



PARADIGMA CONSULTING

BUSINESS SYNERGIES, BENEFITS, AND OPPORTUNITIES



PARADIGMA CONSULTING
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Business Synergies, Benefits, and Opportunities

Commercial Context

Panama has experienced sustained growth in its Gross Domestic Product (GDP), exceeding 6% annually in recent years, making it one of the most dynamic economies in the region. The country benefits from its strategic geographical location, which allows it to function as a logistics hub, facilitating trade between continents.

Brazil, as the largest economy in South America, presents significant potential to increase its investment and trade in Panama, especially in the manufacturing and logistics sectors.

Advantages of Panama as a Jurisdiction

1. Attractive Legal and Tax System

Panama has a stable and efficient legal framework for foreign investment, based on civil law. The law of corporations allows the formation of companies quickly and at low cost, offering anonymity to shareholders. The country offers a regime of fiscal territoriality; that is, only income generated within its territory is taxed, which attracts many foreign companies.

2. Panama Logistics Offer

Strategic Location

Panama connects to more than 144 shipping routes and 1,700 ports in the world, representing a key route for global trade. The Panama Canal, being one of the busiest canals in the world, allows considerable savings in time and transportation costs.

Transportation Infrastructure

The region has more than 300 km of highways and a modern rail system that connects the Atlantic and Pacific Oceans. In addition, Tocumen International Airport has been ranked as one of the most important in Latin America, operating as a hub for flights to South and North America.

Specialized logistics services

Local and multinational companies provide comprehensive logistics services, including customs, warehousing and multimodal transport.

3. Free Trade Zones and Special Regimes

Free Trade Zones

There are multiple free zones, such as the Colon Free Trade Zone, the largest in the hemisphere and a regional distribution center. Companies operating there can import and export tariff-free.

Panama Pacific Area

Permitted Activities:

- Manufacturing and assembly.
- Storage and distribution of goods.
- Logistics services.
- Information technology services.
- Accommodation and entertainment centers.

Regime and Zone:

- Created in 2009, this free zone is located on the former Howard military base, in the Panama Canal area.
- It is a special regime that allows income tax-free and tariff-free operations for imports of materials for manufacturing and other processes.
- It provides a modern infrastructure and comprehensive services aimed at facilitating the operation of companies from various industries.

Tax and Immigration Incentives:

- Exemption from income taxes, tariffs and other taxes on imports and exports.
- 100% tax exemption for 15 years, renewable.
- Special work permits for foreign employees and their families, facilitating the migration and relocation of qualified personnel.

City of Knowledge

Permitted Activities:

- Education and vocational training.
- Innovation and technological development.
- Consulting and research services.
- Cultural and creative activities.
- Corporate offices and business centers.

Regime and Zone:

- Founded in 1999, the City of Knowledge is a free zone focused on the development of knowledge, research, innovation and culture.

- It is promoted as an ecosystem that connects companies, academic institutions, NGOs and international organizations, emphasizing sustainability and social responsibility.

Tax and Immigration Incentives:

- Tax exemptions in commercial activities and on income.
- Exemption from taxes on imports of goods necessary for the operation.
- Work permits for foreigners and their families, ensuring quick and easy access to residence for qualified personnel who settle in the area.

Colon Free Zone

Permitted Activities:

- Storage and distribution of consumer goods.
- Import and re-export of goods.
- Light manufacturing and product processing.
- Wholesale and retail trade through the sale of products to third countries.

Regime and Zone:

- Established in 1948, it is the largest and oldest free zone in Latin America, located at the entrance to the Panama Canal.
- It allows operations without tariff levies for the import of goods, facilitating international trade.
- The market is based on the movement of goods to and from various parts of the world, with a robust infrastructure that supports effective logistics operations.

Tax and Immigration Incentives:

- Full income tax exemption for businesses operating within the zone.
- Exemption from tariffs throughout the import and export process.
- Possibility of obtaining special licenses to operate, in addition to a special immigration regime that facilitates obtaining work permits for foreigners.

Special Regimes

Free Trade Zones

The regime of Law 32 of 2011 provides significant tax incentives for companies that establish themselves in these zones, eliminates tariffs and VAT on the import of raw materials that will later be exported.

