

A business component roadmap to Jamaica's logistics- centered economy



Forward

Supply chains are the backbone of international trade and commerce. Their logistics encompasses freight transportation, warehousing, border clearance, payment systems, and increasingly many other functions outsourced by producers and merchants to dedicated service providers. The importance of good logistics performance for economic growth, diversification, and poverty reduction is now firmly established.

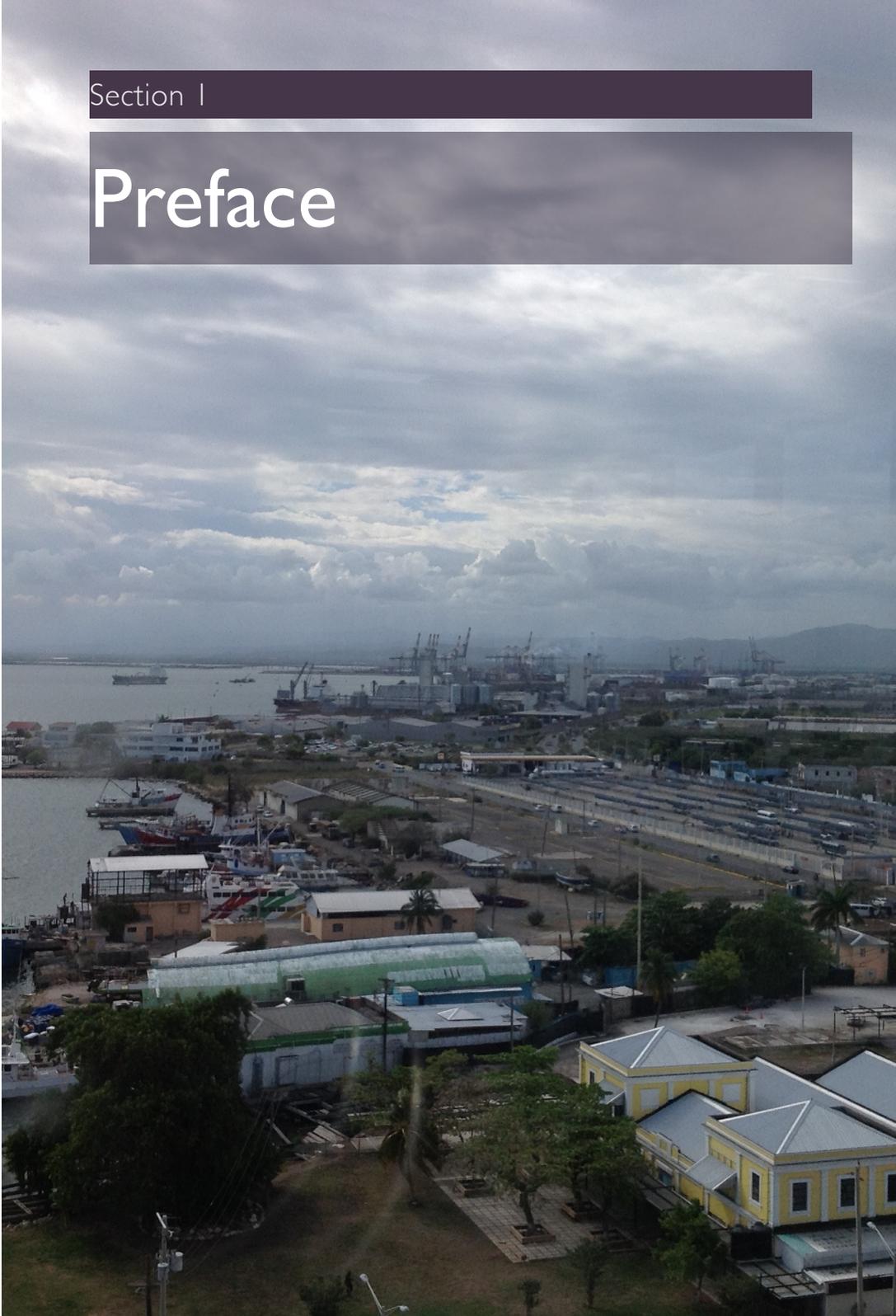
Although logistics is performed mainly by private operators, it has become a public policy concern of national governments and regional and international organizations. Supply chains are a complex sequence of coordinated activities. The performance of the whole depends on such government interventions as infrastructure, logistics services provision, and cross-border trade facilitation.

- Jeffrey D. Lewis, Director, Economic Policy, Debt and Trade Department, The World Bank Group, Connecting to Compete 2014 - Trade Logistics in the Global Economy, The Logistics Performance Index (2014)

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Preface



The ever-changing competitive trading capabilities of countries and indeed firms, means that small countries such as Jamaica, must be aggressive in arriving at their development strategies to benefit from evolutionary as well as revolutionary occurrences due to the competitive dynamics of global investment and trade activities across the world. In adopting a major policy focus centered on integrating local businesses into supply chains that form the backbone of international trade and commerce, the Ministry of Industry, Investment and Commerce recognizes that failure is not an option in the quest to achieve sustained economic growth and improved living standards.

The strategy to position Jamaica as a global logistics hub and the concept of the Global Logistics Hub Initiative (GLHI) within the context of a logistics centered economy features as a key national development strategy and as a bold response to raise Jamaica's global investment profile. Given the framework of Governments' economic programme and the fiscal challenges facing the country, the GOJ has neither the fiscal resources nor the fiscal space to undertake the levels of public investment that would be required to deliver the requisite economic growth and job creation in Jamaica. Jamaica's economic growth strategy therefore relies on establishing the value proposition and creating the environment to sustain private investment inflows.

The country's ability to build and maintain its global competitive advantages -- a country's competitiveness -- is perhaps the single most important hurdle that we have to address to implement a successful economic growth strategy. Essentially, this means that the country must create a dynamic business environment that is

favourable to major global investors (master developers) that act as magnets driving innovative start-ups, expanding enterprises, and lays the foundation for the development of globally competitive firms, including the so-called micro-multinationals.

As such, the principal approach of Government will be to facilitate and unlock domestic and overseas investments from the private sector through combined strategies that seek to revolutionise Jamaica's competitiveness. Such an approach will make Jamaica an ideal location for manufacturing and integrated service industries, such as financial services, professional services, information and communications technology, express delivery and logistics, retail services, and energy and environmental services, tourism and transport services that lie at the heart of the functioning of modern, competitive economies. Companies whose primary interest is serving the 800 million person Americas market, or more specifically supplying those companies serving the Americas market, as opposed to the miniscule Jamaican domestic market, will be incentivised to locate in Jamaica's special economic zones.

The role of information and communications technology is central to this effort, as it will require the integration of networks of communities and systems that are all part of a global value and supply chain. Local based companies will have access to world class information technologies and systems that are essential to cross-border commercial data flows - the real backbone of the digital economy. ICT will become increasingly important to the functioning of many critical systems supporting the Logistics Hub—communications, port community system, single electronic window, ASCYCUDA, energy, transportation, electrical, water, and banking.

The country has already begun to reap the rewards of targeted high-level investment seeking missions to Europe, Kuwait, Dubai, Singapore, China,

USA, Canada, India and Panama during the 2013-2014 fiscal year. Leading global firms have already bid on and/or are implementing some of the planned projects and other private sector projects are in the pipeline. Kingston Wharves Ltd. (KWL) is the first major local investor to roll out its investment plans. As master developer for one component of the Newport West Special Economic Zone, KWL is set to invest more than J\$7 billion over five years, which involves the construction of a 150,000 sq.ft. Total Logistics Facility in Newport West in the first phase of development. Ground breaking for the new facility took place in October 2014 and phase 1 is expected to be completed in 2015. According to KWL the facility is already oversubscribed.

The GOJ is holding ongoing discussions with other prospective investors and influencers around large-scale investments in a range of sectors including energy and paper products industries, as well as in ICT/ Knowledge Services, medical devices, distribution and logistics. To date other master developers originating primarily out of Asia, Europe, North America and the Middle East are venturing into port operations, heavy industry, integrated developments, petroleum products and other light manufacturing special economic zones.

The GLHI is attracting a wide range of value added industries geared for these special economic zones, including third party logistics (3PL) providers, gantry crane assembly, tank cleaning, ship repair and recycling, aircraft MRO, bunkering and consumer product industries. The Ministry of Industry, Investment and Commerce in conjunction with master project developers continue to engage other investors while JAMPRO seeks to attract new players to the table.

The Global Logistics Hub Initiative (GLHI) is a critical element in Jamaica's growth agenda. The broad implications of the GLHI for competitiveness and

growth, however, cannot be fully appreciated without a clear understanding of the essence of the initiative, its scale and scope, and what it seeks to accomplish. The initiative embraces the wider elements supporting our business reform agenda, the quality standards infrastructure, as well as policies aimed at unlocking the growth potential of the Micro, Small and Medium-sized Enterprises (MSME) sector. In this regard, the GLHI is a strategic anchor for the development of a globally competitive platform for economic growth. A high-performance logistics-centred economy means investors can receive business acceleration services from the public and private sector to get their projects moving quickly, quality goods and services can be traded with ease, and a dynamic economy will be created to generate jobs at an accelerated pace.

Initiatives supporting the unlocking of private sector investments are not limited to large local investors and foreign investors. The initiatives are designed to also stimulate business linkages and investments in the Micro, Small and Medium-sized Enterprises sector. Small and medium sized enterprises (SMEs) because of their size, can respond quickly to market dynamics and changing consumer tastes; an admirable quality in a globalized economy where consumers are more aware and informed, whilst seeking more customized goods and services. Failure to capitalize on global market makes it more and more difficult for a growing number of SMEs to survive within our own national borders. Through the process of internationalization, the LHI will integrate SMEs into global value chains as a way for SMEs to grow and, in turn, to grow the economy. The strategy of developing a logistics-centred economy requires that potential “micro-multinationals” are transformed through a sustained programme of capacity-building, and the adoption of globally competitive practices and standards. This means firms becoming ready to enable their integration into global production and supplier networks. The logistics-centred economy is

not simply about large infrastructure projects, but it is also about creating a platform for the efficient flow of business activity.

As a consequence, the Government has implemented a set of policies to remove impediments to business, trade and investment. The initiatives, being coordinated by the National Competitiveness Council (NCC) constitute a business reform agenda that is central to improving the business environment in order to facilitate trade and investment. While the export-led growth targeted by the Logistics Hub Initiative requires critical transportation and industrial infrastructure, i.e. hard infrastructure; it is supported by legislative and administrative regimes, so-called soft infrastructure that can speed up the flow of business transactions in a manner that encourages investors to establish businesses in Jamaica in preference to regional and global competitors.

Our supreme confidence of the likelihood of success in the GLHI is based on the concrete actions of local and global investors, recent trends in global competitiveness indices, and our bilateral and multilateral partners that have made independent assessments and have concluded that that Jamaica’s march towards Logistics Hub status will add value to the global trading system. According to the Global Competitiveness Report 2014-2015, Jamaica advanced eight place to 86 out of 144 countries. This is a continuation of the positive trend from previous reports which reflects the country moving from 107 in 2011, to 97 in 2012 and to 94 in 2013. Jamaica also jumped of 54 places to 70 from the previous position of 124 in 2014 Logistics Performance Index published by the World Bank Group.

Against this background the GOJ continues to attract investments, grants and other forms of technical assistance from our multilateral partners. The GLHI concept is fully endorsed by the multilateral financial institutions that are providing technical assistance along with investment and loan funding

to rehabilitate existing infrastructure and institutions; improve health, education and training facilities; improve goods market and labour market efficiency; develop our financial markets; improve our business sophistication and technological readiness; as we transition from a factor driven economy to one that is efficiency driven and eventually innovation driven, i.e. a logistics centered economy.

Our international development partners, in particular, the World Bank and IDB, have identified specific interventions to be supported over the next four years as part of their respective country partnership strategies. The Board of the World Bank has approved the US\$50M Foundations for Competitiveness and Growth Project which is geared towards supporting large investments and MSMEs, along with supporting improvements to the business environment. According to the World Bank the Foundations for Competitiveness and Growth Project will:

- Improve the business climate and reduce the cost of business transactions through the adoption of new business environment and pro-competition laws, regulations, codes, policies and streamlined administrative procedures;
- Mobilize about US\$ 250 million in private capital to support strategic investment projects, including the Logistics Hub Initiative, which will be key to generate long-term growth; and
- Provide training and access to credit to benefit more than 300 small and medium enterprises.

Competing in the global economy demands that the domestic business environment be significantly improved to operate at global standards. As a country we cannot make any serious headway in achieving growth unless we are able to build the necessary capacity to meet the demands of the

global marketplace. The infrastructure that supports quality standards development and quality assurance also occupies a central place in our drive for competitiveness. The MIIC will continue to engage in public consultations, the latest exercise being the Special Economic Zone Policy Dialogue at the Jamaica Conference Centre on October 6 and 7. The Ministry of Industry, Investment and Commerce in hosting this forum, facilitated a significant gathering of minds, as the Government of Jamaica (GOJ) seeks to build awareness and foster a spirit of inclusion among key organisations about the direction of its logistics hub initiative, in order to influence and boost investor confidence with the imprimatur our multilateral partners.

Business Climate Reforms

The investments in critical logistics and related assets while improving the quality of the international network of maritime and aviation connections to the world, work in tandem with institutional and business climate reforms as well as the development of human resources that will result in greater commercial efficiencies, greater supply chain optimization and lowered costs for a wide range of increasingly sophisticated businesses along the global value chains.

The lack of a conducive business environment was identified very early as a major impediment to attracting foreign direct investment. It was also recognized that the economy wide reforms that were needed would take a protracted time to implement. As an interim measure to address this in the near term, even while more wide spread reforms are implemented, many of the investments will be sited within industrial and commercial zones designated as Special Economic Zones (SEZ) benefitting from the provision of incentives, streamlined business procedures, and custom-built infrastructure. As the country prepares to transition to the SEZ regime a

Free Zone Council was reactivated as a policy and regulatory measure to smooth the transition from free zones to the SEZ regime. Furthermore, the operation of the Council strengthens the business case for investing in SEZ-related ventures in Jamaica and is likely to result in more successful engagement and facilitation of potential investors.

The Council was re-activated to create the intermediate regulatory reinforcement necessary for smooth transition to the SEZ regime, albeit in accordance within the provisions of the Jamaica Free Zones Act. Given the exigencies of time and the need for speedy legislative and regulatory changes to support the new SEZ regime, it is anticipated that the Free Zone Council will not only resume all functions stipulated under the Act but will also provide the regulatory support that is necessary during this transitional period. Hence, in keeping with the Free Zone Act, the Council will implement procedures and guidelines for planning, promotion and regulation of the free zones. In addition, the Council will be expected to implement all transitional strategies that will result in seamless formation and operation of the SEZ Authority. This should include the logistics of housing of all relevant regulatory agencies under one roof with a single electronic window arrangement that will facilitate registration of new enterprises, granting of licences and the issuance of permits and other facilitation measures to enable the acceleration of business processes.

The GOJ is committed to the development of a National Single Electronic Window (STEW) experience to facilitate Jamaican trade. A Single Window is a facility that allows parties involved in trade and transport to submit standardized information and documents at a single entry point to fulfil all import, export, and transit-related regulatory requirements. Major components of a comprehensive single window environment for trade are a Port Community System (PCS), a Customs Management System (CMS) such as ASYCUDA World and a trade facilitation system of the government

entities that regulate trade. Each of these components, implemented using the World Customs Organisation data model, other international standards and best practices for trade will seamlessly integrate into a comprehensive electronic platform for trade facilitation.

