Central & South America

Central America

The United States will loom large over central America in 2019, both politically (with the ongoing immigration crisis) and economically. Economic growth will be weaker in 2019, as will demand for imports, affecting central American exporters. Pharmaceuticals and medical equipment are very significant sectors within the central American free zone sector, particularly in Costa Rica and the Dominican Republic – Cuba is trying to tap into this investment. There is also stiff competition between central American countries to establish coastal logistics hubs, to leverage traffic through the Panama Canal for processing, packaging and transhipment. China has a growing presence in the region, particularly in the Dominican and Panama.

INCENTIVES AND REQUIREMENTS

	ZONES	CORPORATE TAX	OTHER TAXES	CUSTOM DUTIES	IMPORTANT REQUIREMENTS	DOMESTICATION REQUIREMENTS
Mexico	8	100% exemption for first 10 years. 50% discount (off current 30% rate) for subsequent 5 years.	None	None	None	None
Belize	1	100% Exemption for first 10 years. Thereafter, revenue < $7,500: 2% $7,500 - $15,000: 4% $15.000 - $50,000: 6% >$50,000: 8%	1.5% social fee on the value of all goods imported into the zone. (10% fee for fuel.)	None	None	None. Tax credits worth up to 2% of income available for employing Belize nationals
El Salvador	19	100% Exemption for 15 years. Thereafter, 40-60% exemption from 30% corporate income tax rate	100% exemption from municipal taxes for 15 years	None	Minimum $500,000 investment within first two years. Or creation of 50 permanent jobs within first year. (5 permanent jobs for product marketers.)	None
Nicaragua	1	100% Exemption for first 10 years. Further 100% exemption available for 10 years thereafter.	None	None	Minimum industrial operation at 2,500m² for companies operating outside of the free zone	None
Costa Rica	30	100% Exemption without expiration	None	None	50% minimum export requirement	None
Panama	16	0%	1% tax on capital (maximum payable is $50,000)	None	Minimum investment of $150,000 within free zones. (Minimum $2 million investment to set up outside of a zone)	None
Cuba	1	100% Exemption for first 10 years. Levied at 12% thereafter.	1% tax on sales and services applied from Year 2 of operations. 0.5% tax on gross quarterly revenues zone administration fee	None	None	Special permission required to hire foreign employees (executive and technical positions only).
Curaço	2	0%	2% tax on export profits	None	75% minimum export. Minimum one job created per 170 m²	Incorporation under Curaçao jurisdiction
Dominican Republic	71	0%	None	None	None	None

Dominican Republic

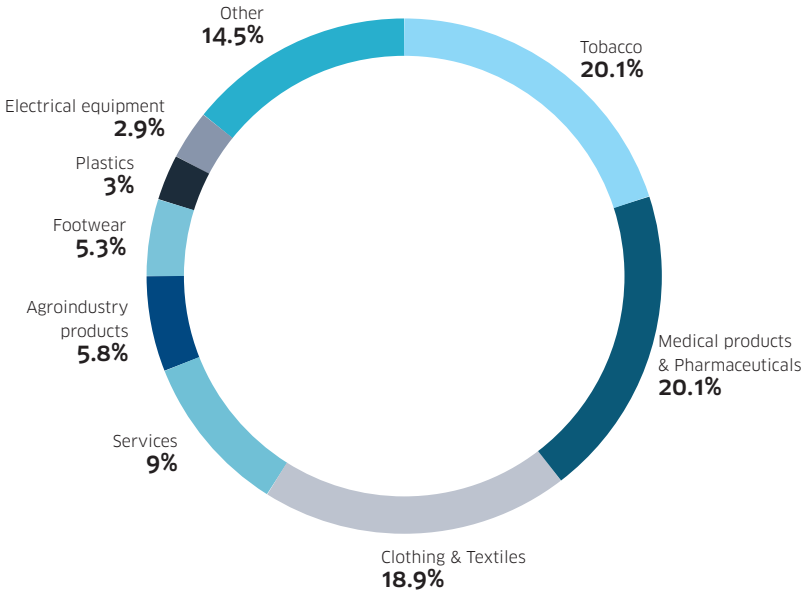
Leading Central America

The Dominican Republic [DR] is widely regarded as having one of the most successful free zone sectors in the developing world. There are more than 665 enterprises operating across 71 free zones (75 percent of which are privately owned).

The sector showed strong overall growth in 2018, continuing the positive trend of recent years. Exports increased by 9.8 percent to $6.3 billion (January-September 2018). That growth was led by electrical equipment exports (an extra $240 million); jewellery (~$85 million); medical equipment ($68 million); and cigars ($64 million). In a sign that the Dominican sector is opening up new investment horizons, Chinese firm Kingtom Aluminio committed nearly $11 million to build a 17,000m2 plant to manufacture aluminium tubing. The project will create 400 jobs directly and utilise Dominican aluminium waste for smelting – exactly the kind of value addition activity the government wants to encourage.

Analysts have noted that, despite valuable exports, international firms within Dominican free zones have not been successful in integrating domestic businesses into their supply chains.

