous growth of the Panamanian economy; despite the structural fiscal challenges that Panama has.

4. Financial Sector.

Panama is one of the safest and most stable countries for foreign investors, for the destination and management of capital, bank funds and financial instruments. Hence, then, the Panamanian financial sector is made up of banks, the securities market, the insurance and reinsurance market, cooperatives, the complementary pension market and financial companies, which together contribute an estimated 7% to the Panamanian GDP.

A regarding the stock market in Panama, these are the members of the International Banking Center (CBI), which leads the Panamanian financial sector, made up of **62 banks, 49 of which are of foreign origin**. According to the Superintendency of Banks of Panama (the supervisory entity), in its **Banking Activity Report – November 2023, at the end of November 2023, the following stands out:**

The liquidity of the Banking System reached 57.6%, where the increase in deposits contributed to improving the liquidity of the banking system. Currently, local banks are in a comfortable position with respect to regulatory requirements, which would allow them to face market volatility.

The accumulated profits of CBI banks totaled USD 2,494 million. The figure represents an increase in profits of 50.7% compared to the same period 12 months ago.

The CBI's total assets amounted to USD 146,141 million, reflecting an increase of USD 5,926 million compared to November 2022, which represents a year-on-year increase of 4.2%.

*CBI bank deposits corresponding to November 2023 registered a total of USD 104,203 million, an increase of USD 5,187 million (5.2%). ... **Regarding external deposits, a year-on-year increase of 9.0% (USD 3,252 million) was recorded, reaching a balance of USD 39,439 million.** These deposits represent 37.5% of the total in the CBI. Colombia stands out as the main deposit-taking market, constituting 21.4% of the total. Other countries also have a relevant participation, such as Venezuela (5.9%), Costa Rica (5.9%), Dominican Republic with 5.4% and Peru with 5.2%, placing these countries within the first 5 of the CBI ranking.*

Regarding the stock market in Panama, according to a report from Grupo Latinex and its subsidiaries, Bolsa Latinoamericana de Valores (Latinex) and Central Latinoamericana (Latinclear), **at the end of 2023**, the traded volume reached US\$ 6,481M (5.7% higher to US\$ 6,132M in 2022). More than US\$31,000M in assets were captured in custody, and more than 80,000 transactions were executed.

During 2023, the increase in trading volume was supported by the increase in the Global Bonds of the Republic of Panama by \$2,098 million, by negotiable commercial securities (VCNs) of US\$ 1,154M, by the preferences of investors in short-term instruments, and for the repurchases of US\$ 769 M, which were used as a financing mechanism.

In 2023, 35 issuers were listed in the Panamanian securities market, of which 8% are international, 24 of them were new issuers and two foreign issuers (Honduras and Guatemala), thus reaching a total of 267 issuers in Latinex. which is equivalent to a growth of 10% compared to the previous year. In addition, there are emissions in the pipeline for 2024, including emissions from Costa Rica, Ecuador and Colombia.

In Panama there are 61 registered investment funds and 52 registered investment companies. Likewise, there is a leverage agreed between the Panama Stock Exchange with the regional stock exchanges of Honduras, El Salvador, Costa Rica, Nicaragua and Colombia. Additionally, there is leverage agreed with Clearstream Banking; through which investment funds registered before the Superintendency of the Securities Market of Panama and registered in the Latin American Stock Exchange, S.A. (Latinex), can request to be incorporated into Clearstream Banking's Vestima platform, to be acquired by international investors.

Regarding the insurance and reinsurance market in Panama, according to figures from the Panamanian Association of Insurers (Apadea), a union that brings together 97.4% of the market premiums, it reached a total of \$1,815.2 million accumulated in 2023, also registering a increase of 8.9% when compared to the accumulated figure for 2022, which stood at \$1,665.9 million. While the three insurers not affiliated with the union obtained \$49 million, which represented 2.6% of the total written premium in the market.

