FEATURED ARTICLE

# CENTRAL AMERICA

## AN EMERGING INTERNATIONAL HUB

By Carlos R. Robles, SIOR

Starting a few years ago, the Central American region, composed by Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama, has become a harbor for knowledgeable investors who take advantage of the attractive tax systems of some of its countries, making the region a motivating market for foreign and domestic investment.

Probably, the most evident case study for foreign investment attraction in the area is Panama, which continues to consolidate as one of the primary business centers in all of Latin America. Proof of its macro economical strength and stability is the registered 6.7 percent growth during 2010, a year with uncertain conditions around the world. Its privileged location, vast natural resources, and stable business conditions, combined with an open border policy, have secured the settlement and operation of large economic groups in the country, mainly focusing on logistics (essentially due to the Panama Canal, and its complimentary logistic centers), energy, real estate, and financial services. To share a few examples of successful settlements in the country, one could mention Caterpillar (construction), Halliburton (energy), Pfizer (pharmaceutical), Nestle (food) and Ericsson (telecommunications).

Needless to say, Panama possess myriad natural advantages, such as the absence of extreme summers, the amount of daylight, and its high quality water and soil. These characteristics place Panama as a great setting for the agro export industry. Finally, one key factor that´s worth mentioning regarding the importance of Panamá within Latin America, is the fact that they have an outstanding aerial connectivity, with more than 54 destinations, which regards Panama as the bridge between North America, South America, Europe, and Asia.

Nicaragua, the poorest country of Central America, is another interesting case to study. One might believe because of its lack of infrastructure (mainly due to the 1931 Earthquake which destroyed its capital) there are few opportunities in this market. However, the Nicaraguan workforce, comprised of 3.2 million people, is young and dynamic, as 76 percent of the population is under the age of 39. This, combined with the fact that the minimum wage in Nicaragua is characterized as the most competitive at the regional level, has led Nicaragua to become a go-to setting for the Manufacturing Industry. The hourly rate for this specific activity for example, stands at US$1.12. According to Stratfor, a geopolitical intelligence and advisory firm from the United States, Nicaragua will lead the manufacturing industry in the short term. Considering that Nicaragua has a strategic location and, a pro investment government, a competitive cost structure, and a series of fiscal incentives that have boosted investment in the country, this might not be far from the truth.

## Central America is becoming not only a hub for the light manufacture of products destined for the US market, but an exceptional pool of human talent.

On the other hand, Guatemala, the largest economy in Central America, is strategically located as the gateway to the Central American Common Market, which represents an incredible opportunity to reach millions of potential clients. With a modern infrastructure, port facilities on both the Pacific and Atlantic Oceans, local and international airports, railroad (only for cargo purposes), the most developed cross-country highway network in Central America, and the largest labor force in the region; a recent analysis suggested opportunities in the fields of agribusiness, fishery, forestry, textiles, apparel, tourism, medical research and development; electronic components, software, infrastructure and services.

Costa Rica, who started the development of its economy primarily with agricultural activities; has evolved massively to become an economy of services. Although Costa Rica has experienced substantial growth in terms of domestic product due to the tourism industry, the high educational level of its inhabitants, good bilingual ratio (leading command of English in Latin America according to TOEFL IBT) and suitable policies to attract companies, has appealed to many technology and services companies who take advantage of the world class labor force at a very low price.

The conception of this highly trained generation of professionals has been developing through hundreds of years, starting with the establishment of free and mandatory education since 1870, placing Costa Rica's literacy rate at 96.2 percent, one of the highest in Latin America. In coherence with Costa Rica´s high education standards, the INCAE Business Schools, ranked as the second best business school in Latin America, was founded in 1964, and has served as a pioneer on countless investigations to determine Costa Rica´s best strategies to take advantage of its resources. Probably the most important skill that Costa Ricans possess, and attracts multinational companies to settle in the country is their neutral accent English learning capacity, which is appropriate for North America, Europe and outside markets. Actually, Costa Rica has set the ambitious goal to become a fully bilingual country within the next decade.

With a proven record of 120 years of solid democracy and stable government policies, Costa Rica has already been holding several high profile corporations for a few years. A perfect example is the case of Hewlett Packard Enterprise, the world´s second largest provider of PCs worldwide and one of the top 15 Fortune 500 Companies. HP launched its Costa Rican operations in 2003 with a starting human capital of 123 employees, and is currently the second largest private employer in the country providing services to top clients such as DreamWorks, Credit Suisse, American Airlines, Coors, Unilever, and Meryl Lynch, as well as HP itself. With over $100 million investment, its Costa Rican operation services range from basic call routing to global project management scope functions, which include BPO process, application services in SAP among others, technical support, IT Infrastructure and HP Networking. They are delivered in English, Spanish, Portuguese, French, Italian and German.

Another great case of success is Boston Scientific, a world leader in the development of minimally invasive medical devices used to diagnose and treat conditions in a variety of medical fields. The decision to start operations in Costa Rica in 2003 was a result of a thorough analysis which considered geographic location, cost, political stability, quality, and talent; and it has since increased its workforce from 139 people to over 2.200 employees in two facilities, after a $130 million+ investment.

On top of that, previous and current Central American governments have understood that the road to development must be paved through the attraction of foreign investment. This is why countries like Panama, Costa Rica and Nicaragua have created tax incentives and ambitious public investment plans, directed to an improvement of the overall business atmosphere.

With a total population of 42 million habitants, just 4 million more than the state of California, Central America is becoming not only a hub for the light manufacture of products destined for the US market, but an exceptional pool of human talent. Perhaps Central America´s two main assets are its low labor costs and a great location, sandwiched between the northern and southern hemispheres and also providing the shortest connection between the Atlantic and Pacific Oceans, which has helped it prosper in spite of competition from China. Most investors assume that Central American economies are still based entirely around agro-industrial activities. However, since 2000 when commodities still accounted for more than half of Central American exports, a renovation has taken place, and it is expected that Central America will emerge as an international hub for manufacturing and specialized services. ∇