Free Zone Investment Stock by Sector ($4.4 billion)



The new year began in much the same way 2018 ended. In February, Hong Kong manufacturing firm HAYCO opened a new $60 million plant in Parque Industrial Las Américas Free Zone to manufacture cleaning products, which it supplies to customers in the U.S., including P&G. HAYCO's leaders are so impressed by the success of this 17,000m2 facility, they plan to open a second by 2022. In March, the National Council of Free Trade Zones announced that it was licencing two new free zones – Las Carolinas Free Zone Park (Monte Plata) and the La Habanera Industrial Free Zone (Santiago). Investment projects worth $33 million from twelve firms were also given the green-light.

> "HAYCO's leaders are so impressed by the success of this 17,000m2 facility, they plan to open a second by 2022."

Weekly average salary of free zone workers	
Operators (manual)	$55
Technicians (skilled)	$104

Source: National Council of Free Zones - 2017 Statistical Report

Of course, the great appeal of Dominican free zones is the country's situation at the intersection of four continents, especially North America. That proximity can also be viewed as dependency. Strong export growth in 2018 came off the back of 2.9 percent GDP growth in the United States. U.S. growth forecasts for 2019 are less optimistic. Given that consumables make up more than 30 percent of the activity within Dominican zones, slower American growth will inevitably affect the sector.

However, the Dominican Republic is strengthening its hand as a regional trading and logistics hub by upgrading existing infrastructure. For example, DT World (a subsidiary of DP world) is partnering with authorities at Haina International Terminal – DR's main port – to provide a digital logistics hub. According to port officials, the Mawani platform will "enable the intelligent and secure exchange of information between public and private agents to improve the competitive position of the Dominican Republic's logistics community."

Cuba

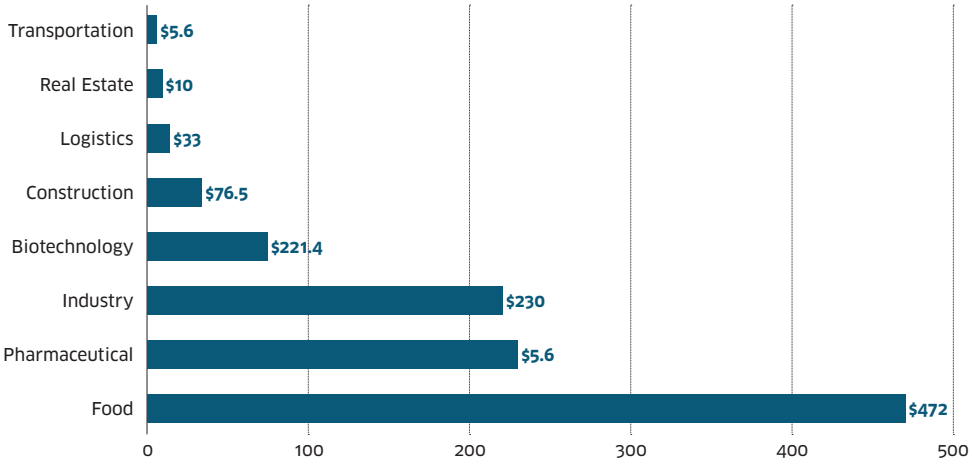
A new transshipment hub?

Mariel Special Development Zone [ZED Mariel] is the only special economic zone in Cuba. Located on the coast, 45 kilometres west of Havana, the 46,500-hectare zone is split into nine sectors. Sector A (4,300 hectares) has been open since 2013 and is open to investment in logistics services, advanced manufacturing, biotechnology and pharmaceuticals.

Despite Cuba's economic and political challenges, Mariel has attracted more than $1 billion worth of investment from multiple countries, including Spain, France, Netherlands and Brazil (which financed the initial building costs). Given Cuba's large agricultural sector – sugar, tobacco, rice and coffee are key exports – more than 40 percent of that investment has been in the food processing sector. In February, for example, Spanish firm Profood Services announced that it was building a 2,000m2 food processing plant which will use locally produced sugar and fruit pulp to manufacture up to 26 million units of food and beverage products annually. Other key investment sectors include pharmaceuticals and heavy industry.

One of the key strategic advantages of Mariel is the port situated within the zone. With capacity to handle 800,000 TEU annually and four post-Panamax cranes, Mariel Port has overtaken Havana Port as the main industrial logistics hub for the country. In 2017 it managed around 335,000 TEU - well short of its capacity. This year should see the completion of dredging work to increase the port's capacity to handle post-

Investment by Sector 2013-2018 (millions)



Panamax ships up to 366 metres long. The strategic vision of the port management authority is to establish Mariel as a regional transshipment hub, picking up cargo from huge ships, offloading it into smaller vessels and transiting them into ports in the U.S. Gulf. However, as the Miami Herald's Mimi Whitfield points out, Mariel will face stiff competition from regional competitors, such as Panama's Balboa Port. Furthermore, restrictive U.S. regulations on Cuban vessels entering American ports could also stifle their strategy.

In September 2018, Immunotherapy Alliance S.A. – a drug manufacturer – received approval for operations within Mariel. They are the first U.S. investors in the zone, reflecting the arduous licencing procedures required for Cuban-American trade. Approval from ZED Mariel requires the submission of detailed technical specifications, to ensure operations use sufficiently high-tech manufacturing processes – a time-consuming procedure. A six-month approval process appears to be the minimum expectation.