The insurance lines with the greatest growth, and in order of importance, above US\$30 M are: Health, with US\$455.1 M; automobile, with US\$ 297.9 M; life collective, with US\$254.9 M; fire and allied lines, with US\$ 190.6 M; individual life, with US\$ 176.6 M; sureties, with US\$ 109.8 M; others, with US\$ 107.7 M; civil liability, US\$65.1 M; hull, with US\$ 41 M and cargo transportation, with US\$ 31.2 M.

Regarding the cooperative market in Panama, according to the Panamanian Cooperative Institute (IPACOOB), the cooperative regulator, as of August 30, 2023, 622 cooperatives were registered, bringing together 238,902 associates, with US\$ 2,620 M in assets and equity. of US\$ 621.3 M.

5. Tax System.

Adding to the above, Panama has designed its economy and taxation, just like any other country, exercising its sovereign right to establish its tax system, with the exclusively internal approach that corresponds to each country.

It is also important to establish that **the Panamanian tax jurisdiction is based** on generality, economic capacity, equity, legality, equality before the law, legitimacy, **openness, loyalty and good faith**.

Since 1916, Panama decided to adopt the Principle of Fiscal Territoriality (PTF) in its Fiscal Code; and therefore, the Panamanian Income Tax (ISR) tax system is not extraterritorial, global or universal as in other countries.

Following this PTF, to tax income, in Panama, only the income generated or produced within the territory of this country (income from a Panamanian source), is subject to the payment of ISR (**income from a foreign source is excluded**); which obviously represents a fully legal competitive advantage to do business in Panama.

Following this PTF, to tax income, in Panama, only income generated or produced within the territory of Panama (Panamanian source income) is subject to the payment of Income Tax (ISR). Income produced **outside** the territory of Panama (**income from foreign sources**) is excluded from the payment of ISR.

This evidently represents a competitive advantage that has been in place for more than 100 years and is fully legal for doing business in Panama.

6. Foreign Direct Investment (FDI) in Panama.

Regarding Foreign Direct Investment (FDI), let us admit that Panama will continue to be one of the most attractive locations for FDI in the region. Thus, for example, ECLAC, in its publication “*Foreign Direct Investment in Latin America and the Caribbean 2023*”, has said: “*In 2022, Panama was the second recipient of FDI from Central America, with 2,513 million dollars, a figure of 43 % higher than that of 2021.*” In this edition, ECLAC has also referred to two FDI announcements in Panama:

- *The largest project in renewable energy was announced by the American SGP BioEnergy, in Panama, and includes investments of 2,473 million dollars in the Ciudad Dorada Biorefinery. This project is carried out in partnership with Panama Oil Terminals and the Government of Panama.*
- *In addition to the bioenergy production megaproject analyzed above, the announcement by the Swiss company Mediterranean Shipping Company (MSC) of a project for the construction of a container terminal in Panama, with an estimated investment of 1.4 billion dollars, stands out.*

According to INEC, in the period from 2014 to 2019, FDI in Panama remained above US\$4 billion each year, but reached US\$2,721.1M in 2022, and US\$1,372M from January to September 2023.

Likewise, according to INEC, the **FDI Position of the Top 10 Countries in the Republic of Panama, Years 2019-2021**, corresponds to the *United States with a participation of 18.6% (No. 1), Colombia with 17.5% (No. 2), Barbados with 11.0% (No. 3), Switzerland with 6.6%, United Kingdom with 4.5%, Spain with 3.9%, Taiwan with 3.8%, Brazil with 3.7%, Canada with 3.5%, Netherlands with 3.3%.*

Panama demonstrates its attractiveness and confidence for FDI, with the establishment of multinational companies; and this has been recognized by the regulatory expert company Mercator, cited by Forbes Magazine, in its report of August 1, 2023, who has said that Panama is the most favorable country to establish multinationals, taking into account the total cost and the time needed to manage them.