EMMA and SEM Regimen

The EMMA and SEM regimes in Panama are designed to attract and facilitate the operation of multinational companies, offering tax and legal standards that foster



local economic development. Both regimes provide significant benefits in tax and immigration terms, which in turn allows companies to develop their operations with a focus on manufacturing, logistics, and services. By promoting a favorable environment, Panama is positioned as an attractive hub for international investment and business expansion.

EMMA Regime (Law 159 of August 31, 2020),

Types of Modality Under the EMMA Regime:

- This regime focuses on multinational companies that provide manufacturing-related services, and allows:
- Production services: including the assembly and manufacture of products.
- Technical support activities: assistance and support for production processes.
- Logistics services: import, export and distribution management.

Eligibility Requirements:

- Companies that are considered multinationals, with operations and presence in at least one additional country.
- They must demonstrate that their operations contribute to the development of the country, with a focus on added value in manufacturing processes.
- Companies should not be considered tax debtors or have failed to comply with current tax regulations.

Tax Benefits:

- Exemption from income tax during the first 10 years of operation.
- Reduction of the income tax rate to 5% for income generated in Panama.
- Exemption from tariffs on the import of machinery, equipment and materials necessary for the activity.

Immigration and Employment Benefits:

- Simplified processes for obtaining visas and work permits for foreigners who are going to work in the company.
- It allows the relocation of international employees, facilitating the attraction of specialized talent.

Permitted Activities:

- Provision of manufacturing services.
- Provision of technical and commercial support services for manufacturing.
- Research and development related to production processes.

SEM Regime (Law 41 of August 24, 2007)

Types of Modality Under the SEM Regime:



This regime is designed for the headquarters of multinational companies operating in Panama, including:

- Headquarters: companies that serve as a regional administration node.
- Technical support: technological and administrative services for international operations.

Eligibility Requirements:

- Companies that are multinationals with operations in at least one country outside of Panama.
- They must perform administration, coordination, and management activities for global operations.
- They must not have outstanding tax debts or have incurred in tax defaults.

Tax Benefits:

- Exemption from income taxes of up to 10% on income generated in the country, depending on the activity.
- Benefit to be exempt from certain local taxes, such as property tax.
- Exemptions on the import of equipment, supplies and goods necessary for the operation of the headquarters.

Immigration and Employment Benefits:

- Quickly obtaining work permits for foreign employees, making it easier to hire international talent.
- Possibility of obtaining visas for family members of expatriate employees.

Permitted Activities:

- Administrative and control activities for group companies in the region.
- Provision of logistics and support services to commercial operations.
- Research and development of products and services for the regional market.

4. Free Trade Agreements

Treaty Analysis

Panama has free trade agreements (FTAs) with more than 14 countries, including the U.S., Mexico, and several Central American countries. These treaties facilitate the entry of Brazilian products into markets where Panama has preferential access.

Trade Facilitation



For example, the Panama-U.S. FTA allows for the reduction of tariffs and the strengthening of bilateral trade, which could be a great benefit for products manufactured in Brazil.

5. Benefits of the Panamanian Financial System

Investment & Banking

The Panamanian banking system is known for its stability and for offering a wide range of services, including accounts in different currencies and investment products.

Asset Protection

Panama offers legal investment protection mechanisms that allow

6. Panama and its Entry into Mercosur

Economic Implications

Panama has sought to formalize its relationship with Mercosur, a bloc that includes Brazil, Argentina, Paraguay and Uruguay. Integration within Mercosur will facilitate market access for 250 million consumers, as well as various supply chains in South America.

Once Panama becomes a full member of Mercosur, it will benefit from tariff reductions and preferential access to member countries' markets. Additionally, Mercosur will be able to serve as a bridge for Panama to implement agreements with other economic blocs.

7. Synergies with Brazil

Panama's entry into Mercosur can encourage a greater flow of Brazilian investments to Panama, taking advantage of its status as a logistics hub. This will make it easier for Brazilian companies to establish operations in Panama to access not only Panamanian markets, but also other countries in the region without tariff restrictions.

Cooperation in areas such as infrastructure, technology, and renewable energy can also be strengthened as Panama aligns more with Mercosur dynamics, creating opportunities for strategic partnerships between companies from both countries.