ZED Mariel's outlook for 2019 hinges on whether the Trump administration decides to lift its suspension on Title III of the 1996 LIBERTAD Act. The provision has never been enforced but it could allow U.S. citizens to sue international investors doing business in Cuba. Previous administrations have issued six-month suspensions but the current administration is now reviewing the provision on a fortnightly basis (as of April 3rd 2019). The U.S. is using the policy as leverage in an ongoing dispute over Venezuela.

> "With capacity to handle 800,000 TEU annually and four post-Panamax cranes, Mariel Port has overtaken Havana Port as the main industrial logistics hub for the country."

Mexico

A new regime

In June 2016, then-president Enrique Peña Nieto announced his administration's plans to designate seven new special economic zones throughout southern Mexico, an impoverished region of the country. At the time, some policy analysts expressed scepticism about the policy's lofty ambitions – nearly $50 billion worth of investment and 350,000 jobs within thirty years – especially given that the zones would be located in the least attractive parts of the country. Nonetheless, Mexico is an attractive location for international investors and well administered zones could prove to be successful.

Progress and promises were made throughout 2017. According to some estimates, $3 billion worth of investment had been committed, with a further eighty businesses expressing interest. But as the election of 2018 loomed and it became increasingly clear that left-wing candidate Andrés Manuel López Obrador was set to take power, concerns were raised about the long-term viability of the programme.

Since taking office, the new administration has expressed scepticism about the previous model of special economic zones. "There are experts who have come to speak to us about the SEZs, the World Bank, the Inter-American Development Bank . . . [who say] establishing one SEZ is good, two maximum, but seven?" Those were the words of economic development minister Rafael Mollinedo, reported by Mexico Daily News, signalling the government's intention to focus on the more strategically significant Isthmus of Tehuantepec, a region in the southwest which connects the Gulf of Mexico and Pacific Ocean.

The Mexican business community is lobbying to keep the programme alive but the new administration has made its intentions pretty clear. Certainly, international evidence suggests that special economic zones are must successful when they are supported by a well-coordinated government strategy and situated in a location which has some inherent geostrategic value, such as Tehuantepec. Or, indeed, the northern border region.

Northern Border Region Special Economic Zone

- Situated in the state of Nuevo Leon
- Corporate income tax: 20%
- VAT: 8%
- Minimum wage: $8.80 per day
- Fuel prices to match U.S. (Gallon of gasoline in Texas: $2.86)

In December of 2018, President Obrador announced that he would designate a massive strip of land throughout Nuevo Leon, the border state, as a special economic zone. The zone runs for 3,180 kilometres at a width of 25 kilometres. Enterprises operating within the zone will benefit from a reduced income tax rate of 20 percent (instead of 30) and VAT levied at 8 percent (instead of 16). However, workers in the region will earn a higher daily minimum wage ($8.80) than the rest of the country ($5. 10). Fuel prices will also match those in the United States. The zone was officially operational from 1 January 2019. No extra registration procedures have been announced to register for operations within the zone. A review is underway of the pre-existing special economic zones policy and is due to report in the summer.

> “Enterprises operating within the Northern Border Region Special Economic Zone will benefit from a reduced income tax rate of 20 percent (instead of 30) and VAT levied at 8 percent (instead of 16).”

Panama

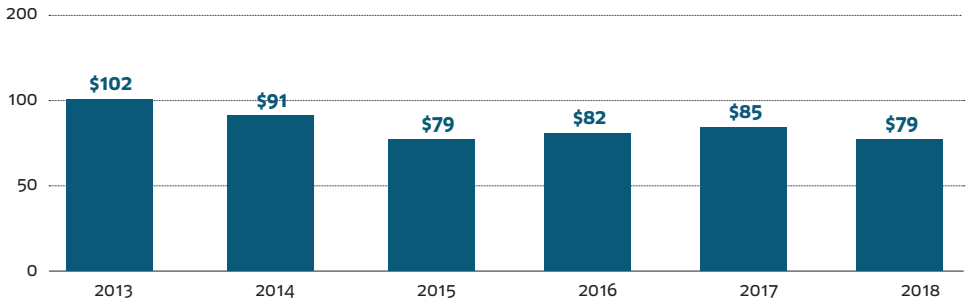
Overlooked free trade zones

More than 400 million tonnes of cargo pass through the Panama Canal each year, as the narrow intersection connects global trade from the Pacific Ocean into the Atlantic. Panama's free trade zones try to benefit from this traffic by establishing themselves as logistics hubs for storage and transshipment. Colón Free Zone is the second largest in the world. Situated on the Atlantic side of the Canal, the zone is home to more than 2,500 enterprises across 1,000 hectares from a vast array of countries moving more than $20 billion worth of cargo.

The vast majority of commercial activity within Colón is import and re-export activity. In 2018, total commercial activity increased by 6.5 percent, including a 6.2 percent increase in re-exports (valued at $11.1 billion). China is the largest source of imports into Colón. In 2017, the two countries established diplomatic relations and signed a free trade agreement. Telecoms giant Huawei has a global distribution centre within the zone. Likewise, Hikvision – the world's largest manufacturer of video surveillance equipment – moved its Latin America distribution centre from Miami to Colón, opening an 8,000m2 warehouse that will store more $100 million worth of product.