Indeed, in 2007 Panama created the Regional Headquarters of Multinational Companies (SEM); and at the end of 2023, 188 multinational companies (SEM companies) were established, which have chosen Panama as their regional headquarters for their commercial operations, which have generated an accumulated FDI of US\$1.2 billion until 2022, and which have provided more than 6,000 jobs. **Let us illustrate what has been said with the list of SEM companies with their respective country of origin, and the testimonies of SEM representatives in Panama, in the following links:**

https://mici.gob.pa/wp-content/uploads/2024/01/9-LS-RG-013-Grupos_Empresariales-SEM-2007-23.pdf

<https://www.youtube.com/watch?v=fAznTr9j9jE>

https://www.youtube.com/watch?v=Oj_tydxRqIE

Another recent example (2024) of the confidence of global investors in Panama and its attractiveness for FDI, is Sojitz Corporation, a Japanese multinational company, which acquired 100% of the shares of the company Silaba Motors, S.A. (Grupo Silaba) in Panama, one of the most prestigious automobile distributors in the country, with brands such as the South Korean KIA, the Japanese Mazda and the Chinese Jaecoo. The acquisition included the vehicle sales and after-sales businesses, as well as other assets, such as its insurance brokerage operation, a tax warehouse, a state-of-the-art distribution center and a set of properties strategically located in Panama.

7. Exports, Imports and Re-exports.

Let us now consider what concerns Exports and Imports, where Panama's trade balance has traditionally been in deficit, since its exports have been less than its imports.

Along with this, service exports have predominated in the Panamanian economy, but we cannot go unnoticed, **the potential for diversification of its productive matrix, evidenced by the high quality of its exportable offer.**

Regarding exports, according to INEC, Panamanian exports totaled **US\$3,367.0 (FOB value) in 2023**, a figure higher than the US\$3,652.2M in 2022 and other previous years.

- **The Main Panamanian Products Exported – Year 2023:** *Minerals (copper), metals, manufactures and scrap of copper, aluminum, steel and iron; fruits (bananas, plantains, papayas, watermelons, melons, pineapples), seafood, palm oil, wood, pharmaceutical products, coffee, cocoa, sugar, rum, cattle meat, salt, dairy products, cement, eggs chicken, pumpkins; animal or vegetable fats and oils, products of their breakdown, processed dietary fats, waxes of animal or vegetable origin; paints and varnishes; mastics; inks, etc.*
- **The Top 25 Main Destinations of Panamanian Exports – Year 2023:** *China (No. 1 with US\$ 1,316.4 M), Japan (US\$ 442.3 M), South Korea (US\$ 233.9 M), Spain (US\$ 204.7), India (US\$ 174.2), United States (US\$ 148.4), Germany, Bulgaria, Netherlands, Taiwan, Costa Rica, Mexico, United Kingdom, Thailand, Denmark, Honduras, Switzerland, Guatemala, Guyana, Nicaragua, Cuba, Peru, Colombia, Italy and El Salvador.*

Likewise, according to INEC, in 2023 **imports from Panama totaled US\$14,527.0 M (CIF Value)**; figure lower than the US\$15,230.2 M in 2022.

- **The Main Imported Products – Year 2023:** *Mineral fuels, mineral oils and their distillation products; bituminous materials; mineral waxes. Nuclear reactors, machines, boilers, devices and mechanical devices. Motor vehicles, tractors, with their respective parts and accessories. Machines, apparatus and electrical material, and their parts; sound recording or reproducing apparatus, television image and sound recording or reproducing apparatus, and parts and accessories of these apparatus. Pharmaceutical products. Manufactures of cast, iron or steel. Plastics and their manufactures. Instruments and apparatus of optics, photography or cinematography, measurement, control or precision; medical surgical instruments and devices; parts and accessories of these instruments or devices. Cereals. Residues and waste from food industries; prepared food for animals. Various food preparations. Garments and accessories, clothing. Various products from the chemical industries. Paper and paperboard; manufactures of cellulose pulp of paper or cardboard. Beverages, alcoholic liquids and vinegar; etc.*
- **The Top 25 Main Countries of Origin of Imports – Year 2023:** *United States (No. 1 with US\$ 2,738.9 M), China (US\$ 1,762.3 M), Mexico (US\$ 625.1 M), Costa Rica (US\$ 498.0 M), Colombia (US\$ 419.3M), Spain, Brazil, Japan, Guatemala, South Korea, Germany, India, Ecuador, Italy, Argentina, Turkey, France, Chile, El Salvador, Thailand, Peru, Canada, Uruguay, Countries Netherlands and Belgium (free zones are excluded).*

