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

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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. ✖



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