The STEW fits within overall government strategy to automate Business to Government (B2G) and Government to Government (G2G) processes and will integrate the Port Community System of the Port Authority of Jamaica, the Jamaica Customs Agency management system, Automated System for Customs Data (ASYCUDA World) as well as the trade facilitation systems of the various governmental authorities involved in trade. STEW also provides the platform for the establishment of a central registry for all the import and export licences granted by government. The benefits of implementing STEW include reducing the contact point from four or five entities to one single entity as well as reducing the number of documents required for submission. This will significantly reduce the time associated with export/import transactions..

The JCA has recently embarked on a modernisation exercise itself which will see the implementation of ASYCUDA World, a Customs Management System developed by UNCTAD which covers foreign trade procedures. This system is one of the most widely used system internationally and handles manifests, customs declarations, accounting procedures, transit and suspense procedures and can pinpoint high risk consignments for inspections. A prototype ASYCUDA World environment has been established and is currently being configured to Jamaican requirements. Importantly, this platform can provide the entry point for Single Window and may also in some instances be a platform for the electronic systems of the trade agencies. The Port Authority of Jamaica (PAJ) is working to establish a Port Community System (PCS) which is an electronic messaging interface that enables intelligent and secure exchange of information between public

and private actors who are part of the port community (terminal operators; maritime/ocean, highway and air transportation operators, freight forwarders, shippers, warehouses, port and airport authorities, customs and inspections agencies). Its principal objective is to serve the interest of the various stakeholders related to port (air, sea and inland) and logistics activities, transportation and international trade. Critically, the STEW will interface the PCS. According to the World Customs Organisation, there are ports in which there is no PCS, but a single point of entry for the presentation of declarations, license licence and permit applications by means of a STEW. Given Jamaica's push to become the fourth regional logistics hub, the PCS will be critical in extending the reach of the STEW for greater efficiency for end to end logistics and supply chain efficiency.

These actions are strengthening Jamaica's allure and appeal as a location where indigenous and transnational corporations can realize their global ambitions..... Jamaica is becoming Hub ready.

Role of MIIC

Notwithstanding the respective role of all government Ministries, departments and agencies (MDAs), for MIIC, its departments and agencies have specific and prescribed roles to enable the wide range of pre-production, production and post-production value chain activities to flourish under the LHI. The MIIC is actively engaged in

- facilitating buyers and/or sellers in the international marketplace,
- industrial cluster development,
- business-supplier linkages programs,
- intellectual property protection,
- business development and incubation services,

- support to innovators,
- establishing SEZs and providing industrial, commercial and office space,
- ensuring compliance to global standards,
- facilitating the introduction of a suite of international financial services,
- business life cycle funding,
- regulating competition and competitiveness issues,
- trade facilitation,
- supporting innovation and creativity, and
- Intellectual property protection.

The government is ensuring that the country's progress in undertaking business environment reforms will guarantee competitive transaction costs, speed and predictability in the new logistics centered economy. Under ideal circumstances, a complex process such as this would be guided by a comprehensive national Master Plan, the completion of which has been delayed due to factors beyond the control of the GOJ. This has denied the GOJ and potential investors of having a detailed road map. Pending the completion of the master plan, the process is guided by the Ministry's business component roadmap to coordinate the implementation process for maximum impact given the mutually reinforcing nature of the various components. The full extent to which the Logistics Hub Initiative contributes to export-led growth and therefore national development, depends on the synergies that are achieved by an integrated approach to the development of the respective components.

- Hon. G. Anthony Hylton, M.P., Minister of Industry, Investment and Commerce.

Chapter I

Introduction



Introduction

Jamaica with its geo-strategic location in between North and South America, as shown in Figure 1 below, is positioning itself as a Global Logistics Hub, the so-called fourth node in global supply chains. This report answers certain fundamental questions related to Jamaica's Logistics Hub Initiative. Questions such as what is the essence of the initiative?

How will the Hub be implemented? What are the timelines? What is the economic value proposition? How is Jamaica positioned relative to other major hubs? What's the difference between a transshipment hub and a logistics hub? What is the role of emerging markets such as China? What type of industries will be attracted to the hub? What strategy will be used to attract the leading global companies in the field of logistics? How will the hub be financed? What are the opportunities for local businesses? Answers to these questions will lead to a better understanding of the transformational potential of the initiative.

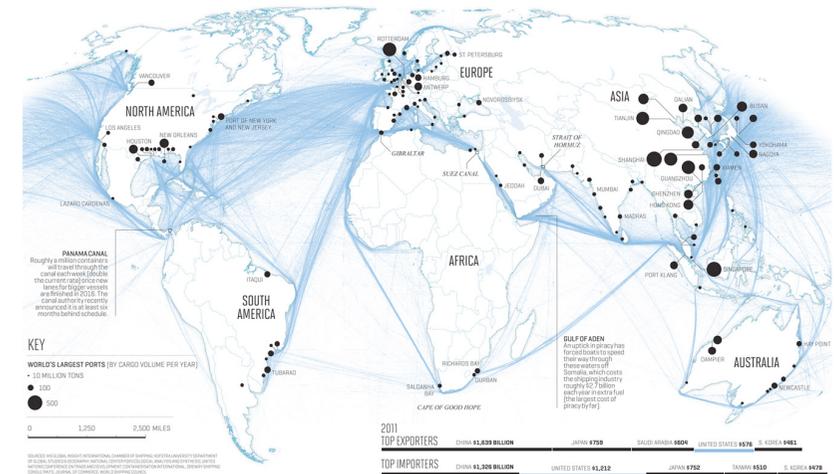


FIGURE 1. Showing Maritime Routes and major ports

Business processes have undergone changes in recent decades brought about by globalization, and in particular, the market for logistics services has followed suit by undergoing many transformations. While logistics services have always existed as a means of getting products from the producer to consumers, the difference today is that the producer and consumers of these products are dispersed across the globe. The continuing evolution of international trade has resulted in noticeable shifts in the major arterial trade corridors.

The continuing evolution of international trade has resulted in noticeable shifts in the major arterial trade corridors. The expansion of the Panama Canal will lead substantial redeployment of maritime traffic. Jamaica sits at doorway of the Panama Canal, and as such at the convergence of global trade corridors with regional trade routes. The Logistics Hub Initiative is attracting a plethora of logistics services, that will allow producers and consumers from different countries to derive considerable benefits from enhanced logistics services. Notwithstanding the benefits to the global trading system, the Logistics Hub Initiative is critical to Jamaica's national interests.

According to UNCTAD, the demand for logistics services is an indicator of the overall state of an economy. Logistics services evolve as an economy grows or declines. In this regard several countries, e.g. Singapore, UAE and the Netherlands, have deliberately made the logistics sector the backbone of their economies and benefited from sustained economic growth. In a similar vein, the Prime Minister of Jamaica declared that the Logistics Hub Initiative is a "central plank in Jamaica's overall growth strategy" during the 2013/14 Budget debate. In keeping with the Vision 2030 National Development Plan, Cabinet decided to use the transformational nature of global logistics services to provide the strategic direction for the new

2013-2016 Medium Term Socio-Economic Framework to transform the Jamaican economy.

Since Jamaica is in a tight fiscal situation, the Logistics Hub Initiative relies on and is proving to be attractive to the same best in class investors that developed the other three major hubs (Singapore, Dubai and Rotterdam). At the date of the 2013/14 budget presentation, potentially US\$ 9 Billion of foreign direct investments (compared to Jamaica's GDP of US\$15 billion), spread over a five year period, had been identified.

However, the deals are not a fait accompli. For example, Jamaica has an expensive and unreliable electricity supply. The country suffers from water shortages despite an abundance of water resources. Jamaica is subject to natural disasters. In addition, it has a challenging business environment and has a relatively low ranking on the World Bank's Logistics Performance Index despite rising 54 places to 70 from the previous position of 124 in 2014. But these challenges also offer opportunities for shrewd investors.

According to UNCTAD, opening up markets to foreign investment and service suppliers is one means of improving access to efficient logistics services and overcoming domestic constraints.

The successful implementation of the logistics hub initiative requires supporting infrastructure, upgraded utilities (water, electricity and telecommunications), social interventions, environmental protection measures, international quality standards and enabling systems, and improved customs facilitation mechanisms, much of which have been identified in the Pre-Feasibility Study on the Logistics Hub.

It is the foreign direct investments investments and their spinoffs that will trigger the transformation of the Jamaican economy.

Benchmarking Analysis

In this section a comparison is made between the offerings of the Jamaica Logistics Hub with similarly described hubs in Panama, Singapore, Dubai and Rotterdam in order to gauge the attractiveness of the Jamaica Logistics Hub over other logistics hub or similar planned developments by competitors.

Whereas the Netherlands, Singapore and Dubai each serve as the principal hub for the European logistics centers, the Asian logistics centers and the Middle East logistics centers respectively of multinational companies (MNCs), Jamaica with its geo-strategic location in between North and South America, is well positioned as the Global Logistics Hub of the Americas, the so-called fourth node in global supply chains. Similar to the other hubs Jamaica must adopt specific policies and initiatives to attract inward investment from crucial industry sectors at a faster rate than key competitors while offering shipping and aviation companies seamless global trade connectivity. and thereby acting as a center of gravity of a web of trade routes connected to hundreds of ports and airports globally.

Table 1

	Holland	Dubai	Singapore	Jamaica	Miami
Air Cargo mt (2010)	1,538,135	2,270,498	1,841,004	15,617	1,835,793
Passengers (2010)	45,211,749	47,180,678	42,038,777	5,010,456	35,698,025
Containers (million)	11.1	11.6	28.4	1.7	0.8
Marine Cargo (million mt)	387	51	472	30	7.4

The table above indicates the league that Jamaica is seeking to enter. Jamaica’s Norman Manley International Airport accounted for 23,332 landings and departures of aircraft in 2010 which is relatively small compared with 376,208 for Miami International Airport.

The Netherlands

Schiphol Airport, Amsterdam alone handles over 1.5 million tons of goods for distribution. Specific premises in the Schiphol area are designated a customs-free Zone. Amsterdam Airport, which is one of Europe’s busiest passenger airports handling close to 50 million passengers. The country is the gateway to a European market of more than 350 million consumers. The Netherlands benefits from excellent accessibility via the sea and air, pipeline, rail and road plus ample hinterland connections and the numerous companies and organizations, active in the port, airport and industrial complex. The Netherlands is the logistics hub for Europe, and is home to the Port of Rotterdam, its main seaport. The Port of Rotterdam is Europe’s largest seaport by volume, handling over 37% of all cargo shipping on the Le Havre – Hamburg coastline, and processing over 442 million tons of cargo in 2012. The port hinterland houses the greatest concentration of logistics and industrial conglomerates in Europe.

Dubai

Free zones in the UAE are home to more than 17,000 companies. By one government report in November 2010, total foreign direct investment is estimated at USD 73 billion in the 36 free zones currently operating in the UAE. These free zones form a vital component of the local economy, and serve as major re-export centers to the Gulf region. Since UAE tariffs are low and not levied against numerous imports, the chief attraction of the free zones is the waiver of the requirement for majority local ownership. In the

free zones, foreigners may own up to 100 percent of the equity in an enterprise. All free zones provide 100 percent import and export tax exemption, 100 percent exemption from commercial levies, 100percent repatriation of capital and profits, multi-year leases, easy access to sea and airports, buildings for lease, energy connections (often at subsidized prices), and assistance in labor recruitment. In addition, the free zone authorities provide significant support services, such as sponsorship, worker housing, dining facilities, recruitment, and security.

By far the largest and most successful of the free zones is the Jebel Ali Free Zone (JAFZA) in Dubai, located 20km south of Dubai city adjacent to the Jebel Ali Port. Over 6000 companies representing 80 countries have set up shop in the JAFZA, including numerous Fortune 500 firms. The JAFZA managing authority authorizes three types of licenses: a general license, a specific license, and a national industrial license. The licenses are valid while a company holds a current lease from the free zone authority and are renewable annually as long as the lease is in force. The special license is issued to companies incorporated, or otherwise legally established, within the free zone or outside the UAE. In such cases, no other license is required, and ownership of the company may be 100 percent foreign. The license is issued for any activity permitted by the free zone authority, including manufacturing. A company with a special license can only operate in the JAFZA or outside the UAE, but business can be undertaken and sales made in the UAE through or to a company holding a valid Dubai Economic Department license. However, a company with a special license can purchase goods or services from within the UAE.

A variety of innovative free zones have been established in Dubai since 2000, most notably the TECOM (Technology, Electronic Commerce and Media) free zone. TECOM houses both Internet City and Media City, two subdivisions which cater, respectively, to the information technology and

media sectors. TECOM offers a high bandwidth and state-of-the-art IT infrastructure. Other Dubai free zones include Dubai Health Care City, specializing in medical products and services, the Mohammed Bin Rashid Technology Park, which aims to promote scientific research and development, and to transfer technology throughout the region, and the Dubai Humanitarian City, which hosts local, regional and international relief aid donors, suppliers and organizations. Internet usage in the free zones is not censored as it is elsewhere in the UAE. The global economic downturn that began in 2008 has reduced the number of foreign companies registered in some of the UAE's free zones. Of the 973 companies registered in the Dubai International Financial Center (DIFC) since it opened in 2004, almost a fifth have dissolved, become inactive or been struck off by the registrar. The DIFC took steps in 2010 to reduce the costs of doing business in the free zone as it has abolished fees in 61 categories and further slashed fees in another 10 segments. During the first half of 2011, occupancy rates at the DIFC reached their highest levels since the 2008 debt crisis as the Dubai economy improved and a wave of capital arrived, redirected from other Arab countries experiencing political unrest. By most media accounts, the growth at the DIFC reached a plateau in late 2011 as European banks focused their attention on the Eurozone debt crisis.

Dubai's Jebel Ali Port, located within Jebel Ali Free Zone, is the Middle East regional hub for container, bulk and other types of cargo. In 2012 Dubai International handled a record 57.7 million in passenger traffic, a 13.2% increase over 2011. This made it the 10th busiest airport in the world by passenger traffic. It is also the 3rd busiest airport in the world by international passenger traffic in 2012, surpassing Hong Kong International Airport in the global rankings. In addition to being an important passenger traffic hub, the airport was the 6th busiest cargo airport in world, handling 2.27 million tonnes of cargo in 2012. Dubai International is an important contributor to the Dubai economy, employing approximately 58,000 people,

and indirectly supporting over 250,000 jobs in Dubai and contributing over US\$22 billion to GDP, which represents around 19% of total employment in Dubai, and 28% of Dubai's GDP. It is predicted that by 2020 the economic contribution of Dubai's aviation sector will rise to 32% of Dubai's GDP and support over 373,000 jobs.

Singapore

Foreign investments, combined with investments through government-linked corporations (GLCs), underpin Singapore's open, heavily trade-dependent economy. With the exception of restrictions in the financial services, professional services, and media sectors, Singapore maintains a predominantly open investment regime. The World Bank's "Doing Business 2012" report ranked Singapore as the easiest country in which to do business. "The Global Competitiveness Report 2012-2013" by the World Economic Forum ranked Singapore as the second-most competitive economy globally.