On the other hand, **imports (purchases) and re-exports (sales) of merchandise, to and from the Colón Free Zone (ZLC)**, according to preliminary figures published by the Administration of the ZLC, the year 2023 had the following performance:

- **The commercial movement of the ZLC reached US\$ 33,368 M** (amount higher than previous years). Of this amount, imports (purchases) were US\$ 19,607.5 M, and re-exports (sales) US\$ 13,760 M.
- **The main suppliers - countries of origin of imports (purchases):** *China, United States, Brazil, Mexico and India*; who together represented 74% of the total imports of the ZLC.
- **The main re-export destinations (sales):** *Venezuela (13.8%), Panama (13.3%), Nicaragua (7.8%), Costa Rica (6.7%), Cuba (6.7%), Colombia (5.9%), Honduras (5.3 %), El Salvador (4%), Dominican Republic and the United States (3.8%, respectively)*; who together represented 71.1% of total re-exports from the ZLC.
- **The Main Imported and Re-exported Products:** *Machines, apparatus and electrical material, and their parts; Apparatus for recording or reproducing sound, apparatus for recording or reproducing image and sound on television; Pharmaceutical products; Nuclear reactors, boilers, machines, devices and mechanical devices; Clothing and accessories; Footwear, gaiters and similar articles; Organic chemicals; Essential oils and resinoids; perfumery, toilet or cosmetic preparations; Beverages, alcoholic liquids and vinegar; Motor vehicles, tractors and others, with their parts and accessories.*

The ZLC is the second largest free trade in the world and one of the world's leading multimodal distribution centers. It is the largest free zone on the American continent, with a strategic location just a few minutes from the three best cargo ports in the Atlantic (Cristóbal, MIT and CCT). It is an ideal Hub to access the markets of Central America, the Caribbean, the Andean Community and other new markets, allowing the continuity of your business.

Within this context, the ZLC is a regional distribution center, which allows import, export, re-export, distribution and free trade activities of wholesale goods; including storage, display, conditioning, packaging, repackaging, packaging, labeling, transformation and conservation of merchandise, etc.; with their respective multimodal logistical support facilities, electronic commerce and other services generated by special investment regimes (SEM and EMMA).

8. Business and Investment Opportunities in Panama.

We will now affirm that certainly, the Business and Investment Opportunities in Panama are multiple, attractive and varied; and for better observation and understanding, **we have classified them at our own discretion, into the 9 SECTORS** that we only mention below, as a reference.

Sector 1. Special Investment Regimes.

- ✓ *Colón Free Zone.*
- ✓ *City of Knowledge.*
- ✓ *Fuel Free Zones.*
- ✓ *Panama Pacific Special Economic Area.*
- ✓ *Regional Headquarters of Multinational Companies (SEM).*
- ✓ *Free Trade Zones in different places in the national territory.*
- ✓ *Cinematographic and Audiovisual Industry.*
- ✓ *Multinational Companies for the Provision of Services Related to Manufacturing (EMMA).*
- ✓ *Logistics Customs Warehouses.*
- ✓ *Agroparks.*
- ✓ *Transnational Professional Sports Academies.*
- ✓ *Aguadulce Special Economic Area.*

Sector 2. Investments in the Digital Hub.