The nature of commercial cargo passing through the canal has implications for industries established within Panama's free trade zones. There are 11 active free trade zones in Panama (a further 5 are currently inactive). These zones, of which the Colón Free Zone is not considered a part, operate on a small scale in terms of trade volume and are concentrated near the coastal cities of Colón (Atlantic side) and Panama (Pacific side). Provisional data for 2018 shows that total exports were valued at $79 million, a 5.8 percent decline on 2017.

Value of exports from free trade zones (USD millions)



Roughly a quarter of the companies established within these zones process finished or semi-finished products; around a third are service providers; and another third are in assembly or manufacturing. The most significant free trade zones in terms of active tenants are Corozal-Marpesca, Albrook and Panexport.

The ongoing trade war between the U.S. and China has cast a long shadow over the outlook for 2019. Reporting from local news outlets suggest that first quarter cargo volume could be down as much as 15 percent for imports and 11 percent for re-exports. The downturn will have an effect on the wider economy, including service providers within free trade zones. However, these operators will be sure to welcome the introduction of a new digital Customs Management Integration System [SIGA]. The platform will enable zone users to exchange information with authorities, in order to speed up licensing and reporting procedures. Authorities in Colón Free Zone are also introducing digital and physical single window processes for all compliance procedures (including customs, banking and food safety).

> “Hikvision – the world’s largest manufacturer of video surveillance equipment – moved its Latin America distribution centre from Miami to Colon, opening an 8,000m2 warehouse that will store more $100 million worth of product.”

Costa Rica

La Lima Free Zone

Costa Rica has a dynamic and successful special economic zone sector. There are thirty zones – a mixture of manufacturing, service and industrial parks – spread across the country (though the vast majority are clustered around the capital city of San Jose). These zones are home to more than 300 enterprises, generating two thirds of gross national exports ($7 billion in 2015) and directly employing 82,000 people.

Doing Business in La Lima Free Zone 2019		
Size	79 hectares	
Available space	50.4 hectares	
Rent	Industrial	$8.98 per m2 (per month, inc. service fees)
	Non-industrial	$19.44 per m2 (per month, inc. service fees)
Minimum investment	$150,000	
Utilities	Electricity	$0.048 per KwH
	Water	$3.50 per m3
Labour (Avg. monthly wage)	Industrial	$553
	Service/ administrative	$1,340
Nearest sea port	146km (Puerto Moin)	
Nearest airport	44km (Juan Santamaria International Airport)	

La Lima Free Zone is a manufacturing and services park situated in Cartago – a large city situated 25 kilometres southeast of the capital. The zone opened in 2015 and is spread over 79 hectares, with allocated plots available for lease (50 hectares remain unutilised). La Lima has successfully attracted advanced manufacturing companies into the zone. For example, German multinational Zollner Elektronik invested $10 million in 2014 to build a 5,000m2 plant to conduct electronic manufacturing services.

> "The new fiscal law, coming into force from July 2019, does not levy VAT on free zone goods but does clarify that these companies will be forced to pay the negligible Education and Culture Stamp tax, at an annual cost of around $120."

Such activities range from design and assembly to testing and repairs for clients throughout north and central America. In July 2018, Align Technology – a hi-tech American medical devices manufacturer – announced plans to open a multimillion-dollar facility in La Lima. The site opened in March 2019, constructed by Costa Rican real estate developers Garnier & Garnier. That firm is planning to invest nearly $100 million to create a new multi-site corporate centre over 8 hectares in the zone. The centre will create a hub for service sector enterprises, particularly in IT, engineering and R&D.

An important part of La Lima's attraction for multination firms like Zollner Elektronik and Align Technology is the easy access to a large and well-educated workforce. Cartago is Costa Rica's third-most populous city, with 160,000 inhabitants. The wider Cartago province has nearly 480,000 inhabitants. There are multiple universities and technical colleges which produce some 30,000 graduates each year. Given the relatively short drive, many people who live in the province actually work in San Jose. That creates an opportunity for firms to avoid the higher costs of the capital and bring jobs closer to the workforce.

The zone's proximity to the capital does, however, mean that it is situated nearly 150 kilometres from the nearest port. The Port of Moin provides access to the Caribbean Sea. The port has a new $1 billion container terminal – inaugurated in March 2019 – which boasts a 650-metre-long pier and capacity to handle 26,000 TEUs annually. The port's easy access to the Panama Canal is a significant attraction. La Lima also has access to multiple national highways which connect to major trade routes, most importantly the Pan-American Highway.

Costa Rica enjoys and benefits from a positive reputation as a politically reliable investment location. However, in October 2018 there were serious concerns that, facing a major fiscal crisis, the government would be forced by parliament to start levying VAT on goods and services exported from free zones. The government was able to avoid this outcome but the uncertainty caused concern about the future implications of the ongoing fiscal crisis. The new fiscal law, coming into force from July 2019, does not levy VAT on free zone goods but does clarify that these companies will be forced to pay the negligible Education and Culture Stamp tax, at an annual cost of around $120.