The Government of Singapore (GOS) is strongly committed to maintaining a free market but also takes a leadership role in planning Singapore's economic development. The government actively uses the public sector as both an investor and catalyst for development. As of November 2012, the top six Singapore-listed GLCs accounted for about 17 percent of total capitalization of the Singapore Exchange (SGX).

Singapore's aggressive pursuit of foreign investment as another pillar of its overall economic strategy has enabled the country to evolve into a base for multinational corporations (MNCs). The Economic Development Board (EDB), Singapore's investment promotion agency, focuses on securing major investments in high value-added manufacturing and service activities as part of a strategy to replace labor-intensive, low value-added activities

that have migrated offshore. As part of the government's strategy to develop Singapore into a premier financial center, GOS offers tax incentives for financial institutions looking to set up operations. Further information, details and guidelines are available at <http://www.mas.gov.sg/Singapore-Financial-Centre/Value-Propositions/Setting-Up.aspx>.

Singapore's strategic location in the heart of Southeast Asia and at the nexus of major shipping lanes has made it the number one ranked logistics hub and conduit for world trade. Singapore is a prime location for major third party logistics firms, with 20 of the top 25 global logistics players conducting operations within its borders. Most of them, like DHL, Kuehne & Nagel, Sankyu, Schenker, Toll, UPS and Yusen Logistics, have set up regional or global headquarter functions in Singapore. Singapore is also a base for leading companies in the aerospace, biomedical, petrochemical and electronic industries. Singapore's Changi Airport is one of Asia's largest cargo airports and is served by over 6,500 weekly flights connecting to 240 cities in 60 countries, handling close to 2 million tonnes of cargo. The country also boasts the world's busiest transshipment hub, handling about one-seventh of the world's container transshipment throughput or 31.26 million TEUs of containers in 2012. Singapore is connected by 200 shipping lines to 600 ports in 123 countries, with daily sailings to every major port of call in the world. It is also proximate to the world's major markets, being situated within a seven-hour flight radius to half of the world's population in Asia Pacific.

All these hubs represent pillars in the global supply chain. In a similar fashion, the vision is for Jamaica to become the fourth pillar in the global supply chain fulfilling a role as the principal hub for the Latin American and Caribbean region. This will require a tremendous amount of effort. However, Jamaica's comparative advantage over regional competitors stems from the synergy between its ports that facilitate relatively low cost maritime

services, its special economic zones acting as intermediate logistics and distribution/ sorting centers and its airports offering speedy delivery, all working in unison as part of a sea-air logistics strategy.

Jamaica potential as the global logistics hub for the Americas is bolstered by its location astride the main East-West shipping lanes between the Far East, Europe, and between the Americas with direct connections to all regional ports via a well developed container transshipment port. Jamaica is also at the intersection of several air routes to the Americas, Europe, and the Caribbean. Having a prime location is not sufficient for achieving our ambitions hence the actions outlined in this roadmap. Jamaica is currently a minnow compared to the other three hubs and Miami, and Panama. Miami is the largest US air transport gateway to Latin America and the Caribbean, which deals with over 70% of US airfreight shipments. Miami serves as the airfreight hub for perishable products, hi-tech commodities, telecommunications equipment, textiles, pharmaceuticals and industrial machinery. Panama is currently operators of one of the largest free zones on the planet and predominantly handles consumer goods, automobile parts and petroleum products. Jamaica hopes to emulate Miami and Panama in this regard but must adopt a multi-pronged approach considering the considerable head start those locations possess. Jamaica and Panama's operations are complementary to each other and in that regard there is planned cooperation with the Government of Panama regarding the development of the logistics sector in Jamaica, potentially through a Joint Cooperation arrangement.

The Logistics Hub Initiative

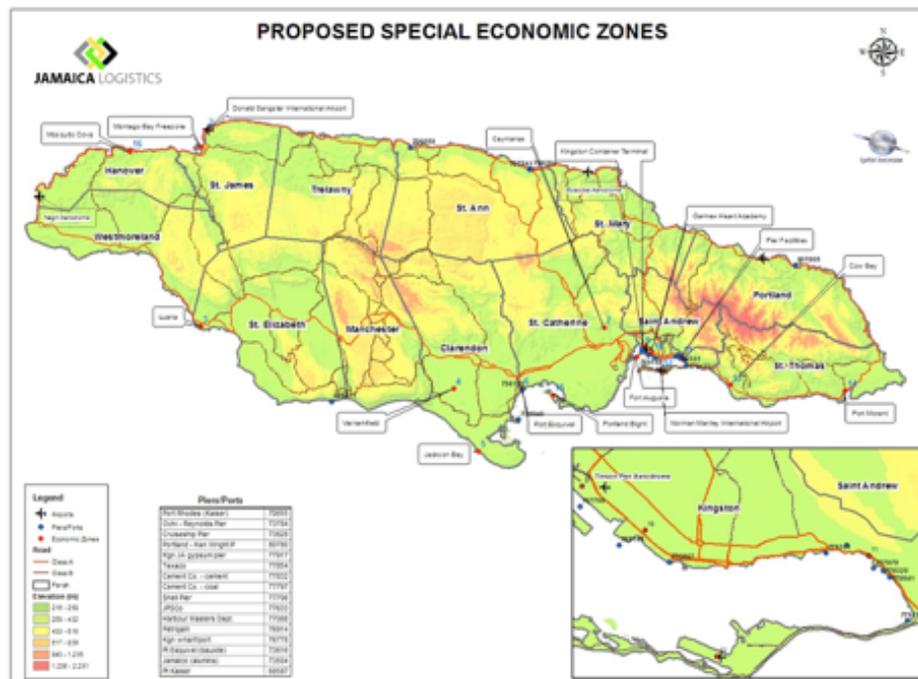
The Logistics Hub Initiative

The logistics of supply chains is an integral function for every business organization. Most firms need logistics services, which they can either produce in-house or outsource to so-called third party logistics providers (3PL). Third party logistics providers assume responsibility for the entire transport chain and offer efficient and complete logistics services, involving the use of information and communications technology (ICT) and multimodal transport operations.

The ultimate vision of Jamaica's logistics hub initiative is to serve as a platform to the Americas for some of the largest global businesses working with their MSMEs suppliers and global 3PLs in industrial clusters. The Logistics Hub Initiative seeks to attract top class multinational firms that are outsourcing parts of their international production processes that form part of global value chains.

Provided that the appropriate business environment exists in Jamaica, tapping into the ongoing fragmentation of global supply chains will lead to the clustering of major manufacturing and distribution companies and service providers involved in the processing of raw materials and intermediate goods (parts and components) as well as facilitate third party Logistics companies. The industrial clusters will operate from special economic zones, industrial parks, logistics parks, and technology parks and other industrial infrastructure spread across the country (see Figure 2). The goods produced will be transported by world's leading airlines and shipping lines, operating from world class

transportation infrastructure, namely, ports and airports thereby allowing sea-sea, sea-air and air-air connectivity to global markets.



The GOJ has singled out from the multitude of projects, several strategic and premier investments, including:

- The Caymanas EZ and other special economic zones as the epicenter of economic activities;
- Expanded and improved port and logistics facilities within the Port of Kingston, Port Esquivel and other areas to support maritime requirements of the SEZs;
- Drydock facilities in the port of Kingston and other areas to provide ship repair and ancillary maritime services;

- Commodity port facilities e.g. Cow Bay and other areas to exploit opportunities in the liquid and dry bulk sectors that account for over 80% of world trade;
- Expansion of existing airports with upgraded airfreight capabilities to support the SEZs;
- A new airport serving as a regional passenger and logistics hub also providing maintenance, repair and overhaul (MRO) and ancillary aviation services;
- A new transshipment port inclusive of an industrial and commercial economic zone in the Old Harbour Bay area;
- A Port Community System as part of a single trade electronic window and enhanced ICT backbone;
- New energy generating capacity to provide competitively priced energy.

The Logistics Hub Initiative will generate other investment opportunities in areas such as:

- Water supply
- Waste water treatment
- Electricity generation
- Road and rail infrastructure
- Ports and airports
- Telecommunications
- Housing development
- Commercial real estate development

- Special Economic Zones development
- Manufacturing
- Assembly
- Distribution
- Third party logistics
- Technical services
- Professional services
- Other support services

The investment opportunities must be structured and packaged to make it attractive to both global and local capital markets, institutional and high net worth individuals thereby facilitating participation of top class investors and the wider public.

A coherent strategy to attract transnational corporations, designed with support from our bilateral and multilateral partners, will be implemented to spur the logistics hub. Appropriate government interventions will be required to overcome business impeding bureaucracy and to provide a platform that will enable the private sector to mobilize the intellectual, creative, financial and physical resources to power the growth process.

The Logistics Hub Initiative (LHI) is multifaceted. The first approach of the GLHI involves securing several billion dollars of private investment in logistics infrastructure and the upgrading of urban support areas, hence the importance of master developers. ICT are key drivers of e-commerce, innovation and value in the digitally networked global economy. Information technologies and systems are therefore central features of the GLHI since cross-border commercial data flows represent the backbone of the digital

economy and will become increasingly important to the functioning of many critical systems supporting the Logistics Hub—communications, port community system, single electronic window, ASYCUDA, energy, transportation, electrical, water, and e-commerce.

The Government of Jamaica considers state of readiness of the major telecom providers an important badge of confidence in the Logistics Hub. LIME is investing J\$8.7 billion to deploy a cutting-edge 4G mobile network in anticipation of the intense commercial demand a hub will pose. Similarly, Digicel Business, in addition to having the region's only Tier III certified Data Centre and a comprehensive product portfolio, has already begun the roll out a sophisticated underground fibre network, a critical component in providing additional redundancy to meet the connectivity needs of Jamaica's logistics hub. Over the past year they have invested J\$6.0 billion in Jamaica's 4G network and even greater investment is expected this year. Columbus Communications, operators of Flow and Columbus Business Solutions, has the most advanced terrestrial and subsea fiber optic network in the Caribbean. Through its parent Company, Columbus International Inc. and a recent joint venture Agreement Columbus has widened its footprint from 27 countries to 42 countries across the Caribbean and Latin America. The digital connectivity that Columbus provides, complements Jamaica's ideal geographical position.

Secondly, the GOJ is establishing a customized Special Economic Zone (SEZ) regime to attract large Globally Integrated Enterprises to benefit from Jamaica's more competitive near shore position in the global value chains. The GOJ is also developing an International Financial Services Center to complement the GLHI and will also act as an economic driver for the redevelopment of downtown Kingston and other urban areas. The GLHI induces growth by encouraging the emersion in export value chains generated primarily by Globally Integrated Enterprises. The larger firms will

anchor industry specific clusters knitted together by backward and forward linkages with small and medium sized firms, inside and outside SEZs, that have been adequately primed and positioned for the global environment with a wide range of business development support services.

And thirdly, implementing logistics centered economic policies and structural reforms that enhance the competitiveness of the economy and enable Jamaica to progress beyond being a pure transshipment point to adding substantial value domestically to goods moving through the hub and services provided in competitive economic clusters. This includes wide scale reforms emanating from the modernisation of government institutions, the quality standards infrastructure and specific reforms such as converting customs to executive agency status, implementing a single electronic trade window. These reforms include instituting a new super form that streamlines company formation, the SIPP Act and the Collateral registry, the Insolvency Bill along with several related pieces of legislation that will be the foundation of the International Financial Services Centre. The achievement of a Logistics centred economy will require a united national effort. Recent pronouncements by the Opposition and some members of the Private Sector indicate that the country is nearing consensus that Jamaica's geo-strategic location – at the centre of East-West, North-South sea and air corridors in the Americas – makes it ideally positioned to be a Logistics Hub, the fourth node in the global supply chains; emulating giants amongst their peers such as Singapore, Dubai and Rotterdam.

Industries that will be located in the logistics hub include petrochemical, food processing, biomedical, pharmaceutical, electronic, shipping, aviation, chemical, automotive etc. These industries will be horizontally and vertically integrated into the Jamaican economy.

Business that will be attracted include:

- Manufacturers
- Distributors, wholesalers, retailers
- Shipping lines
- Air cargo companies
- Third and fourth party logistics providers
- Logistics support services
- Ancillary services

The services provided by logistics companies include: management of customs procedures, setting up of assembly and manufacturing plants; consolidation; warehousing; information logistics services; and transportation with a selection of carriers and negotiation

of tariffs. Some value-added services include management of warranty support programs, return and repair as well as global logistics services.

The Logistics Hub will nurture a universe of commercial, technical and industrial services needed by the various stakeholders:

- Maintenance, repair, and overhaul of aircraft;
- Ship repair and dry docking
- Value-added service providers (e.g., labeling, packing and assembly)
- Traders, accountant, lawyers, bankers
- Technical, legal, financial
- Real estate developers

- Training

An economy driven by logistics services requires a disciplined, dedicated and coordinated approach to the administration of the complex activities. Under ideal circumstances, a complex process such as this would be guided by a comprehensive national Master Plan, the completion of which has been delayed due to factors beyond the control of the GOJ. This has denied the GOJ and potential investors of having a detailed road map. Pending the completion of the master plan, the process is guided by a business component roadmap to coordinate the implementation process for maximum impact given the mutually reinforcing nature of the various components. The full extent to which the Logistics Hub Initiative contributes to export-led growth and therefore national development, depends on the synergies that are achieved by an integrated approach to the development of the respective components. Jamaica has an idyllic natural environment and the GOJ recognizes that sustainable development involves balancing economic, social and environmental safeguards necessary for the country's future development as articulated in Vision 2030. Therefore, the GOJ is committed to these objectives in the implementation of Logistics Hub Initiative.

Scope



The Logistic Hub Task Force is responsible for the general oversight of the GLHI to ensure cohesion and alignment of the various components and act as an interface between other MDAs. The Task Force in addition to overseeing the development of the hard and soft infrastructure needed for the logistics hub, is also tasked with the identification of the industries to be targeted and ensuring the provision of the supporting infrastructure related to Hub. The challenge in coordinating such complex activities demands detailed Master Planning. This is heightened by the fact that the components of the Hub are each at different stages of the development process with new projects being proposed.

The Road map provides further contextual information with respect to the following:

- Master planning process
- The economic value proposition of the industry sectors and supporting infrastructure (specifically as it relates to the various components and their role in the wider initiative)
- Legislative and international trade policy and institutional framework required for the development and sustainability of the Hub
- The integration of the industries in the logistics hub in the global trading system

The scope of the GLHI includes the institutional arrangement employed to support the development of the MSME sector, the business climate reforms especially SEZs, and the supporting role of various Ministries, departments and agencies needed to achieve growth objectives of the GLHI.

Economic Value Proposition



Economic value proposition

Modern manufacturing requires a complex global network of assembly and production sites, shipping parts from one location to the other and sometimes back to its origin after processing or assembling the product. Companies operating on a global scale use complex assembly concepts with complicated logistic management systems, to perfect the supply chain and steadily decreasing handling time.

Globally trading businesses and 3PLs are driven by the need to minimize total transportation cost by optimizing the cost efficiencies of sea freight with that of the quicker but expensive air freight. Sea-air integration offers a means of reducing prices to customers compared to fast but costly air only movements while providing a quicker service compared to sea only movements. Jamaica's logistics hub enhances synergies of sea-air connectivity and provides opportunities for value added industries.