- ✓ *High Technology Projects in the City of Knowledge.*
- ✓ *High Technology Projects in the BPO's Panama Free Zone.*
- ✓ *High Technology Projects in the Panama Free Zone Digital Gateway.*
- ✓ *High Technology Projects in the Tech Valley Free Zone.*

Sector 3. Immigration Options with Residences by Investment.

Sector 4. Investments with Value Added Logistics (VAL).

Sector 5. Investments in Incentivized Industrial Segments.

Sector 6. Investments in Business with the Panamanian State.

Sector 7. Investments in the Pharmaceutical Hub.

Sector 8. Investments in the Food Hub.

Sector 9. Investments in other Niches of the Panamanian Market.

In any of the Sectors of Opportunities that are of interest to you, at Chiel's Panama Connection, we provide you with the necessary foresights both for the location or search for the specific project of interest; as well as for your advice and procedures, authorizations, licenses, permits, certifications, registrations, regulations, agreements, contracts, etc.

9. Options for Doing Business in Panama.

Depending on your business plan, to invest, undertake, create, start or open a business in Panama, or for the operation of companies, or for the internationalization or expansion of companies, products or services, **in Panama there are different options for do business, such as those summarized below:**

- Through natural persons (in their own name, sole proprietorship).
- Through legal entities, such as Corporations (Corp.), Limited Liability Companies (LLC), Entrepreneurship Companies, Private Interest Foundations, co-operative societies, civil partnerships, among others.
- Through participation in Public Private Partnerships (APP), Contracting or Public Tenders with the Panamanian State.
- By directly exporting your products or services to the Panamanian market, fully assuming the costs and responsibilities that this entails.
- Through the collaboration of a third party (company established in Panama), with a commercial contract of distribution, representation, agency, franchise, license of use, manufacturing, strategic alliance, joint venture, consortium, accidental association or other forms of international business.
- By internationalizing your company to Panama, operating under a representative office, branch, affiliate or subsidiary; or, through the creation of a commercial company or a business holding company in Panama, fully assuming the costs and responsibilities that this entails.
- Through the partial or total shareholding acquisition of a company already established in Panama, within the business niche with which you plan to do business in Panama.
- Through the acquisition of real estate in Panama, in its own name, in the name of Business Corporations, in the name of Private Interest Foundations, or under a Trust.
- By opening bank accounts, in your own name, in the name of Business Corporations, or in the name of Private Interest Foundations (FIP).
- By taking advantage of the competitive advantages, facilities and benefits that Panama offers, for International Trade and Business operations, to and from Panama.
- By taking advantage of Business and Investment Opportunities in Panama.

Whatever option you consider to do business in Panama, at Chiel's Panama Connection, we provide you with the necessary foresights; regarding advice, market research, procedures, authorizations, licenses, permits, certifications, registrations, regulations, agreements, conventions, contracts, etc.

Conclusion

Undoubtedly, Panama has positioned itself as a strategic business connection, proving to be a key player in the reconfiguration of international trade, thanks to its dynamism and business-friendly public policies, offering multiple nearshoring opportunities.

In short, the nine points presented confirm that Panama is a strategic business connection; and therefore, **to connect with the business world, it makes more sense, when you are in a country that connects your business with the world: Panama.** Furthermore, Panama is undoubtedly a fertile land for doing clean business, with honesty, integrity and business profitability.



Fertile lands for agricultural cultivation, adjacent to the Volcán Barú, Chiriquí, Panama. Photo by az3 on Flickr

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We will be happy to serve you!



“We facilitate your business connection to and from Panama”

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***We are a firm of advisory, consulting and business facilitation services,
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***We Also Facilitate your Business Connection with Other Countries
(USA, Mexico, Guatemala, Costa Rica, Colombia, Ecuador, Peru, Chile,
Argentina, Brazil, Dominican Republic, Trinidad and Tobago, etc.); through strategic allies.***