> "One of the main reasons why we decided to develop the La Lima Corporate Center in Cartago is for the **qualified human resources**... It is a population with an **excellent academic, multilingual level and one of the best literacy rates in the country.**"
>
> **Philippe Garnier**, CEO of Garnier & Garnier

South America

The prospect of recession looms over Argentina and Brazil in 2019/20. Both countries are also grappling with the need to reform aspects of their free zone regimes in order to manage wider economic challenges. Interior countries are upgrading coastal links. Paraguay is relocating a free zone closer to its new container port in Rosario (Argentina), on the Paraná River; while Bolivia is building a road from La Paz to Tacna, a free zone in southern Peru. A major policy development in 2019/20 could be the finalisation of an EU-Mercosur free trade agreement. A deal would save billions in tariffs and open up new markets for South American exports.

INCENTIVES AND REQUIREMENTS						
	ZONES	CORPORATE TAX	OTHER TAXES	CUSTOM DUTIES	IMPORTANT REQUIREMENTS	DOMESTICATION REQUIREMENTS
Argentina	10	30%	None	None on value-added goods or goods with no local content	None	None
Bolivia	11	0%	Municipal taxes and incentives may apply	None	None	None
Brazil (Export Processing Zones)	19	75% reduction on Corporate Income Tax (North and Northeastern regions)	State and municipal taxes may apply	None	Minimum 80% export requirement	None
Brazil (Manaus Free Trade Zone)	1	75% reduction on Corporate Income Tax	Reduction between 55-100% on ICMS state tax. Municipal taxes also apply.	Up to 88% reduction on the Import Tax	None	None
Chile	3	0%	None	None	Minimum investment of $5 million	None
Ecuador	4	5% deduction (normally levied at 22-28% rate)	None	None	None	None
Paraguay	2	0.50%	None	None	Minimum 90% export requirement. Higher corporate taxes apply for revenue generated from Paraguay	None
Uruguay	11	0%	Employee social security tax contributions (12.625% of salary)	None	None	75% Uruguayan employees. (Special exemption available.)
Peru (CETICOS)	3	0%	None	None	Minimum investment of $5 million	Maximum 20% foreign employees
Colombia	116	20%	None	None	Minimum investment and job creation requirements apply	None

Brazil

Rumblings in the jungle

Brazil's economy is still emerging from the shadow of the worst ever recession in its history, exacerbated by a political crisis that has undermined investor confidence. Economic growth in 2018 was weak at just 1.1 percent and official forecasts for 2019 have been revised down from 2.5 to 2.2 percent.

Brazil's free zone sector is bifurcated into two regimes. There are 19 active export processing zones spread across 17 federation units, mostly in the south of the country. In the north lies the 100,000-hectare Manaus Free Trade Zone [MFTZ]. Located in the sprawling, isolated state of Amazonas, the MFTZ was established in the 1950s to spur economic development.

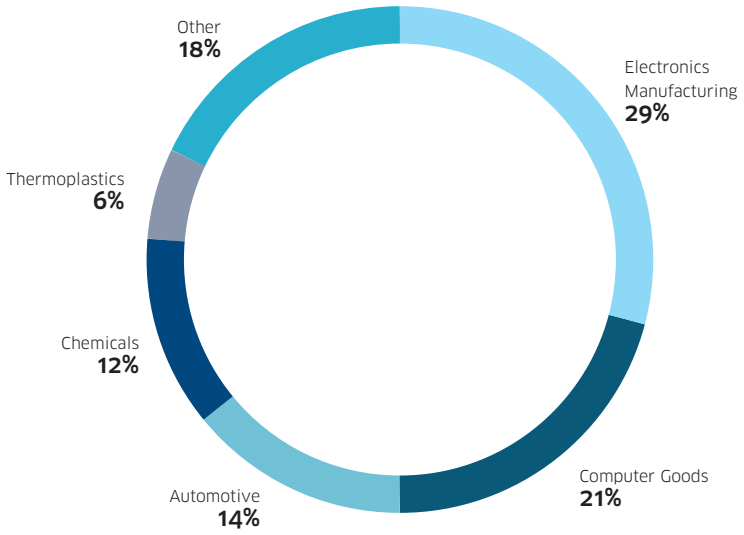
The recession affected the region badly. The number of people employed within free zone enterprises fell by 30 percent between 2014 (123,000) and 2016 (85,000), while average wages were depressed. Revenues also fell, by 15 percent from $18 billion in 2014 to $15 billion in 2016. In the last two years, however, the situation has stabilised. In 2018, revenue climbed to a five year high of $19 billion, though employment is recovering more slowly.

The MFTZ is set within the Amazonian jungle. The region is not connected to Brazil's national road network. Goods have to be transported in and out of the region either by air or through the Amazon river, thus raising logistics costs. Businesses refer to this as the "Custa Amazonica": the cost of doing business in the Amazon. Transporting goods to the urbanised south and southeast of the country, or to the coast for overseas export, requires some element of shipping to either Porto Velho (in the east) or Belém (in the west).

Average monthly MFTZ wages	
Electrical engineering/manufacturing	$1,450
Metals	$1,474
Wood work	$639
Garments & Footwear	$455
Textiles	$426

Thus, the fiscal incentives are essential to maintaining the profitability of operations. In July 2018, the previous administration announced that it was effectively cutting tax credits paid to major soft drinks syrup manufacturers – such as Coca-Cola and Ambev - in order to pay for financial concessions to the trucking industry, which had brought the country to a grinding halt with a 10-day strike in May 2018. Despite the government reducing the size of the cut and agreeing to delay its implementation, PepsiCo announced in December that it was closing its

MTFZ Industrial Sectors



syrup factory in the MFTZ. The soft drinks industry argues that without subsidies the MFTZ is not a viable place to do business. Eyes will be on Coca-Cola to see whether it retains its large Manaus operation for the long-term.