The Jamaican strategy is based on a logistics-centric model similar to Dubai and Singapore and relies on value added logistics services using sea-sea, sea-air and air-air connectivity for its success. Logistics service providers offer quick order turnaround taking advantage of near shore regional distribution nodes. The logistics clusters will generate substantial cargo flows of raw materials, intermediate and finished goods and utilize supporting multimodal infrastructure.

Improved transport and logistics services can initiate a virtuous cycle, leading to increased trade, which in turn encourages investment in better transport and other logistics services.

Jamaica's logistics hub will expand the local cargo base with more industries, shippers and 3PLs operating from inland SEZs. The prospect of expansive special economic zones will make Jamaica's ports more attractive and has triggered port and airport capacity enhancements. Expansion of Jamaican airports into air cargo hubs have economic impacts on the seaports as well.

Businesses in Jamaica will **utilize global trade corridors**, to and from production houses in the Asia/Pacific and other regions, to provide **near shore access** a 800 million market in the Americas; a market that is growing in affluence. Jamaica's Logistics Hub would exploit opportunities arising from the flow of materials needed for the growing economies of Latin America and the Caribbean. According to World Bank report entitled "Economic Mobility and the Rise of the Latin American Middle Class," released in November 2012, Latin America and the Caribbean registered a 50 percent jump in the number of people joining the middle class during the last decade, which was called by economists an historic achievement for a region long driven by wealth inequality. The report found that the middle class in the region grew to an estimated 152 million in 2009, compared to 103 million in 2003, an increase of 50 percent. Additionally, South America's largest economy and a member of BRICS, Brazil is undergoing a concentrated phase of modernization and economic development. This also creates opportunities for the Logistics Hub.

The provision of a Skilled workforce, suppliers plus potential time and costs savings in the delivery of merchandise provide the basis for the economic value proposition. A critical component is provision of a world class work force, imported or indigenous, that can fill the jobs related to the many economic activities that take place in the logistics-dominant environment. Education and training as well as infrastructure and social

development and enabling legislation are some of the first-order activities for the Government to undertake in setting the stage for a Logistics Junction. Steps will be implemented to ensure Jamaican students, workers and entrepreneurs will be able to take full advantage of the upcoming opportunities.

Programs to support entrepreneurship and skills development include the roll-out of logistics and entrepreneurship training across the country by the Ministry of Education, HEART, UWI, UTECH, UCC, NCU and other institutions. The HEART/NTA and JBDC will be leading entrepreneurship training and has developed entrepreneurship training modules that are currently being taught by the respective institutions. This is in keeping with the strategies for creating a culture of entrepreneurship as outlined in the GOJ's MSME and Entrepreneurship Policy. As such, HEART is preparing a proposal for the full roll-out of entrepreneurship training, throughout all its programmes, which means every HEART Trust trainee will be exposed to entrepreneurship skills development training. The institution is also looking at developing a curriculum for an introductory course for schools run by the Ministry of Education. It plans to offer training to Teachers' Colleges, Universities etc., as well as employees within the private sector and public sector and will help to educate employers about the value of entrepreneurship, in an effort to encourage them to increase engagement with staff in a manner that will help boost the level of productivity within organizations as well as prepare existing employees to branch off in their own businesses.

HEART and JBDC will be partnering with the MIIC in developing and rolling out this training initiative and getting buy-in from all key stakeholder organizations that also provide training, incubation, apprenticeship, internships and mentoring; knowledge transfer.

Transshipment vs. Logistics



Transshipment vs. Logistics

Ocean Shipping Consultants (OSC) provided an independent market study entitled “The impact of the widening of the Panama Canal - A Market Analysis” (2013), which outlined Jamaica's potential for containerized cargo. The OSC study argued that the larger vessels using the Panama Canal in 2015 will be a major influence on global trade flows. Other influences stem from the increasing exchange of goods and services, the progress achieved in ICT, as well as the realization by a number of firms that they stand to gain from focusing on their core business activities and outsourcing the logistical process to other specialized firms. According to OSC, Kingston Container Terminal (KCT) is one of the region’s principal transshipment centers and is well placed to exploit the increased cargo flows.

However, Kingston Container Terminal is not the only contender and its reliance on transshipment business, provides limited spinoffs into the wider economy, and makes KCT a natural target for its competitors. From the shipping lines perspective, other competing ports in the region could be more attractive since they offer a solid base of locally generated cargo. The logistics related activities spawned by the Logistics Hub Initiative in Jamaica’s hinterlands will facilitate additional maritime cargo not only for containerized carriers, but also for dry bulk carriers and liquid bulk tankers. However, the integration of enhanced logistics operations involves more than maritime cargo; it also involves airfreight.

It could be argued that development of the air sector is indispensable and a higher priority for logistics hubs than its

maritime counterpart. According to Boeing World Air Cargo Forecast, even though surface transport (maritime, road and rail) accounts for the majority of the world's freight traffic, air cargo remains indispensable for industries that transport perishables, such as seafood or flowers; high-value, low-weight goods, such as electronics or pharmaceuticals; and time-critical goods such as just-in-time inventory items. Lately, with rising fuel prices, shippers have settled for slower modes of transport. But the speed advantage of air cargo ensures air freight's role in the global economy. Increasing international trade and the implementation of new logistical models, such as the airline hub concepts has allowed the global air cargo industry to function as an engine of economic development for many nations and is a business sector showing astonishing growth rates.

According to Boeing, many companies using the so-called “total distribution transportation cost” concept have found that air carriage costs are more competitive compared to surface transport. The considerations under the total distribution transport cost concept are not limited solely to the costs of shipment, but also includes other factors that can cause time delays or monetary burdens, such as:

- Crating/packaging costs and time
- Insurance costs
- Warehousing costs
- Administration costs
- Interest costs

Packaging and insurance costs are considerably lower for air cargo than for other modes of transport, because the goods are less likely to be stolen or to deteriorate during the shipment process. Also, warehousing,

administration and interest costs can be saved through the implementation of a just-in-time delivery concept, whereas other modes of transport often require investment tied down in stock and storage facilities.

The implementation of more complex supply chains and globally sourced manufacturing inputs as well as the aforementioned total cost concept are part of the reason why air cargo is steadily gaining popularity.

Whereas in 1973, the Asian and Pacific region airlines carried only 14% of the world's scheduled traffic, this number rose to over 30% in 1999 and is steadily growing. The main reason for this tendency is the fact that many of the manufactured exports of this region are high value goods well suited for air carriage, in particular IT and electronic goods.

Boeing reports that during the same time span, the share of North American and European air cargo airlines has been decreasing, while however remaining the two strongest regions apart from Asia/Pacific.

According to Boeing, China and India will continue to be the powerhouses of the Asia/ Pacific region, while domestic China freight remains the by far strongest market segment.

The vibrant economies in the Asia Pacific region continue to lead the world economic recovery. Intrinsic strength, progressive trade agreements among the region's countries, and recovering global demand helped most economies in the region maintain growth through the downturn. China and India will lead the region's economic growth with 4.6 percent growth per year for the next 20 years, significantly outpacing the world's average growth rate. The region's share of world GDP will expand from 28 percent today to 36 percent by 2031. Air cargo plays a critical role in Asian economies, transporting goods over difficult terrain and vast stretches of ocean. Some of the world's largest and most efficient cargo operators are

located in Asia. Air cargo will grow 5.9 percent per year during the next 20 years. Carriers within the region are expected to take 330 new freighters, with an additional 450 conversions.



Institutional arrangements

Institutional Arrangements

The move from the current economic state of affairs to the desired or planned state of affairs will involve a period of transition through various industrial models. Providing a centralized policy framework along with building the key institutions for buttressing the logistics hub is critical. In the case of Singapore, where logistics is the backbone of the economy, the Singapore's Ministry of Trade and Industry leads the process of industrialization of that country. Similarly, the MIIC plays a pivotal role in the government's growth agenda along with other Ministries, departments and agencies.

The scale of the logistics hub initiative requires visionary leadership, industry targeting, careful planning, professional implementation and effective promotion. The organizational structure will have to reflect the policy direction of the government, suitably qualified persons along with a program for capacity development, and the necessary supporting IT platform. The massive special economic zones being established will require unique administrative arrangements. Industries have to be analyzed, assessed for suitability in Jamaica's unique circumstances, their competitive position, availability of resources needed by those industries, and a strategy developed for attracting investment.

In this regard, the Ministry of Industry, Investment and Commerce was restructured to effectively steer the implementation of the logistics hub.

The Logistics Hub Initiative involves existing facilities as well as several new developments. The financing of these projects will

depend, to a greater or lesser extent, on the private sector or overseas funding agencies utilizing in certain cases government land and/or other assets. Undoubtedly in the months ahead there will be major investment projects, whether government or private sector initiated. Clearly such large projects, whether in the public or private sector, would be developed under the guiding umbrella of the appropriate line ministry. However, any such project will place demands on utilities, infrastructure, national security, customs, the environment etc. Development will involve more than one ministry or government agency. The establishment of an appropriate coordinating structure for growing Jamaica's logistics infrastructure ensures efficient organization and streamlined decision making utilizing the principle of "joined up governance" that is critical to the successful implementation of the logistics hub.

As practiced in other logistics hubs, it is recommended that a special purpose logistics authority be eventually created which would be charged with essential coordination and cross ministry/ agency cooperation and overseeing implementation in the long term.

This authority would be similar to Netherlands Foreign Investment Agency and Holland International Distribution Council, Singapore Economic Development Board or Trade Development Board or the Chinese Taipei's Coordination and Service Center. The Drewry market and feasibility study prepared for the Port Authority "suggested the formation of an International Business Zone Development Body (IBZDB) by the Port Authority with strategic and planning control.

In September 2012, the GOJ adopted an integral policy for the development of the logistics hub by creating the Logistics Hub Task Force. Cabinet approved the establishment of a task force known as the Global Logistics Task Force to guide the development of the necessary policy and

implementation framework for the logistics hub. Additionally, the Task Force was charged with the general oversight to ensure cohesion and alignment of the various project components of the logistics hub and act as an interface between other MDAs. In addition to MIIC, the Task Force is comprised of the following membership:

- Airports Authority of Jamaica
- Jamaica Civil Aviation Authority
- Port Authority of Jamaica
- Factories Corporation of Jamaica
- Jamaica Promotions Corporation
- Urban Development Corporation
- Maritime Authority of Jamaica
- Development Bank of Jamaica
- Ministry of Transport, Works and Housing
- Ministry of Foreign Affairs and Foreign trade

The Secretariat of the Task Force is housed at the Ministry of Industry, Investment and Commerce. The work of the Task Force has been divided into the following Working Groups:

1. [Master Plan](#) – responsible for developing the master plan, industry analysis, GIS systems and the strategic and program management that will integrate the individual projects to guide investors and other stakeholders. This working group guides the "Transformational Office" that will manage the change process.

2. **Legislative** – responsible for modifications to the regulatory environment. The Legislative Working Group is working on the strategy to streamline/fast track the process to review, reform, repeal, pass and effectively implement legislation impacting the logistics hub; namely but not exclusively, maritime & aviation matters; in the areas of improving the business environment; customs & trade facilitation; e-commerce and land use development.

The strategy involves the following:

- Review of the laws of Jamaica that impact the logistics hub
- Engaging other ministries to align legislative priorities to facilitate the logistics hub
- Creating a database of existing legislation that impact the logistics hub
- Identifying relevant legislation forming the best practices from Singapore (with its common law tradition), Dubai; Rotterdam; and Panama
- Creating a drafting matrix using the above database which will improve efficiency in drafting
- Contracting draft persons to assist the Chief Parliamentary Council with drafting and coordinated out of MIIC
- The use of Omnibus legislation for speed of implementation
- implementing trade agreements or treaties such as the Rotterdam Rules (the United Nations Convention on Contracts for the International Carriage of Goods Wholly or Partly by Sea) that are multifaceted and would see a wholesale modernization of the legal framework for the international carriage of goods by sea.

3. **International Policy** – responsible for coordinating changes in Jamaica’s foreign policy and trade facilitation mechanisms to support the hub, especially foreign trade policy and rules of origin. Activities include fine

tuning the strategy for expanded trade engagement to ensure that the necessary international and bilateral trade and investment framework is in place to support the GLHI (see page 63).

4. **Business Environment** – responsible for improvements to criteria that influence doing business and logistics performance, in particular, Customs facilitation. The NCC assumes this role.

5. **PR & Marketing** – coordinating all aspects of the PR and marketing of the hub. This includes local PR, public education campaigns and marketing and well as international promotional activities.

6. **Education and Training** – coordinate the skills development of human capital

7. **Ports and Airports** – aligning development programs of the ports and airports with the special economic zones. Responsible for developing national air freight strategy and internal logistics alongside the maritime developments.

8. **SEZ/ Urban Areas** – Charged with identifying potential locations for SEZs and working on a new SEZ regime to replace Free Zone regime, administrative arrangements to support these zones and relevant urban infrastructure. Making provision for MSMEs with the SEZs.

9. **MSME Development** – Ensuring MSMEs are developed in tandem with large scale businesses and multinational corporations under the Industrial Cluster Development Program. This includes business linkages, technology transfer, access to financing, technical assistance and business support services.

10. **ICT** - responsible for implementation of digital and e-commerce platforms as outlined in eGov. in addition to leading in the application of the

Single Electronic Trade Window, and the Internet Exchange Point (IXP). The government envisions ICT as managing, controlling and delivering more efficient government services. The recently installed IXP will be used to direct internet traffic within and outside Jamaica by the respective internet service providers (LIME, Digicel and FLOW).

11. [Investments and PPPs](#) - creating the investment framework and support mechanisms for private sector involvement. This includes mechanisms for engaging large scale investors, Sovereign Wealth Funds and creating Infrastructure Development Funds.

This framework is supported by MDAs, external consultants and will facilitate the requisite laws and plans, programs and policies to upgrade the nation's ports/ airports and industrial infrastructure to world class standards.

However, this structure will be further enhanced by specialized inputs to capture, for example, independent private sector projects and logistics specific initiatives that are market driven (see Business component map on following page).

