

# Panamá as a destination for nearshoring

Nearshoring is when a company transfers part of its operations and production to locations in nearby countries but different from where it conducts its main operations to, among other reasons, reduce costs and expenses. In this sense, the regimes of Headquarters of Multinational Companies (SEM) and Multinational Companies for the Provision of Services Related to Manufacturing (EMMA) give Panama an advantage for becoming the destination of choice for this transfer of services and operations.

Panama has become an attractive destination for nearshoring due to its strategic location, favorable commercial environment, and skilled labor. The country is located at the crossroads of North and South America, facilitating access to both regions' main markets. Further, Panama has a stable, dollar-based economy and a business-friendly regulatory environment that encourages foreign investment.

For companies in Asia or Europe with operations in Latin America, outsourcing business processes or services to a nearby country such as Panama offers several benefits, including lower costs, faster response times, and better communication due to its geographical proximity.

Currently, there is no legislation in Panama that specifically regulates nearshoring activity. However, special regimes for establishing and operating headquarters of SEM and EMMA companies, among others, provide several benefits and incentives, including immigration and tax incentives, among others.

For example, the SEM regime allows multinational companies to carry out operations from Panama aimed at offering services to its parent company, subsidiaries, affiliates, or associated companies or to set up its parent company in Panama. The SEM regime encourages multinational companies to establish their administrative functions in Panama to be offered to companies of the same economic group. Among other services contemplated in Law No. 41 of August 24, 2007, these include:

1. The direction and/or administration for operations in a specific or global geographic area of a company of an economic group;
2. The logistics and/or storage of components or parts, required for the manufacture or assembly of manufacturing products;
3. Technical, financial and/or administrative assistance, as well as other support services, excluding activities that require a license issued by the Superintendency of Banks, Superintendency of Capital Markets, the Superintendency of Insurances and Reinsurances, and other regulating authorities;
4. The accounting of the economic group;
5. The elaboration of plans that are part of designs and/or constructions, or part of them, that constitute part of the typical course of business of the parent company or any of its subsidiaries;
6. The electronic processing of any activity;
7. Advice, coordination and monitoring of marketing and advertising guidelines for goods or services produced by the economic group;



8. The support of operations and research and development of products and services of the economic group.

Likewise, the EMMA regime establishes the regulatory framework for those domestic or foreign companies to carry out operations aimed at offering services, from Panama, to its parent company, subsidiaries, affiliates, or companies associated with such entities of the same group of companies, from Panama. The EMMA regime encourages Panama to be chosen as a country for multinational companies to provide manufacturing-related services to companies of the same group. Among other services contemplated in Law No. 159 of August 31, 2020, these include:

1. Services related to the manufacture, assembly, maintenance and repair, conditioning of products, machinery, equipment; Servicios de desarrollo de productos, investigación o innovación de productos o procesos existentes;
2. Services of analysis, laboratories, exams, and others related to the service providing related to manufacture; and
3. Services of logistics, such as storage, deployment, and center distribution of components or parts, required for the service providing related to manufacture.

It is essential to highlight that the provision of services, under both regimes, must always be directed to companies of the same economic group and not to end customers.

Additionally, Panama has a series of geographical areas that provide additional benefits for companies in the areas mentioned above, such as the Colon Free Zone and the Panama Pacific Economic Area, including immigration and tax incentives.