With Brazil's system of sector-specific tax breaks, these industrial disputes over niche taxes could be a sign of things to come as Brazil grapples with a large public deficit. In February, President Bolsonaro's administration introduced plans to save $250 billion over ten years in state pension payments. Such reforms are always politically challenging. Without them, however, the government fears the country could slide back into recession in 2020 with interest rates potentially doubling.

> "The soft drinks industry argues that without subsidies the MFTZ is not a viable place to do business. Eyes will be on Coca-Cola to see whether it retains its large Manaus operation for the long-term."

MFTZ Distribution Logistics

Routes to Southeast and South of Brazil:

- Manaus → Porto Velho → Cuiabá → Campo Grande → São Paulo: average from 7 - 10 days (River-road)
- Manaus → Belém → Goiânia → Porto Alegre: average from 10 - 12 days (River-road)
- Manaus → Belém: 4-5 days (by way of Amazon river)
- Manaus → Porto Velho: 3 days (by way of Madeira river)
- Manaus → Boa Vista: 12-14 hours (highway) or 1 hour (airlift)

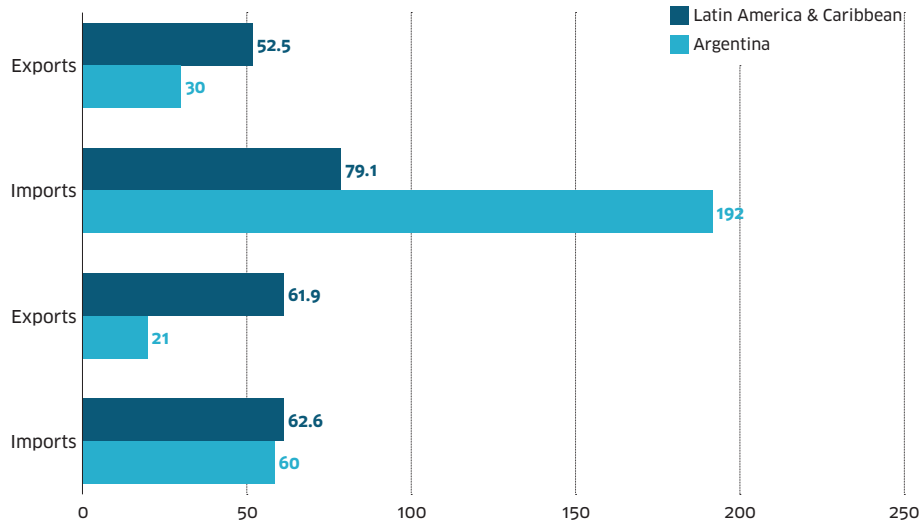
**River-road is most used mode of transportation*

Argentina

Free zone regime needs reform

Argentina was hit by a currency crisis and soaring inflation in 2018 which forced the economy into recession. The peso lost 50 percent of its value against the dollar and inflation rose by more than 40 percent, fuelled by a lack of investor confidence in the indebted nation. The IMF has provided a $57 billion bailout fund – its largest ever – to support monetary and fiscal operations. The economy is expected to remain in recession in 2019.

Border Compliance Procedures (hours)



Source: World Bank Ease of Doing Business

Temporary Export Tax

- From January 2019 to December 2020, a 12% duty will be levied on the FOB export price of "primary products", subject to a cap of 4 pesos per USD of the official FOB price
- For other products, the cap is 3 pesos per USD

The crisis is putting pressure on Argentinean firms, including those within the free zone sector. The government introduced a temporary 12 percent export tax, which came into effect in January 2019. Exemptions from export duties only apply to exports which use inputs imported from third party countries or have value added. Furthermore, with an upcoming election in October and inflation still high, in February 2019 the government announced that it would bring forward the planned minimum wage increase. As of March, the national minimum monthly wage is 12,500 pesos (around $285).

Aside from these broader economic circumstances – or especially because of them – Argentina's free zone sector is not very competitive. A corporate tax rate of 30 percent is far above anything else levied in South America. Furthermore, free zone companies face stringent barriers on which goods they can sell to the domestic market. And the efficiency of customs procedures, especially for imported goods at ports, is a strain on productivity. There is no national authority responsible for managing and developing the free zone sector; it is managed at the regional government level. The lack of centralised coordination, development and promotion of the sector contravenes global best practice.

On a more positive note, 2019 could see the finalisation of a free trade agreement between the EU and Mercosur. (Mercosur is a trade area which includes Argentina, Brazil, Paraguay, Uruguay, and Venezuela.) The deal has been under negotiation for nearly two decades but a deal appears close. Such an agreement would save millions in tariffs on EU-Argentina trade (worth around $19 billion) and open up new export markets. Tariffs currently exist on a number of goods, including: soy products, raw hides and skins, biodiesel and mineral fuels, among other things. The corporate income tax rate is also set to be reduced from 30 percent to 25 percent in 2020.