	ADMINISTRATION		NEW BUSINESS DEVELOPMENT		BUSINESS ENVIRONMENT			FINANCE		
DIRECTING	MIIC	TASK FORCE		GLOBAL LOGISTICS HUB INITIATIVE				Ministry of Finance	WORLD BANK US\$50 M	
	Minister	Secretariat		JAMPRO, FCJ, JBDC, BSJ, JIPO, COJ, CAC, FTC, JIFSA, JANAAC, TBL				Minister	Country Director	
		Task Force	NLIC	Industrial Policy	MSME Policy	Trade Policy	SEZ Policy			
				Connectivity to production and global supply chains through value added zones					Task Leader	
CONTROLLING	Permanent Secretary	LHI Components		Seaports		Airports (Air services agreements)	TELECOMS	PIOJ, DBJ	Country Partnership Strategy	
		Special Economic Zones								
		Master Plan	Education	FZ Council	SEZ Authority establishment	Zoning	SEZ Regime			Domestic Linkages
		Legislative	Ports/Airports	WB Project Preparation Facility		One-Stop-Shop for business set-up and functioning within SEZs			Entrepreneurship and innovation	
		Int'l Policy	SEZ/Urban	Stimulating technology enabled innovation		Single Electronic Window			Financial Sector	
		Business Env.	MSME Dev.			Financial Services Hub			Infrastructure	
		PR & Mrkt	ICT	Programs to encourage Entrepreneurship and Innovation		Infrastructure Fund World Bank Group US\$500m local currency Bond			Macro Economic Stability	
		Investment & PPPs		Knowledge and Technology Transfer		National Competitiveness Council Doing Business Indicators			Mobilisation of Private Investments	
		EXECUTING	Logistics Hub Task Force	Ministries, Departments and Agencies		IXP			Trade Facilitation	
				Creative Industry Policy		Customs Facilitation				
MIIC	OPM			Industry Identification		Business Development & Service Centres		MIIC - Logistics Hub Secretariat	WBG	
MFAFT	MOFP					Start up and acceleration training				
MTWH	MSTEM					Business Linkages program		MIIC/ MSTEM Energy and ICT	IFC	
PIOJ	DBJ			Innovation Hub		Venture, Angel and Crowd fund				
PAJ	AAJ			Industry Clustering		Trade Missions	Sub-regional disaster relief hub		MIIC/ MOAF Agri-Business / Agro-Parks	MIGA
FCJ	JAMPRO			An improved environment for intra-industry collaboration						
Customs	BSJ			Support to SME-finance institutions		SME-level reforms				
JBDC	MIDA			Business Incubation						

Chapter 2

The Market, China & other Bilateral Partners



The Market

THE MARKET

Traditionally, foreign investment in Jamaica, is services driven. Between 2003 to 2012, business services (40%), tourism ((22%), and ICT (20%) dominated investment in Jamaica. However, global foreign investment trends reflect that production activities, accounting for 63% of the jobs created between 2003 - 2012. During this period Jamaica attracted an average of US\$200M in foreign direct investment per annum compared to over a US\$ billion per annum in Panama, reaching over \$2 billion per annum over the last two years. The principal attraction of Jamaica's Logistics Hub to investors is the creation the tremendous opportunities for manufacturers in addition to service providers to exploit economies of scale beyond the requirements of Jamaica's domestic market of less than three (3) million to serve the 800 million person market in the Americas. Priority sectors include business services, logistics, transport equipment, tourism, ICT, electronics & electrical equipment, pharmaceuticals, industrial machinery & equipment, minerals and chemicals.

The opportunities in the Logistics Hub arise from the flow of materials needed for the increasingly affluent economies of Latin America and the Caribbean, in particular. According to the World Bank report entitled "Economic Mobility and the Rise of the Latin American Middle Class," released in November 2012, Latin America and the Caribbean registered a 50 percent jump in the number of people joining the middle class during the last decade, which was called by economists an historic achievement for a region long driven by wealth inequality. The report found that the middle class in the region grew to an estimated 152 million in

2009, compared to 103 million in 2003, an increase of 50 percent. Additionally, South America's largest economy, Brazil is undergoing a concentrated phase of modernization in preparation for the FIFA World Cup in 2014 and the Olympics in 2016.

Global value chains originating in the Asia/Pacific and other regions will utilize global trade corridors and Jamaica's strategically located Logistics Hub, to serve Latin America; a market that is growing in affluence.

Rules of Origin

Shifting international trade patterns and evolving supply chains suggest an important role for Jamaica's Global Logistics Hub as suggested by Asian, North American and European interests. Strong developmental linkages exist between the LHI and CARICOM and Latin America. The LHI is being implemented at a time when Jamaica's Trade policy is under review, and CARICOM is being restructured to be more relevant. Commitment under the WTO require reforms to export subsidies. One way preferential trade agreements are giving way to reciprocal trade agreements. To be integrated in global value chains requires a restructuring of rules of origin to accommodate globally fragmented production processes.

Jamaica's insertion into this global value chain requires a liberalized and open trade policy as it relates to both imports and exports if Jamaican products and services, as defined under updated rules of origin, are to enhance the profitability of the global enterprises. Critical deciding factors for manufacturers seeking to locate within Jamaica's Logistics Hub are the availability of resources and markets and whether efficiency improvements can be achieved. In this regard, whether the raw materials processed and/or components assembled in the SEZs will be treated as Jamaican made products and therefore be subject to any preferential treatment under Jamaica's trade agreements with its strategic Latin American trading

partners, is an important consideration. The rules of origin in Jamaica Trade agreements must be based on principles that allow products under the same tariff headings with value added and or products that undergo substantial transformations, even if the proportion of value added is low, to be classified as a Jamaican product is vital to the Logistics Hub Initiative. Imports that form inputs to the manufacturing (which must be redefined within the Jamaican context to take on a wider scope of activities), must not be subject to customs duties and final [Jamaican] products must have unrestricted access to domestic markets and international markets. This changes the paradigm of the Customs department and will aid facilitation as it will minimize the need for customs oversight/ inspection of goods leaving and entering the SEZ's .

I

The Impact of China and other bilateral partners

Impact of China

Geopolitical and economic shifts have a strong bearing on the growth of the logistics industry. As Jamaica positions itself as a leading player in the global logistics space, the GOJ will be engaging China, the second largest economy in the world as an important “outward investor” in the development of Jamaica’s Logistics Hub. In a similar vein, Chinese firms have embraced the Logistics Hub in recognition of the fact that a significant portion of all cargo to be handled through the Jamaican Logistics hub relates to the flow of Chinese made goods destined to North and South America and West Africa and to the flow of raw materials and bulk commodities back to the Asia Pacific region. This underscores the mutually beneficial nature of the Logistics Hub. The People’s Republic of China (PRC) has offered to provide technical assistance and investments to develop Jamaica’s Global Logistics Hub.

Since 1972 the Jamaican government and the PRC have established the basis for a long term strategic partnership. It is noteworthy that over the last decade, the People’s Republic of China has emerged as a major economic development partner which is a significant event for the Logistics Hub Initiative. China’s importance is a reflection of the fact that the production and manufacturing of consumer goods has shifted from Europe and North America towards the Asia Pacific region, where China is the dominant economy. The future of many countries is being shaped by large scale industrial development driven by large transnational corporations. China has created a plethora of large state owned enterprises (SOE) that drive that country’s amazing economic growth and these SOEs are becoming increasingly active globally. China is using its wealth to expand its sphere of influence

funneled in large part through the SOEs. This provides a context for the scale and scope of the opportunities facing Jamaica's Logistics Hub.

In recent years, the relationship between Jamaica and China has shifted to an emphasis on investments in major projects, and as a base of operation for Chinese infrastructure and trading firms serving CARICOM and the Americas. With regard to the Logistics Hub, China is therefore a major strategic partner on several fronts, namely, the provision of infrastructure, as users of the special economic zones and in the provision of marine and aviation transportation connectivity.

Chinese and other interests are seeking to transform Jamaica into a high value-added logistics and transshipment hub for Sino-Americas trade. A previous plan involved a large scale logistics, industrial, commercial and exhibition facility at Caymanas that also incorporated hotel developments and high quality residential zone. The tardiness of Jamaica to implement this project in the past led to some of the investor interest shifting to Mexico resulting in the "Dragon Mart-Cancun" project that will see 3,000 Chinese wholesalers establishing a base to supply the Latin America market.

Notwithstanding, as the GOJ moves ahead with its flagship projects, several major Chinese SOEs, have expressed interest in the development of the Caymanas Special Economic Zone including the Naggo Head Technology Park. Also, having completed a technical assessment of several potential sites, another SOE, China Harbour Engineering (CHEC) have upgraded their intentions under a MOU with the GOJ for a proposed container port and free zone development site at Fort Augusta in favour of a larger development of a new transshipment port inclusive of an industrial and commercial economic zone in the Old Harbour Bay area. CHEC has proposed to develop a port complex at an alternative site to take advantage of natural channel depths of 15-20m. CHEC proposes to build on the

Jamaican mainland, a cement port and two industrial zones inclusive of a 30 MW coal fired power plant and a 800 acre free zone. The port complex would accommodate a container port consisting of four berths, a ZPMC crane assembly plant, and CCCC construction facility headquarters. This project is estimated at US\$1.5 billion. Under the terms of an amended MOU CHEC has until April 2014 to undertake feasibility studies and due diligence including technical financial and environmental assessments to guide its formal development proposal.

Additionally, CHEC is part of a consortium with China Merchants Holdings (International) Co. Ltd, and the French company CMA CGM/ Terminal Link to bid for Kingston Container Terminal which is currently being privatized to pave the way for its upgrade and expansion.

Role of other bilateral partners

Since the Logistics Hub is regarded as a global asset, the United States, plays a crucial role in the development, financing and operation of the Hub. The USA remains the world's largest economy and the top origin country for foreign investment in Latin America and the Caribbean (LAC). The American Chamber of Commerce in Jamaica is playing a leading role in sensitizing the four million members of the U.S. Chamber of Commerce about the Logistics Hub. The U.S. Trade Development Agency is examining ways it can provide assistance to the GOJ. Other major U.S. private sector firms such as IBM, Patton Boggs, Louis Berger International and Infralinx are also showing considerable interest.

Other countries playing an active investing role in in the Latin America and the Caribbean include Japan, Spain, Germany, France, Canada, South Korea, Italy, Brazil, Argentina, the Netherlands, Singapore, UK and UAE.

Chapter 3

MSMEs



Micro, Small and Medium sized Enterprises

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Role of the MSME Sector

Jamaica has long recognised the importance of micro, small and medium-sized enterprises (MSMEs) as major contributors to employment and growth. The essence of the Logistics Hub Initiative is to stimulate much needed economic growth; achieved through multiplier effects and linkages. Economic benefits will be derived for all size businesses. Under the Logistics Hub Initiative, the Medium, Small and Micro Enterprises sector (MSME) will be developed in tandem with large scale and MNC corporations. Approximately 70-80% of the companies engaged in logistics related and/or supporting activities are SMEs. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) (2009) estimates that globally MSMEs contribute approximately 55% of GDP, 65% of employment in high-income

countries and over 90% of employment and 70% of GDP in middle-income countries. CARICOM also estimates that micro and small enterprises account for more than 45% of jobs in the region. When medium-sized firms are included, that figure gets closer to 70% of jobs.

The continuous growth and development of the MSMEs ensures a balanced and inclusive growth of the economy and acts as a facilitator for entrepreneurial development, employment generation, and wealth creation. The GOJ has identified the MSME sector as a crucial pillar in the country's growth agenda and have formulated a MSME policy when combined with the logistics hub initiative will strengthen the platform for growth of the MSME sector. Although large transnational businesses are the catalyst for the Global Logistics Hub, the outputs and knock-on effects from such corporations through vertical and horizontal linkages to Micro, Small and Medium sized Enterprises (MSMEs).

Creating the necessary linkages with MSMEs which can provide the supporting services and goods is essential. MSMEs would need to be matched with the business opportunities available and the required capacities. Partnerships will be brokered among investors and MSMEs that supply their operations. Large corporations rely on a range of downstream and upstream suppliers to provide services, raw materials, intermediate goods, components and/or products to sell: this means that attracting certain industries to Jamaica will attract or spawn others to follow. As such, the MSME sector is organically linked with transnational corporations.

MSMEs, therefore, play a pivotal role in Jamaica's economic stability and present the greatest potential for:

- the creation of backward and forward economic linkages;
- the reduction of foreign currency expenditure;

- the utilization of local raw materials and other resources;
- the enhancement of social conditions generally;
- employment of youth and women; and
- achieving economic and social inclusion

Despite the economic and social importance of the MSME sector and the long history of entrepreneurial spirit, MSME development has been slow and limited to only a few sectors. Realizing the full potential of MSME requires deliberate actions to overcome the obstacles facing the sector. The main barriers to entry into global markets relate to capital, technology, operational, markets, institutional but also relate to the availability of talent (see Barriers to Entry below). For example, access to affordable finance is a major impediment yet financial institutions reports that many applicants for loans and/or grants are not equipped to qualify for the funds or can demonstrate the effective use of the funds, i.e. many applicants lack some of the minimum skills necessary to sustain a business or integrate into the formal economy through the payment of taxes. Today most activities are related to retail, light-manufacturing, agro-processing, and hospitality and other services sectors. The Logistics Hub Initiative seeks to broaden the range sectors and market reach of small enterprises. Moreover, MSME scalability in the traditional areas is insufficient to give Jamaica a competitive edge in a globalized economy.

The MIIC tabled a MSME and Entrepreneurship Policy to guide the development of the sector. The MIIC and its agencies will implement the strategy that seeks to overcome the challenges faced by MSMEs. Many of the challenges have been well documented in the MSME policy. The implementation strategy documented herein outlines programs to be introduced that include:

- streamlined institutional structure to channel resources to develop the capacity of the sector
- Industrial Cluster Development Programme (ICDP) that will facilitate
 - o business advisory services in basic business management skills in areas such as finance, marketing, strategic planning; etc.
 - o access to up-to-date technologies;
 - o linkages to large corporations;
 - o a focus on innovation through R&D and New Product Development (NPD);
 - o measures to improve labor productivity;
 - o adoption of global standards and quality management – e.g. ISO and HACCP certifications.
- initiatives to take advantage of the considerable export opportunities that were created by the passage and implementation of regional free trade agreements. Providing information on potential trade opportunities coupled with greater assistance on how to execute export transactions to extend the market reach of small enterprises.
- provide venture funding, “unconventional” collateral based lending, lines of credit, guarantee schemes and trade finance for start-ups and scalable SMEs on mutually satisfactory and globally benchmarked terms and conditions to enhance the development of the sector.

These actions will result in micro and small businesses that are more competitive domestically and internationally and that grow to their full potential.

Challenges aside, MSMEs with the right support and a structured, sustainable framework, can play a pivotal role in global production networks and as such present numerous opportunities for growth and poverty alleviation. Additionally, because of their size, MSMEs are seen as being flexible and easier to respond quickly to market dynamics and changing consumer tastes; an admirable quality in a globalized economy where consumers are more aware and informed, whilst seeking more customized goods and services. This strategy will introduce opportunities to increase MSMEs competitiveness to include:

- use of information and communication technologies (ICT) to overcome some of the constraints of scale;
- linkage opportunities in tourism, logistics (postponement and fulfillment), BPO/KPO, Aircraft MRO, Creative industries, Bunkering, Ship and yacht repair especially with proper branding, product differentiation and high level of customer service;
- use of clusters and networks, like the ones offered by the Small Business Development Center plus (SBDC+) model, can provide opportunities for learning, sharing of services and inputs, collective risk sharing and economies of scale;
- take advantage of CARICOM, the CARIFORUM-EC Economic Partnership Agreement (EPA), Carib-Canada and other bilateral and multilateral trade agreements by building capacity for market access;

- focus on innovation and the development of a unique selling proposition through brand development.

As Jamaica moves forward to implement the Logistics Hub Initiative, the sectors that SMEs choose to compete in will be as important as how they compete. Sustainable competitiveness can only be achieved through a niche approach that leverages technology, innovation, invention, and quality. At the heart of this transformation must be a clearly defined partnership between education, public and private sectors; a partnership that creates impact and positive results.