8. Business Opportunities

Value-Added Operations:

- **Definition:** Value-added operations involve transforming or improving an existing product to increase its market value. This can include activities such as assembly, packaging, labeling, customization, testing, and repairs.
- **How they work:**

- An exporter sends semi-finished products or components to a country with lower labor costs or tax incentives.
- In that country, value-added operations are carried out to complete or improve the product.
- The final product is re-exported to target markets.
- **Tariff and Operational Savings:**
 - **Tariffs:** By exporting components instead of finished goods, tariffs can be reduced in the final destination country.
 - **Labor Costs:** Performing labor-intensive operations in countries with lower labor costs reduces production costs.
 - **Tax Incentives:** Some countries offer tax incentives for companies that carry out value-added operations in their territory.
 - **Transportation Costs:** In some cases, it may be more economical to transport components than finished products.

Nearshoring:

- **Definition:** Nearshoring involves moving commercial or production operations to a country close to the main market, usually within the same geographic region.
- **How it works:**
 - A company moves part of its operations (manufacturing, services, etc.) to a neighboring country with lower costs or strategic advantages.
 - Geographical proximity facilitates communication, coordination and monitoring of operations.
- **Tariff and Operational Savings:**
 - **Tariffs:** Leverage trade agreements between the country of origin and the nearshoring country to reduce or eliminate tariffs.
 - **Transportation Costs:** Reduce transportation costs and delivery times compared to offshoring to distant countries.
 - **Labor Costs:** Access to lower labor costs in the nearshoring country.
 - **Communication and Coordination:** Facilitate communication and coordination due to geographical and cultural proximity.
 - **Intellectual Property:** Reduce the risks of loss of intellectual property compared to offshoring to countries with less robust legal frameworks.

Final Stage Manufacturing:

- **Definition:** Final Stage manufacturing refers to the final stages of production, which include assembly, testing, packaging, and labeling.
- **How it works:**
 - A company ships components or semi-finished products to a country with lower costs or tax incentives.
 - In that country, the final stages of production are carried out to complete the product.
 - The final product is re-exported to target markets.
- **Tariff and Operational Savings:**
 - **Tariffs:** By performing the final stages of production in a country with favorable trade agreements, tariffs can be reduced or eliminated in the country of final destination.

- **Labor Costs:** Reduce labor costs by performing the final stages of production in countries with lower costs.
- **Tax Incentives:** Take advantage of tax incentives offered by some countries to attract manufacturing operations.
- **Flexibility:** Increase flexibility in production and responsiveness to market demand.
- **Examples of Tariff and Operational Savings:**
 - **Textiles:** A Brazilian company sends fabrics to Panama, where garments are made. The garments are then exported to the United States under the Panama-U.S. TPC, avoiding tariffs.
 - **Electronics:** A Brazilian company ships electronic components to Costa Rica, where electronic products are assembled. The products are then exported to Canada under the Canada-Costa Rica FTA, reducing tariffs.
 - **Automotive:** A Brazilian company ships auto parts to Mexico, where vehicles are assembled. The vehicles are then exported to the United States under the USMCA, taking advantage of the treaty's rules of origin.

Logistics Opportunities:

1. Deconsolidation:

- **Process:**
 - A consolidated container, coming from Brazil, arrives at a port in Panama (Balboa or Colon). This container contains goods from different suppliers or to different destinations.
 - The logistics operator in the Colon Free Zone (CFZ) or in another free zone receives the container and transfers it to its warehouse.
 - The container is opened and the goods are separated according to their final destination.
 - The documents of each individual shipment (invoices, packing lists, etc.) are checked to ensure the correct identification and classification of the goods.
- **Benefit for Brazilian Companies:**
 - It allows Brazilian companies to ship large volumes of goods to a single destination (Panama) and then distribute them to different buyers or markets, reducing transportation costs and simplifying logistics.