> "The crisis is putting pressure on Argentinean firms, including those within the free zone sector. The government introduced a temporary 12 percent export tax, which came into effect in January 2019."

Colombia

Free zones key to diversification

There are two main kinds of free zone in Colombia: permanent free zones and special permanent free zones. Permanent free zones are multi-user sites, managed by a zone developer. Special permanent zones are individual investment projects situated around the country which have been granted this status. In total, there are nearly 1,000 users operating across 116 zones; 38 are permanent zones and 68 are special.

Permanent free zone investment requirements[1]		
Total Assets	**Investment Amount**	**Direct Jobs**
$0 - $140,000	$0	7
$140,000 – $1,400,000	$277,000	20
$1,400,000 – $8,300,000	$1.4 million	30
More than $8,300,000	$3.2 million	50

These zones are a small but important part of Colombia's economy. In 2018, free zone exports increased by nearly 25 percent to $2.8 billion. That represents just 7 percent of total exports (worth $41 billion). However, if you remove the oil sector from the equation, that figure doubles to 15 percent of total exports. The free zone sector directly supports 59,000 jobs and a further 82,000 opportunities indirectly. Like many other oil exporting nations, the "new normal" of a lower oil price has focused the attention of policymakers in Colombia on economic diversification. Free zones have proven that they can deliver investment in the manufacturing, agrobusiness and service sectors. Around half of the zones are concentrated in the industrial sector, a third in services and the rest in agroindustry.

The United States is Colombia's most significant export destination. Nearly 40 percent of free zone exports in 2018 went to the U.S.; 19 percent went to Puerto Rico;

[1] Values sourced from the government's ProColombia website, which provided approximate values based on USD/Peso exchange rates at the time of production (2019). Companies must achieve these requirements within 3 years of the project | ProColombia website

4 percent to Brazil and the rest other countries. Given that Colombia is so dependent on the U.S. importing its goods, exporting businesses will be particularly attuned to American economic growth, particularly into 2020, when some analysts predict a slow-down, or even a recession, could occur.

Infrastructure competitiveness	
Quality of Roads	3.0
Quality of railroad infrastructure	1.5
Quality of port infrastructure	3.8
Quality of air transport infrastructure	4.1
Quality of electricity supply	4.8
Quality of overall infrastructure	3.1

World Economic Forum (2017-18), scores out of 7

The government is pursuing a major long-term infrastructure investment programme. The $25 billion Fourth-Generation road programme began in 2014 and envisions the construction or upgrading of 8,000 kilometres of road. According to Global Construction Review, the administration plans to have 70 percent of the projects financed and in-development this year. Given the congestion and topography of Colombia's roads, air travel is an important logistics modality. According to U.S. International Trade Administration, there are nine airports in the country which the National Infrastructure Agency is working to expand and modernise. The government is seeking public-private partnerships to fund investment in these infrastructure projects.

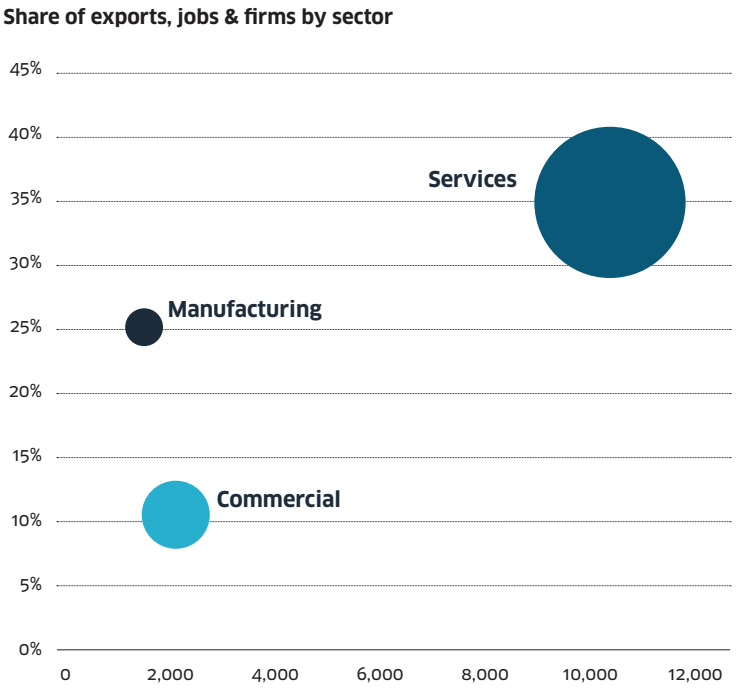
> "These zones are a small but important part of Colombia's economy. In 2018, free zone exports increased by nearly 25 percent to $2.8 billion."

Uruguay

South America's services hub?

In 2018, Uruguay's 11 free trade zones generated exports valued at $2.2 billion; an increase of 14 percent on the year before and nearly a quarter of the country's total exports. There are around 14,000 people employed across 1,150 enterprises. These firms operate in the services (34 percent), trading (29 percent), manufacturing (26 percent), and commercial (11 percent) sectors.

The manufacturing sector is comprised of just 14 firms which support 1,500 jobs. Two firms in particular dominate this sector. Montes del Plata and UPM (of Finalnd). These firms export the majority of Uruguay's $1.5 billion cellulose industry, more than a third of which is sent to China. UPM is investing more than $1 billlion to develop a second pulp plant. The government is authorising the creation of a new 350-hectare free zone in Pueblo Centario that will enable the firm to expand its operations while maintaining the benefits of the existing regime.