A pivotal challenge facing the Government of Jamaica under the Logistics Hub Initiative is creating the value chain linkages between large global businesses, MSMEs and job seekers. The steps to be undertaken to overcome this challenge must be transparent, market driven, commercially viable, and sustainable. Formulating strategies to overcome this challenge requires understanding the barriers to entry that companies and individuals face such as government regulations and patents, or a large, established firm taking advantage of economies of scale—or those faced by individuals trying to gain entrance to a profession or vocation—such as education or licensing requirements.

Barriers to Entry

Theories of competition in microeconomics hold that barriers to entry for a given market can be extremely difficult for micro, small and medium-sized enterprises (MSME), in particular and are even more acute in the globalized marketplace in which we are seeking to position the Logistics Hub. The hopes and aspirations of job seekers rely on the success of firms. The obstacles that firms face, in trying to enter a market or industry are

deliberately being tackled by the GOJ with support from our international development partners, namely the World Bank and IDB. George Stigler defined an entry barrier as "a cost of producing which must be borne by a firm which seeks to enter an industry but is not borne by firms already in the industry." Franklin M. Fisher gave the definition of a barrier as "anything that prevents entry when entry is socially beneficial." Joe S. Bain defined a barrier to entry as anything that allows incumbent firms to earn supernormal profits without threat of entry. The main barriers to entry into global markets relate to capital, technology, operational, markets, institutional but also relate to the availability of talent. These are described below:

a. Capital

The main obstacles to funding appear on the demand as well as the supply side of the business finance market. On the supply side, for decades, the financial sector in Jamaica was able to lend to government at high interest rates. This created little incentive to lend to the private sector other than to relatively low-risk large companies, resulting in limited financial deepening and a failure of the financial sector to meet the needs of SMEs seeking to expand. The ratio of private credit to GDP is 27 percent, well below the LAC-wide average of 47 percent. Only 27 percent of firms in Jamaica have a line of credit at a bank compared to 48 percent of firms across LAC and access to venture capital and broader capital markets is extremely limited.

With ongoing fiscal consolidation, banks are intent on increasing their focus on commercial lending, including to SMEs. All banks have now dedicated SME departments and many have banks have invested on technical capacity on SME credit assessment. However, limited market competition results in high lending spreads and bank profitability. In addition, credit institutions are experiencing tight liquidity conditions, particularly in local

currency, affecting their ability to extend credit to the private sector. Increasing the supply of credit to SMEs is necessary to enable these firms to invest to upgrade productivity and expand their operations, including being able to fully participate in high-growth value chains. According to the IMF President, Christine Lagarde, Managing Director of the IMF, financial systems for the 21st Century must be restructured to serve the productive sector rather than their own needs.

On the demand side the obstacles are mainly in the form of:

- Lack of satisfactory business plans, accounting and other information;
- Inadequate assets for use as security; and,
- Insufficiently high levels of profitability, gearing, liquidity, stability, and other business-financial performance criteria on the part of funding applicants.

Many SMEs, especially young firms, have limited bankability, due to lack of real estate and other collateral and/or proper financial statements. For example, even where MSME finance is available, financial institutions report that many applicants for loans and/or grants are not equipped to qualify for the funds or can demonstrate the effective use of the funds, i.e. many applicants lack the minimum skills to sustain a business or integrate into the formal economy through the payment of taxes.

SMEs need the capital for startup expenses such as equipment, building, and raw materials and for working capital to cover operating expenses and advertising, etc. The importance of equity financing assumes great significance especially when it is considered that the nascent technology-based, and creative industries generally, has become a focal point for the

growth agenda. The MSME & Entrepreneurship Policy recognizes the need for financing support to the creative industries to enable its development in line with the country's industry competitive advantage. These types of entrepreneurial efforts require financing instruments that are aligned with their commercialization cycles, without involving any financial risks during the start-up and development stages. When access to finance is coupled with business skills development, incubation, clustering and market access fora, this is a critical ingredient for improved chances of success of these enterprises.

b. Research & Development, Technology and Innovation

Large firms also have control of certain resources essential for certain industries making it difficult for other firms to compete in the industry. However, cost advantages can sometimes be quickly reversed by advances in technology hence the important role for technology and innovation in developing the MSME sector. For example, the development of personal computers has allowed small companies to make use of database and communications technology which was once extremely expensive and only available to large corporations. Some cost advantages are independent of scale, for example, proprietary technology, know-how, favorable access to raw materials, favorable geographic locations, and learning curve cost advantages can be obstacles.

Potential entrants require access to equally efficient production technology as the established firms in order to freely enter a market. Patents give a firm the legal right to stop other firms producing a product for a given period of time, and so restrict entry into a market. Patents are intended to encourage invention and technological progress by guaranteeing proceeds as an incentive. Similarly, trademarks and service marks may represent a kind of

entry barrier for a particular product or service if the market is dominated by one or a few well-known names.

As it relates to research and development, some products, such as microprocessors, require a large upfront investment in technology which will deter potential entrants.

c. Operational

Exclusive agreements (such as supplier agreements) with key links in the supply chain can make it difficult for other manufacturers to enter an industry. Similarly, exclusive agreements with key distributors or retailers (distributor agreements) can make it difficult for other manufacturers to enter the industry.

A firm's coverage of more than one level of production, while pursuing practices which favor its own operations at each level, is often cited as an entry barrier as it requires competitors producing it at different steps to enter the market at once.

d. Market

Network effect - When a good or service has a value that depends on the number of existing customers, then competing players may have difficulties in entering a market where an established company has already captured a significant user base. At times, it may be difficult or expensive for customers to switch providers.

Customer loyalty - Large incumbent firms may have existing customers loyal to established products. The presence of established strong brands within a market can be a barrier to entry in this case. This makes it hard for

new competitors to gain consumer acceptance. For example, established firms use advertising to create consumer-perceived differences in their brand in comparison to other brands, to a degree that consumers see their brands as slightly different products. New firms would find it more difficult to afford advertising especially at the scale comparable to incumbent firms that make it difficult for new competitors by spending heavily on advertising. This is known as the market power theory of advertising. Since the brand is seen as a slightly different product, products from existing or potential competitors cannot be perfectly substituted in place of the established firm's brand.

Inelastic demand - One strategy to penetrate a market is to produce a cost competitive product at a lower price than the incumbents as can be achieved by near shore logistics. However, this is ineffective with price-insensitive consumers.

e. Institutional

Government regulations

Requirements for licenses and permits may raise the investment needed to enter a market, creating an effective barrier to entry. Restrictive practices such as air transport agreements that make it difficult for new airlines to obtain landing slots at some airports. Tariffs on imports prevent foreign firms from entering into domestic markets.

Predatory pricing

The practice of a dominant firm selling at a loss to make competition more difficult for new firms that cannot suffer such losses, as a large dominant firm with large lines of credit or cash reserves can. It is illegal in most

places; however, it is not uncommon in international commerce. In the context of international trade, such practices are often called dumping.

Individual

Barriers to entry also exist for individuals seeking to gain entry into the job market. Examples of barriers restricting individuals from entering a job market include educational, licensing, and quota limits on the number of people who can enter a certain profession. Conversely, if firms seeking to locate in Jamaica are unable to find the requisite talent locally and are unable to recruit internationally Jamaica's locational advantages will be greatly diminished.

Investment Attraction Strategy and Action Plan

The GOJ with support from our international development partners, namely the World Bank and IDB along with local stakeholders are making special efforts to support SMEs operating in Jamaica's Global Logistics Hub to overcome the barriers to entry. Government will be facilitating economic activity related to the Logistics Hub Initiative in designated special economic zones (SEZ) spread across the country where industrial clusters supported by business development centers will be established linking large corporations and SMEs. In conjunction with the effort that has been placed on the provision of supporting infrastructure for the Logistics Hub focused attention will also be placed on the users of the facilities.

a. Industrial Cluster Development Programme (ICDP)

The exploitation of economies of scale makes it possible for companies to grow large in some industries due to more efficient use of inputs which, up to a certain point, translates into expanding output. Large firms can exploit economies of scale in their purchasing practice by establishing long-term

contracts with suppliers that allow them to buy in bulk or through their relationships with financial entities that allow them to access a wider range of financial offerings at favourable interest rates. By clustering together SMEs can enjoy the benefits of economies of scale despite their respective size. The OECD defines clusters as "networks of strongly interdependent firms, knowledge production organizations (universities, research institutes, and knowledge-intensive business services), bridging institutions (brokers, consultants) and customers, linked to each other in a value-adding production chain." The approach being taken will result in a concentration of interconnected firms that are usually closely located and linked by various complementarities and externalities. These mechanisms will enable firms to unite their efforts and resources in collaboration with the government and academia, to achieve higher levels of competitiveness.

Industrial clusters will be developed using a combination of 'bottom-up' and 'top-down' approaches. These approaches together can introduce a combination of government policies as well as the build out of a market-driven ecosystem that supports cluster creation. While the spontaneous development of clusters is possible and will be supported, efforts will be made to ensure that clusters are developed within SEZs as well as alongside the SEZs.

Some industry sectors that benefit from competitive advantages by locating in Jamaica's Logistics Hub will be targeted based on a detailed Industry Analysis to be commissioned. This analysis involves a high-level benchmarking of Jamaica's offerings against key international competitors based on current and future industry trends. The purpose of the exercise is to identify the most promising sectors, sub-sectors and business functions as potential targets for Jamaica's Global Logistics Hub. Industries identified include, but not limited to, logistics (postponement and fulfillment), BPO/ KPO, MRO, Tourism, Creative, Bunkering, Ship and yacht repair etc.

One of the main objectives of the industrial cluster development programme is to create sustainable business-to-business linkages with firms of all sizes and origin and to advance the growth and development of enterprises in Jamaica. It is widely accepted that the co-location of numerous firms can also achieve significant benefits through economies of scale and can enhance competitiveness through product specialization. Prospects for knowledge and technology transfer are further enhanced through high degree of networking and interconnections which can have possible spill overs in the form of higher productivity and innovation.

a. Industrial Cluster Development Programme Management

The ICDP falls under the remit of the Ministry of Industry, Investment and Commerce and will be specifically supervised and monitored by the Logistics Hub Secretariat. Several key agencies of the Ministry will be integrally involved; these include the Jamaica Business Development Corporation (JBDC), Factories Corporation of Jamaica (FCJ), Bureau of Standards (BSJ), Jamaica Intellectual Property Organization (JIPO) and Jamaica Promotions Corporation (JAMPRO) with additional support from the Development Bank of Jamaica. It will be supported by the MSME and SEZ Working Groups which are Task Force sub-committees with dedicated personnel who are responsible for driving various components of the overall Global Logistics Hub Initiative.

a. Cluster Design

The government will make a deliberate effort to consult industry experts, entrepreneurs, and business associations, universities etc., in the design of industrial clusters. New ideas on cluster development will be explored to ensure the country introduces strategies that are of the highest global standards. One such idea is explained below:

i. e-Cluster

The concept of an e-Cluster will be examined under the ICDP. The Korean model of an E-Cluster is defined as “an integrated online network between industries, universities, and research institutes designed to help nurture regional strategic industries and invigorate industrial complex clusters”. This approach seems favourable for the Industrial Cluster Development Programme as e-Clusters can support the operations of local and foreign operations through the provision of advanced high-technology solutions that are critical to driving competitiveness and innovation.

a. Business Development Support

The ICDP is designed for prospective and established businesses. Several strategies will be executed to ensure businesses are adequately prepared via business advisory services as part of the process of induction into the ICDP. Two key strategies involve the implementation of targeted measures that will enhance business development support and create sustainable business-to-business linkages. These are crucial policy measures which have been promulgated under the GOJ’s MSME and Entrepreneurship Policy. The main implementing agency will be the JBDC which will provide a number of intervention services to its clients throughout the entrepreneurial life-cycle, including but not limited to the following:

- counseling;
- management training and capacity building;
- business start-up and formalization;
- viability studies and market assessments;

- business plans and financial forecasting;
- marketing and sales;
- capital access;
- innovation and technology;
- technical support;
- international trade (through, among other tools, e.g. SBDCGlobal.com which is a powerful and free online trade platform).

The program provides a structured framework to promote SME competitiveness and development that uses existing resources and as such is not an additional burden on limited resources, where available. Accordingly, it can provide the kind of success and sustainability that ensures a ROI on initial investment as well as continued returns in the form of increased taxed revenue by: (i) increased revenue streams; and, (ii) more firms coming under the formal tax structure.

Some of the proposed strategies are outlined below:

i. Entrepreneurship and Skills Development

Programmes to support entrepreneurship and skills development include the roll-out of logistics and entrepreneurship training across the country by the Ministry of Education, HEART Trust/NTA, University of the West Indies, JBDC, University of Technology, University College of the Caribbean, Northern Caribbean University, Caribbean Maritime Institute and other institutions.

The HEART Trust/NTA and JBDC will be leading entrepreneurship training and has developed entrepreneurship training modules that are currently being taught. This is in keeping with the strategies for creating a culture of entrepreneurship as outlined in the MSME and Entrepreneurship Policy. The HEART Trust/NTA is preparing a proposal for the full roll-out of entrepreneurship training, throughout all its programmes, which means every HEART Trust trainee will be exposed to entrepreneurship skills development training. The institution is also looking at developing a curriculum for an introductory course for schools run by the Ministry of Education. It plans to offer training to Teachers' Colleges, Universities etc., as well as employees within the private sector and public sector and will help to educate employers about the value of intrapreneurship, in an effort to encourage them to increase engagement with staff in a manner that will help boost the level of productivity and innovation within organizations as well as prepare existing employees to branch off in their own businesses.

HEART Trust/NTA and JBDC will be partnering with the MIIC in developing and rolling out this training initiative and getting buy-in from all key stakeholder organizations that also provide training, incubation, apprenticeship, internships, mentoring and knowledge transfer.

The Ministry and its agencies have also developed projects aimed at providing training and business development support, especially for MSMEs, which will also be aligned to the ICDP. One such project is the Enterprise Jamaica Project which is geared toward (1) providing hands-on experience in entrepreneurship and innovation particularly for prospective entrepreneurs and (2) assisting established entrepreneurs with exposure and training in global best practices in business.

i. **Business Linkages**

A pivot point of the SEZ strategy under the Logistics Hub Initiative is creating the business linkages between large global businesses, SMEs and job seekers. The steps to be undertaken to achieve these linkages must be transparent, market driven, commercially viable, and sustainable. Formulating appropriate strategies to overcome this challenge requires understanding the barriers to entry that companies and individuals face such as government regulations and patents, or a large, established firm taking advantage of economies of scale—or those faced by individuals trying to gain entrance to a profession or vocation—such as education or licensing requirements. The creation of sustainable business linkages is a crucial outcome of the ICDP. The creation of sustainable business linkages will redound to increased access to international markets and will enhance the levels of competitiveness among businesses operating in the clusters. A number of strategies will be introduced to stimulate linkages, chief among which is the targeting of foreign direct investors with local companies that can help to strengthen their supply chain.

Efforts will be made to integrate local businesses into global value chains through the establishment of non-equity mode (NEM) of international production to include contract manufacturing, services outsourcing, franchising, licensing, management contracts and other contractual arrangements through which multinationals and trans-national corporations can coordinate their activities with businesses in the clusters. Tied to this strategy will be a supplier-development programme for suppliers in targeted industries. This will help to increase the capacity and know-how of businesses operating in specific industries and better equip them to adequately meet the needs of their clients.