2. Re-consolidation:

- **Process:**
 - Goods from different origins (including Brazil) are received in a warehouse in the CFZ or in another free zone.
 - These goods are combined into new containers, optimizing space and reducing transportation costs.
 - Export documents are prepared for the new consolidated shipment, indicating the final destination and details of the goods.
- **Benefit for Brazilian Companies:**

- It allows Brazilian companies to combine their products with those of other suppliers to create larger and more attractive shipments for buyers.
 - Optimize transportation costs by filling full containers and taking advantage of economies of scale.
3. **Storage:**
- **Process:**
 - The goods are stored in secure and controlled warehouses in the CFZ or in other free zones.
 - Storage can be short or long term, depending on the customer's needs.
 - Inventory and tracking of goods is carried out to ensure their availability and control.
 - **Benefit for Brazilian Companies:**
 - It allows Brazilian companies to keep strategic inventory close to their target markets, reducing lead times and improving responsiveness to demand.
4. **Redistribution:**
- **Process:**
 - Goods stored in the CFZ or in other free zones are shipped to their final destinations in Latin America, the Caribbean, the United States, Asia, or other markets.
 - Export documents are prepared and shipments are coordinated with shipping companies and airlines.
 - **Benefit for Brazilian Companies:**
 - It allows Brazilian companies to access markets that would otherwise be difficult to reach directly.
 - Take advantage of Panama's trade agreements with other countries to reduce tariffs and facilitate trade.

Benefit for Brazilian Exporting Companies:

- **Cost Reduction:**
 - By consolidating shipments, Brazilian companies can reduce transportation and handling costs.
 - Tax exemption in free zones reduces operating costs and improves profitability.
- **Market Access:**
 - Panama facilitates access to markets in Latin America, the Caribbean, the United States and Asia, which would otherwise be difficult to reach directly from Brazil.
 - The CFZ and other free zones allow Brazilian companies to test new markets without incurring high upfront costs.
- **Flexibility and Agility:**
 - Brazilian companies can respond quickly to changes in market demand by having strategic inventory close to their customers.
 - Deconsolidation and re-consolidation allow shipments to be tailored to the specific needs of each customer.
- **Competitive Advantages:**

- By reducing costs and improving logistics efficiency, Brazilian companies can offer more competitive prices and improve their position in the global market.
- Panama's logistics infrastructure allows Brazilian companies to offer faster and more reliable delivery times.

Practical example:

A Brazilian textile exporting company sends containers of clothing to the CFZ in Panama. In the CFZ, garments are deconsolidated, labeled with the languages and specifications of different countries, re-consolidated into new shipments, and redistributed to markets in the Caribbean, Central America, and South America. This allows the Brazilian company to access a wide range of markets with a single export operation and with optimized logistics costs.

International Trading through Panama

Establishing a trading operation in Panama offers Brazilian companies a strategic platform to expand their global reach, optimize costs, and mitigate risks associated with international trade.

Specific Benefits for Brazilian Companies:

- **Tax Optimization:**
 - **Tax Exemption:** Companies operating in the CFZ are exempt from Income Tax (ISR) on profits obtained from foreign trade operations. Under the EMMA regime, an ISR exemption can be accessed for the first 5 years, and a reduced rate of 5% after that period.
 - **Exemption from ITBMS:** Transactions involving the purchase and sale of goods in the CFZ are exempt from the Tax on the Transfer of Movable Tangible Property and the Provision of Services (ITBMS).
 - **No Import/Export Taxes:** Goods entering and leaving the CFZ are exempt from import and export taxes.
- **Mitigating Foreign Exchange Risks:**
 - **Dollarization:** The Panamanian economy is dollarized, which eliminates the risk of exchange rate fluctuations between the dollar and the Brazilian real.
 - **Contracts in dollars:** Trading operations can be carried out in dollars, protecting the Brazilian company from the volatility of the real.
- **Logistics Efficiency:**
 - **Strategic Location:** Panama facilitates access to markets in America, Asia and Europe.
 - **Infrastructure:** The Panama Canal, deep-water ports, and international airport offer top-notch logistics infrastructure.
- **Access to Financing:**
 - Panama is an international financial center with a wide range of banks and financial service providers.



- Brazilian companies can access financing for their trading operations through Panamanian banks.
- **Protection of Assets and Liabilities:**
 - **Limited Liability:** Establishing a subsidiary in Panama allows you to limit the liability of the Brazilian parent company.
 - **Tax Planning:** Proper tax planning can help minimize tax liabilities and protect the company's assets.

Sectors with the Greatest Potential:

- **Commodities: Soybeans** , coffee, sugar, iron ore, oil.
- **Industrial Products:** Machinery, equipment, auto parts, chemical products.
- **Consumer Goods:** Processed foods, textiles, footwear, electronics.