By contrast, the services sector supports a much greater number of jobs (10,250 in 2016) and has enabled small and medium sized enterprises to flourish. Of the 625 firms in the sector, 35 percent are staffed by a single indivudal; 29 perecnt by 2-4 persons; and 15 percent by 5-9 persons. Uruguay is a small country. Its internal market is not big enough to support a significant manufacturing sector and the government relies on public-private partnerships for infrstructure investment. Inevitably, this investment is more geared toward facilitating overseas exports in agroindustry and bioindustry. For example, as part of its new pulp project, UPM will invest in upgrading rail, road and port infrastructure. While Chinese conglomerate BaoMa is investing $250 million to construct a duty-free zone port, shipyard and fish processing factory in Punta Yegua.

Service Sector Exports (2016)		
Service sector	Exporting Firms	Value of Exports (millions)
Administrative and Support services	21	$475
Financial services	88	$279
Professional services, Science & Technology	154	$238
Information & Communication	45	$216
Transportation and Storage services	29	$122
Other service activities	11	$64
Real estate	2	$10.38
Accommodation services	1	$2.21
Arts, entertainment and recreation	2	$2.04

> “Free zone enterprises will now be able to provide a range of services to Uruguayan non-FZ users, provided that the service recipient is a company paying corporate income tax in Uruguay.”

Administrative and support activities dominate the service sector; along with financial services, professional services, and ICT. In March 2018, the government introduced reforms of the free zone regime which could boost these activities. Free zone enterprises will now be able to provide a range of services to Uruguayan non-FZ users, provided that the service recipient is a company paying corporate income tax in Uruguay. Furthermore, the reform includes a provision that income generated from intellectual property will be tax exempt. This could help to attract more high-tech businesses.The vast majority of service activities are carried out in Zonamerica and Aguada Park zones. Combined, they generate 95 percent of service sector exports and support 9,500 jobs. Average remuneration in these zones is $3,486 and $2,165 per month respectively.

Peru

Tacna Free Trade Zone

Tacna Free Trade Zone is not one of the three special entities designated as export, transformation, industry, marketing and service centres (Centros de Exportación, Transformación, Industria, Comercialización, y Servicios) and known by their Spanish acronym as CETICOS. It is the only free trade zone (FTZ) in the country.

ZofraTacna's main advantage is its proximity to both the Chilean border and the Port of Arica (in Chile), which is 60 kilometres away. Peru imports $1.4 billion worth of goods from Chile, covering a wide range of categories, including foodstuffs (13 percent), metals (11 percent), and paper goods (8 percent). It primarily exports minerals, metals and chemicals to Chile. Since 2009, a free trade agreement has been in effect between the two countries. Peru is also a member of the Andean Community, which significantly reduces trade barriers with Bolivia (which is around 150 kilometres from Tacna).

The zone is well-serviced by multi-modal transport links. The capital city of Lima is 1,300 kilometres north-west along the coast. There is an airport in Tacna which connects to the capital in 90 minutes. In July 2018, the government announced that it was providing $600 million to fund investment in the construction or upgrading of 5,500 kilometres of road. This includes finance to complete the Peruvian half of the 300 kilometre Tacna-La Paz highway. The bilateral project was launched in 2016 and will connect Tacna with the Bolivian capital. Peru also has a well-regarded national rail network. Cargo traffic on this network is dominated by the mining sector. There are plans to build a $576 million, 140 kilometre rail link between Puno (in the east) and the Port of Matarini, financed by Chinese

ZOFRATACNA	
Size	360 ha
Availability	65%
Plot sizes	Sheds and lots: 675m2 Offices: 30–76m2
Rent	From $0.60 per 1.6m2
Facilities	Plots are equipped with electricity, water, drainage and fibre optic
Electricity	$0.32 per kWh
Water	$0.70 per m3
Minimum wage	~$280 per month
Nearest port	54 km
Nearest airport	3 km
Current activity (2018)	Warehousing (87%) Industrial (13%)

mining group MMG. The Peruvian government depends on private concession deals to channel investment into the transport sector, a model which has successfully attracted more than $5 billion in recent years.

Despite these geographic advantages, current occupation of ZOFRATACNA is less than 40 percent. One key reason for this is a clause in the Peruvian constitution which prohibits foreign ownership of any kind of assets or property within 50 kilometres of the border. However, zone administrators are lobbying hard to ensure that the zone is finally exempted from this provision in 2019. According to reporting by Diario Correo, the president of the Chamber of Commerce, Industry and Production of Tacna claims to have received favourable backing from congressional commissions and government ministries.

Furthermore, the range of permitted activities within the zone is relatively limited. It includes agroprocessing, "maquila" and assembly, and a number of service activities. If passed, a parliamentary bill proposed in 2016 would expand this list but there is no clear inidication of whether that will happen in 2019.

ZOFRATACNA is in competition with Iquique Free Trade Zone in Chile which is 300 kilometres south from Arica. International investors export some $20 million worth of goods into Peru from that zone. There is a recognition among administrators and officials that these regulations serve as a serious restriction on the zone's growth prospects.

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