The development of a Marketplace Web Portal to facilitate timely information-sharing on existing businesses operating locally to encourage business to business commerce will be explored. Other ICT platforms that

support e-commerce will also be explored to facilitate local and international trade.

Improving the existing Linkages Programme operated by JAMPRO to make it more effective especially for business-to-business introductions and networking is another imperative. Other strategies include facilitating business mentorship and coaching arrangements between foreign and local investors.

i. Network of Business Development Centres

Several institutions are engaged in a suite of business development services such as technical assistance, marketing assistance, business incubation, etc. Through these institutions a network of business development centres will be formed and anchored by the JBDC which currently manages the several Business Information Centres (JAMBICs) across the country. The formation of a network of business development centres creates synergies across various institutions (which include training agencies, departments and universities). It also helps to streamline the offerings of these institutions, eliminates the duplication of effort and increases economies of scale.

This network of business development centres will provide a platform for achieving other important objectives such as leveraging the scientific research and development resources of universities and colleges and aligning these to the opportunities in the marketplace through Government-University-Industry collaboration (See Annex 1).

I. Financing and Technical Assistance

Overview of SME sector and access to finance

A range of surveys of SMEs identify access to credit as a major constraint. According to the World Enterprise Survey, only 27 percent of firms have a bank loan in Jamaica compared to 48 percent across Latin America. Lack of access to funding prevents SMEs from investing to increase their scale and upgrade their technology, which would in turn facilitate their integration in global value chains by becoming suppliers of local exporting firms.

Low levels of access to finance by SMEs reflects a combination of supply and demand factors. Supply constraints arise from a combination of limited financial deepening and large public sector funding requirements. Banking sector deposits amount to only 40 percent of GDP, well below regional averages and expected values given per capita income levels and demographics. In addition, a low share of bank deposits is channeled to the private sector (70 percent versus 90 percent in LAC and country peers), reflecting public sector funding crowding out. On the demand side, a large proportion of SMEs are not bankable due to lack of real state collateral or proper financial statements. Lack of collateral is a particular constraint for start-ups, as they typically rent production facilities, even in the most transformative and promising sectors such as ICT or animation.

Ongoing fiscal consolidation could foster SME financing but tight domestic currency liquidity conditions limit funding availability. Due to the decline in public debt yields, banks are increasingly focusing on retail and commercial lending. Some banks are revamping their SME departments to increase service to this sector through local currency loans. However, as a result of the introduction of a single treasury account as well as increasing deposit dollarization in response to depreciation of the Jamaican dollar, available liquid assets in domestic currency are barely above minimum prudential requirements, curtailing the possibility for credit growth. In these conditions, available domestic currency liquidity would likely be directed towards retail lending, the most profitable business line for banks.

To address these constraints and improve SME access to finance, Component 3B of the World Bank Growth and Competitiveness project will fund: a) a credit line to DBJ to on-lend to private banks for SME lending, b) the creation of a credit guarantee fund for start-up companies, and c) a feasibility study for the creation of a government-sponsored electronic factoring platform to provide funds to SMEs without good financial statements on the basis of their receivables from large firms.

Macroeconomic and Financial Developments

The credit institutions supervised by the Bank of Jamaica include seven commercial banks, three merchant banks, and four building societies. According to the World Bank, these intermediaries have weathered the recent global financial turmoil without major problems, as well as the public debt restructuring and the recent exchange rate depreciation. The capital adequacy ratio for the financial system was 15.3 percent as of Sep. 2013; the non-performing loan ratio for loans past due by 3 months or more was 5.8 percent, with almost full provisioning; and returns on average assets have been consistently positive in the 2-3 percent range over the last five years. Stress test results from the Bank of Jamaica show that commercial banks would, under reasonable additional stress, remain adequately capitalized.

However, credit institutions are experiencing tight liquidity conditions, particularly in local currency, which affects their ability to extend credit to the private sector. A variety of factors contribute to this liquidity shortfall, including the introduction of the Central Treasury Management System (CTMS), increased deposit dollarization in response to exchange rate depreciation, and illiquidity of government securities in secondary markets. As a result, liquid assets in domestic currencies stands at 30 percent, while the regulatory minimum stands at 26 percent. Credit growth decelerated in

response to tightening liquidity conditions to 14.5 percent in Sept. 2013 from 17.9 percent a year early (excluding exchange rate valuation effects). In these circumstances, several private banks have expressed their interest in increasing their usage of DBJ funding in order to sustain credit growth to SMEs.

Institutions: The Development Bank of Jamaica and Approved Financial Institutions

The Development Bank of Jamaica (DBJ)

A critical stakeholder is DBJ, a publicly owned financial institution mandated to foster economic growth and develop strategic sectors of the Jamaican economy. DBJ's main activity is providing funding to credit institutions for on-lending to the productive sector, especially SMEs, at subsidized rates. DBJ also manages a credit enhancement facility, which provides a 50 percent credit guarantee to AFIs on loans extended to SMEs. According to the World Bank, by operating through AFIs, it is ensured that credit decisions are taken on commercial basis and that distortionary effects are minimized. DBJ also provides direct lending for large projects in strategic areas and it manages and privatizes national assets and investments. DBJ obtains funding from multilaterals and securities issuance. As of March 2013, date of the latest audited financial statements, DBJ had an outstanding portfolio of about US\$100 million; 64 percent to financial institutions and 36 percent directly to borrowers.

Its Board of Directors is comprised of 11 members, comprising a diverse group of government members and members that represent a diverse group of private sector organizations and interests. DBJ's recent performance appears to indicate a sufficient degree of insulation from politically subjective decision-making. DBJ complies with International Financial Reporting Standards, is subjected to an annual audit by an

independent auditor, and has a five-member internal audit team that reports to the Internal Audit Committee of the board of directors.

As of March 2013, DBJ had a capital to asset ratio of 34 percent and non-performing loans of 2 percent. DBJ has had stable average annual profitability of around 1 percent over the last five years (measured by return on assets). However, in 2012 it experienced losses due to the sale of a hotel by the senior lender, the proceeds from which were insufficient to cover claims of other creditors. As a result DBJ had to write-off loans and equity stakes in this company. Despite these write-offs, DBJ remains strongly capitalized and its credit rating was confirmed by the Caribbean and Credit Rating Services Limited, holding a AA- domestic rating, a Cari BBB (foreign currency rating), and Cari BBB+ (domestic currency rating).

Approved Financial Institutions (AFIs)

There are ten AFIs that may borrow from DBJ, all of which are licensed by the GOJ. The DBJ selects AFIs on the basis of their capital adequacy, asset quality (primarily the outstanding loan portfolio), management, earnings, and liquidity (CAMELs), as well as an assessment of corporate governance policies, compliance with regulatory statutes, and general reputation. To mitigate credit and concentration risk exposure, DBJ monitors on a quarterly basis (or more frequently as needed) the AFIs' CAMELs in comparison with statutory requirements and industry averages (where available, or relative to other AFIs). DBJ assigns a score of 1 to 5 to each AFI based on the results of the CAMEL analysis, and takes the actions indicated in the table below depending on the results. Only AFIs with a 1 or 2 rating will be eligible to access funds from the project under a credit line modality.

Table 1. DBJ capital adequacy, asset quality (primarily the outstanding loan portfolio), management, earnings, and liquidity CAMEL analysis and impacts on eligibility

Lessons Learned

DBJ already has a LOC with the World Bank to on-lend to AFIs for energy efficient projects and several lessons have been drawn from that operation. Disbursements under that LOC have been slow due to fiscal pressures on MOFP, which in turned slowed disbursements to DBJ to achieve compliance with fiscal targets. In addition, under that facility, exchange rate risk is borne by DBJ, making the funding unattractive for DBJ who could not pass the full exchange rate costs without making the costs to final borrowers prohibitive. To avoid the latter problem, for this LOC the exchange rate risk will be borne by MOFP as it is with all other project loan components. Bank staff will discuss with MOFP fiscal projections to ensure that disbursements are incorporated and can be accommodated even in the face of shortfalls in revenue projections.

To speed up disbursement of funds to credit institutions and facilitate access to DBJ funds, the project will allow DBJ to on-lend to institutions under a credit line modality as well as on a credit by credit basis. The credit line modality (an innovative approach for World Bank operations, to our knowledge no LOC has established this modality) will facilitate AFIs operations with DBJ funds as it will no longer require ex-ante approval of DBJ to access project funds but only ex-post reporting to DBJ of how the funds were used by the AFI. We expect that the AFIs will have also greater incentives to fund credits to SMEs under the credit line modality, once it is signed, to avoid paying the commitment fee on the undisbursed portion and

to avoid cancelation of the line which will carry negative publicity for the AFI.

Relationship to Other Operations

To provide funds for SMEs, DBJ has intermediated LOCs to MOFP from Petro Caribe and the Caribbean Development Bank, but such lines have already been fully utilized. Currently DBJ is, in addition to this project, negotiating a credit line.

In addition to LOCs to DBJ, several projects undertaken by the World Bank and other multilaterals and bilaterals aim to improve access to finance for SMEs with a view to spur growth. This project aims at complementing such efforts, focusing on areas not covered in other programs. A forthcoming WB-IMF Financial Sector Assessment Program (FSAP) will provide financial authorities with a midterm road map of regulatory and administrative reforms with a view to foster sound financial sector development. IDB has provided TA for the implementation of a secured transaction reform to facilitate the use of movable assets as collateral as well as the creation of a central collateral credit registry. The IMF program established launching of the collateral as program conditionality (December 2013). It has also signed an agreement with DBJ to provide TA for the development of venture capital in Jamaica and is providing funds for TA to SMEs to improve their accounting, financial management, and governance practices. IFC provided assistance for the preparation of the recently approved credit information system, which has facilitated the creation of private credit bureaus. It has also granted LOCs directly to two AFIs for commercial lending.

DBJ also has experience with World Bank operating procedures through its participation in the Energy Security and Efficiency Enhancement Project, for which DBJ has developed and uses an Environmental Policy and Management System as a set of guidelines and procedures. Adaptation

and improvement of the DBJ Environmental Policy and Management System in the Competitiveness and Growth Project will serve to increase capacity and build knowledge and experience.

Jamaica is advanced in the project implementation process. A number of Government officials and key stakeholders representing the public, private and academic sectors have received training as SBDC Counselors and Directors. This included visits San Antonio, Texas and Washington, D.C. to observe the SBDC services and how the model creates economic impact for MSME clients and learn how the United States federal government creates the legal and policy framework, structures, funds and conducts oversight of their SBDC network. The upcoming stages involve a number of activities to project to enable the successful adaptation and establishment of a pilot SBDC network in Jamaica. The main activities are summarized as follows:

SBDC policy and model structure development

This stage will address: the securing of funding sources and mechanism; development of a legal and policy framework that will support and frame the SBDC model in Jamaica; determination of the number of initial pilot centres that will be launched and the process of allocating funds to organizations that will host pilot SBDCs, etc.

Request for Proposals Process

It is recommended that once the Certificate Training is finalized, the MIIC will start a “Request for Proposal” (RFP) process that will award funding to launch pilot SBDC centres (the number of pilot centres will be determined by MIIC).

Launch of the SBDC centres

Once the SBDC host organizations have been selected, the GOJ will sign a contract with the respective parties to seal the agreement, transfer the funds, guide them in the process of initiating the pilot program and offer follow-up throughout the development of the initiative. An MSME study should also be conducted to determine the baseline of the current status of the sector and identify areas of growth and development potential.

Other actions will also be taken over the short- to medium-term to strengthen and grow the network. These include: creating an association of SBDCs, developing accreditation standards to certify centres, establishing specialized SBDCs etc.

The SBDC model shares similarities with the JBDC-led JAMBICs, however partial adaptation of the model could prove beneficial to the existing network of JAMBICs through exposure to existing strategies and approaches being used in the SBDCs that are operated in the U.S. and Latin American region. It may also help to bolster business development support to MSMEs through the academic and private sector organizations that may wish to adapt and establish SBDCs--thereby lessening the pressure on the government to commit resources to this end.

MSME Finance

The ICDP will access the World Bank/DBJ financing facility to fund start-ups and expanding businesses. It is anticipated that the entrepreneurship training programmes will introduce new businesses that may require incubation, significant hand-holding and grant funding. Established businesses will also require finance for expansion within the clusters. Technical assistance from the World Bank and IDB is required to restructure the financial market particularly for business finance, to make it more conducive to MSME financing needs e.g. guarantees and lines of credit. Technical assistance is also needed to create an innovation fund and

support knowledge and technology transfer through incubators and mentorship arrangements.

Industry Analysis and Cluster Design

The Industry Analysis is estimated to cost approximately \$400,000. The actual build-out of industrial clusters requires infrastructure development and expertise in cluster design which are other areas for which support is needed. A special fund for these would be necessary.

Creating Sustainable Linkages

Technical and financial assistance will be provided to: create linkages through supplier/ distributor and/or license agreements with established firms; work with patent holders; effectively integrate into established networks (e.g. BPO/KPO); provide market research; trade agreements; R&D and innovation investment promotion.

Venture Forum

A Venture Forum will be established to create an environment for connecting projects with investors and thereby assist entrepreneurs to successfully start and grow their businesses. This forum will fulfill two objectives: (1) encourage new venture start-ups by facilitating linkage between entrepreneurs and investors through establishment of an e-financing marketplace; and (2) facilitate deal-making between investors and project-owners (entrepreneurs, businesses and existing startups).

It is being proposed that quarterly meetings are arranged for a period of four hours to allow engagements between project owners and potential investors. A secretariat will be set up to coordinate these meetings and manage marketplace dynamics. A Technical Advisory Group (TAG) will be formed to provide technical oversight, evaluate all business plans and

presentation documents submitted and screen & select the top eight business plans to be considered for funding. Technical and funding support will be required for venture forum.

The recently tabled MSME policy is the beginning of several specific policy measures to be implemented, centred around SEZs, that are specifically designed to encourage value adding export industries with the associated multiplier effects and linkages with other industries that eventually result in wealth creation. Global industries will be horizontally and vertically integrated into the Jamaican economy. Linkages describe the relationships between industries, and the multiplier effect increases the amount of businesses in an area (using linkages) to create more jobs and hence wealth and improve Jamaica's overall image. This will benefit the local workforce allowing economic benefits to filter throughout the economy. The multiplier effect can be described as the opposite of the 'spiral of decline', where industries move away, creating high unemployment and social deprivation and crime.

Investment Attraction Strategy and Action Plan

The GOJ with support from our international development partners, namely the World Bank and IDB are making special efforts will be undertaken to support MSMEs operating in Jamaica's Global Logistics Hub to overcome the barriers to entry. The industry sectors to be targeted with potential for Jamaica's Logistics Hub will be determined based on a detailed Industry Analysis to be commissioned. This analysis involves a high-level benchmarking of Jamaica's offerings against key international competitors based on current and future industry trends. The purpose of the exercise is to identify the most promising sectors, sub-sectors and business functions as potential targets for Jamaica's Global Logistics Hub.

Technical assistance from the World bank and IDB is required to restructure the capital market to make it conducive to MSME financing needs e.g. guarantees and lines of credit; attract foreign capital; infrastructure fund, entrepreneur fund, technology transfer, by facilitating introductions, incubators, creating linkages, supplier/ distributor and/or license agreement with established firms, working with patent holders, integrating into established networks (e.g. BPO/KPO); providing market research; trade agreements; R&D; innovation investment promotion; cluster design .

Special Economic Zones



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A major issue facing the implementation of the Logistics Hub Initiative is the lack of a conducive business environment. To address this in the near term, even while more wide spread reforms are effected, a well-designed and managed Special Economic Zone (SEZ) Regime specifically geared towards attracting investments projects needs to be implemented and integrated into the broader economic policy framework. SEZs are seen as a potentially powerful tool that can contribute to long-term economic growth according to the World Bank. SEZs can provide the following:

- Access to high-quality infrastructure
- Simplified business regulation for firms
- A wide range of fiscal and other incentives, to overcome barriers to investment in the wider economy.
- Link the Jamaican economy to global value chains.

Jamaica currently has a Free Zone Regime, features of which must be phased out by 2015, in accordance with the World Trade Organization (WTO) conditionality on export subsidies and countervailing measures. Importantly, the existing Free Zone Regime has some similarities with the proposal in the SEZ model that was presented in the “Concept Note on the Establishment of Special Economic Zones under the Logistics Hub Initiative” that was presented to Cabinet.

The Free Zone Act under the Omnibus Tax Incentives legislation has been retained at least until 2015 which offers an opportunity to fill the gap between the phasing out of the Free Zone and the promulgation of the new SEZ Regime. The Free Zone Act as constituted lacks the level of detail and policy coherence needed in a Special Economic Zone Regime. As a result,

it is best used as a transitional tool and as part of the strategy to transition into the proposed SEZ Regime.

SEZ Policy Steering Committee

In order to deal with the SEZ Regime the Cabinet approved the establishment of a Policy Steering Committee (PSC). The PSC is charged with providing general oversight and guidance on the formulation of the policy framework for the SEZs, from concept to final approval by Cabinet. The PSC is chaired by Mrs. Patricia Francis. Membership of the PSC comprises experts and technocrats from the private and public sectors of Jamaica. In order to ensure that the SEZ policy development process is inclusive and receives wide-spread public support, every effort will be made to continuously engage the public. In light of this, in the near future, the SEZ Policy Steering Committee sought and incorporated submissions from the public to aid policy conceptualization, formulation and implementation.

As the country prepares to transition to the SEZ regime it becomes more evident that the absence of the Free Zone Council at this time is a policy and regulatory gap that undermines the basis upon which transition from free zone to the SEZ regime will occur. Furthermore, the inoperativeness of the Council weakens the business case for investing in SEZ-related ventures in Jamaica and is likely to result in lost opportunity to successfully engage and facilitate potential investors. It is against this backdrop that the GOJ will re-activate the Free Zone Council.

The Council was re-activated to create the intermediate regulatory reinforcement necessary for smooth transition to the SEZ regime, albeit in accordance with the provisions of the Jamaica Export Free Zones Act. Given the exigencies of time and the need for speedy legislative and regulatory changes to support the new SEZ regime, it is anticipated that the Free Zone Council should not only resume all functions stipulated under the

Act but should also provide the regulatory support that is necessary during the transitional period. Hence, in keeping with section 2B (d) of the free Zone Act, the Council should implement procedures and guidelines for planning, promotion and regulation of the free zones. This should include the creation of a One-Stop-Shop arrangement that should facilitate registration of new enterprises, granting of licences and the issuance of permits. In addition, the Council would be expected to implement all transitional strategies that will result in seamless formation of the SEZ Authority.

With a total of approximately 22 free zone operations that have already invested huge sums and are eager to expand operations in order to capitalize on opportunities under the Global Logistics Hub Initiative, the presence of the Free Zone Council offers an important focal point for quick access to information and facilitation of requests which will influence investment decisions. The Council will therefore offer direction and constancy to existing investors and will help to build investor confidence.

The core business of the Council will be:

- To regulate all freezones (PAJ, FCJ and single entity and multiple entity private free zones), special economic zones including tech parks, BPO/KPO space, logistics parks and industrial estates,
- To work with public and private sector developers to establish and develop SEZs
- To establish and develop industrial parks
- To put in place mechanisms to support interaction of SEZ users with local producers and service providers, maintenance

- Develop zone designation criteria and implementing regulations to ensure that private zones are conveniently located (near population centers and transportation hubs) to minimize offsite infrastructure development expenditures of government.

- To develop comprehensive implement plan for One-Stop-Shop to facilitate business set-up and functioning

- To oversee regulatory compliance

- To formulate short term transition strategy to SEZ Authority

The mandate of the Council would be to:

- Allow for orderly industrial and commercial SEZ development across the country

- Simplify and eliminate most licensing procedures for projects in SEZs, using simple standards and criteria and negative lists for prohibited projects set by the Council

- Synchronize major reform/abolition of licensing outside SEZs in line with streamlined processes established in SEZs

- Allow all licenses to be issued by the owner/operator of an SEZ, according to standards set by the Council and the SEZ Board and under the supervision of the SEZ Board, subject to ex-post monitoring by the Council/Authority

- Make SEZ operators responsible for ensuring that investors have obtained all required approvals from national and sub-national authorities

- Reduce or eliminate technical evaluations and inspections in industrial registration.

Concerning industrial zone/investment zone development and oversight, the Council would:

- designate and allocate land for industrial use, including to private SEZ developers.
- set transparent rules and standards for SEZ development and contracts with private developers.
- Land within SEZs be allocated by the developer according to standards and conditions set by the Council and under the oversight of SEZ Boards.
- help SEZ developers and tenants obtain necessary approvals, and mediate disputes between SEZ developers and government bodies.
- set uniform standards to apply to all SEZs
- Work with SEZ Board of Directors to establish conditions specific to that zone, including a negative list of industries not allowed
- help private sector zone developers identify, purchase, and develop land, and assisting them in their dealings with local and national administrations.

The case study of Thailand that uses a six-step approval procedure is instructive. A SEZ developer in that country applies for establishment of an

industrial estate by submitting a prefeasibility study and site location survey. The site location survey shows the location relative to population areas and key infrastructure facilities, confirms that the land is zoned for industrial use, and includes preliminary topographical and hydrological data. Once the area has been declared an industrial estate, the developer then submits a full environmental impact assessment (EIA) to the Office of Natural Resources and Environmental Policy and Planning (ONEP) which is equivalent to NEPA. Once the EIA has received ONEP approval, the developer submits an application for master plan approval, followed by an application for authorization of construction plans for infrastructure systems and, finally, an application for final allotment of the land (approval of subdivision of the land into plots available for sale). With the exception of the EIA, which must be approved by ONEP, and the final land allotment, which is jointly approved by Industrial Estates Authority of Thailand (IEAT) and the provincial Governor or Deputy Governor, all of these approvals are granted by IEAT itself.

One advantage of Thailand's approval procedures is that it reduces the initial cost to the developer, who needs only to finance one at a time rather than having to prepare and submit a complete application containing an EIA, master plan, feasibility study, building permit application, etc. all at one time. Also, though it may take years for the developer to buy the land and complete all the studies needed to obtain approval, the review process by IEAT and other agencies is measured in days or weeks rather than months or years.

Thai law guarantees the provision by government and state-owned utilities of offsite infrastructure up to the entrance to an industrial estate, while the developer or factory owner, in the case of a private zone, must fund and carry out all onsite development. Developers, however, must deal directly with the utility companies themselves rather than going through a

government application and approval process. The utility companies, as parastatals, have sufficient autonomy to make their investment decisions with minimal political interference.

The law, however, does not guarantee immediate provision of off-site infrastructure, and development of offsite infrastructure might not take place for several years according to various agencies' and parastatals' budgets and plans for development of roads, power lines, and water systems. The law does allow a private developer to accelerate the development schedule, especially for electricity and water, by providing immediate funding for the requested development, which is reimbursed over time once industrial estate tenants begin to purchase power and water and sanitation services. This mechanism, however, does not apply to construction of roads, for which some developers have found alternative solutions. One private industrial estate development company purchased sufficient land for a right of way to link its zone to the nearest major road, some 80 km distant, and then built a private road with its own funds.

The option for private financing of offsite infrastructure, together with the potential delays if government funds are required, provide a powerful incentive for developers to situate their industrial estates close to major roads, ports, power plants, and/or rail lines. Though free to do otherwise, developers will have to carefully weigh and incur the costs and delays of doing so. These costs, however, will be borne entirely by the private developer so will have little or no effect on approval decisions by government.

These policies and procedures eliminate much of the rationale for industrial licensing as a means of allocating scarce energy resources. The commitment by Thailand's government to guarantee provision of off-site infrastructure is not unbounded, so developers must negotiate with the

power and water companies to provide the capacity required, and must pay to install it on an accelerated schedule. This then becomes a commercial decision taken by the developer, who may also decide to build his own power plant. Thai law also guarantees the right of an independent power plant or co-generation project to sell surplus electricity back to the utility or to a third party. Thailand offers no market-distorting subsidies for power or water consumption, so the question of rationing does not arise.

IEAT, moreover, does not interfere with pricing decisions taken by private estate operators, who are free to set their own prices in accordance with market demand.

Thailand's development approval procedures require that the developer show proof of ownership of the land before submitting an application to IEAT.

With respect to granting permission for companies to set up operations in an estate, IEAT has put in place an effective and decentralized one-stop shop capable of granting almost all approvals. Each estate or area with multiple estates has its own IEAT office and one-stop shop that is empowered to grant nearly all approvals. These include:

- Land utilization and business operations/license
- Building construction
- Business operation commencement
- Tax Exemption for operators in an I-EA-T Free Zone
- Transfer of merchandise to and from an I-EA-T Free Zone
- Land entitlement

- Entry of foreign skilled workers, professionals and their families into the country.

The only significant approval that IEAT does not grant is for tax holidays, for which the BOI is responsible. Outside of the industrial estates a company may have to receive as many as 16 different approvals, each requiring a separate application process. In IEAT estates a company needs to submit only one application and obtain a single approval, with the exception of tax holidays. Jamaica intends to set up a cluster of government agencies that operate as business acceleration teams capable of granting almost all approvals and overcoming the regulatory hurdles facing companies within the SEZs.

Zone Administration

The administration of SEZs will take on a new form in comparison to what obtains under the Free Zone regime. One of the main requirements for successful zone development is the enactment of a Special Economic Zone Act and Regulations that will govern SEZ operations and the establishment of a central SEZ Authority. This Authority will operate on the principles of autonomy (i.e. being an executive agency under MIIC) and transparency and will be charged with the responsibility of supervising all SEZs in Jamaica. It shall only have regulatory powers and thereby prohibited from being an owner, developer, operator or business occupant of SEZs.

The new administration of the SEZs will adopt more international standards and principles than its predecessor, which will include the following:

1. Simplified and streamlined single window clearance procedure for the development of a SEZ;
2. Established qualifying criteria for the occupancy of the SEZ;

3. Simplified and streamlined single window for granting of all licenses connected to the SEZ;
4. Simplified and streamlined single window one stop shop that allows the Authority to be the interface between MDAs and the investor; and
5. Urban Support Area designation and development licence.

There are several key stakeholders within the SEZ environment and the smooth interface between them will determine the success of any SEZ. A description of each is provided below:

- The Authority: as described previously
- SEZ Developer: charged with the infrastructural development of the SEZ and may be executed through a PPP/Joint Venture or a private structure.
- Operator: this may or may not be the developer but this party is charged with responsibility of managing the SEZ. This will either be done through a PPP/JV or private structure. The Authority will grant licences to operators.
- Occupants: these are investors that will use the SEZ as a platform to conduct their business. These will not be limited to foreign investors as international best practice indicates that allowing domestic occupancy greatly contributes to the success of a SEZ.
- Goods and Services Providers: these are domestic business that reside in the Custom Territory but provide the SEZ with goods and/or services. The Authority shall grant accreditation/certification to service and goods providers that supply the Developer, Operator and/or Occupants of a SEZ. Therefore, a mechanism will be created to facilitate the backward

linkages into the domestic economy and allow for the ease of monitoring from a Customs law enforcement and tax compliance perspective of both goods and persons coming in and out of the SEZs.

- Urban Support Area Developer: this developer will be granted a special license to develop an area adjacent to a SEZ for habitation along with social infrastructure, such as, housing, schools, hospitals, etc in keeping with the relevant zoning and environmental considerations. Other Agencies: these would fall under the one-stop-shop of the Authority

SEZ Eligibility Requirements

The starting point in a SEZ policy framework is defining the type of zones, scope of activities allowed in SEZs and the eligibility requirements for SEZs users as described in the SEZ Policy. These choices have an impact on which sectors and users receive the benefits of SEZs and on the viability and profitability of the zones.

Currently, the types of zones allowed under the Jamaica Free Zone Act are Export Processing Zones (EPZ), Free Trade Zones (FTZ), and Single Enterprise Export Processing Zone (SEEPZ). JFZA requires that any user of a Free Zone export at least 85 percent of goods and services outside Jamaica.

In defining the scope of SEZs and eligibility requirements, the SEZ Policy wants to achieve the following:

- Support the overall objectives of promotion of a myriad of industries, diversification, technology transfer and generation of jobs.
- Ensure that those sectors and users which would get the most benefits out of SEZs can take advantage of SEZs

- Avoid negative impact on the financial and commercial viability of zones
- Avoid the erosion of the existing local tax base.

There is a spectrum of policy options: from very narrow e.g., only certain types of zones or activities are allowed to a broad and flexible regime, allowing zones for different sectors across broad set of activities within the zones.

In the Interim Policy document, the broad, flexible regime was the most preferred for these main reasons:

Allowing many different activities for multiple markets attracts more users, resulting in higher demand and greater returns for zone developers and operators.

- A flexible regime gives the GoJ a high degree of flexibility in terms of future SEZs, which is valuable given that many sectors are at nascent stages and their needs are still emerging.
- Moreover with increasing trade liberalisation, the benefits of traditional zones (EPZs and FTZs) will be reduced.

Recommendations and Policy Details

- A flexible regime that will leave room for different types of zones as needed should be supported by the new SEZ law. The law should allow for a wide range of zones, including FTZs and non FTZs which include EPZs, hybrid EPZs, Freeports, Industrial Zones, and Sector specific zones such as an ICT Park(s). Though there should be flexibility in the design of different zones to meet the needs of different users, they should have a

common set of incentives and privileges to avoid unnecessary competition and administrative complexity.

- In general, a broad set of activities should be allowed, subject to a negative list of prohibited activities, which will be codified in the legal framework.

- Removal of eligibility criteria for operations and for receipt of benefits. There should be no requirements for exports, number of jobs and initial investment amounts for the tenants of zones. There should also be no limitations on companies selling to domestic markets – in the case of a free trade zone, sales to domestic markets will be subject to payment of duties as per custom territory. Foreign and domestic companies should be equally treated.

- Provision should be made for the operation of single entity zones.

Business Climate Reforms

Business Climate Reforms

The investments in critical logistics and related assets while improving the quality of the international network of maritime and aviation connections to the world, work in tandem with institutional and business climate reforms as well as the development of human resources that will result in greater commercial efficiencies, greater supply chain optimization and lowered costs for a wide range of increasingly sophisticated businesses along the global value chains.

The government is ensuring that the country's progress in undertaking business environment reforms will guarantee competitive transaction costs, speed and predictability in the new logistics centered economy.

The GOJ is committed to the development of a National Single Electronic Window (STEW) experience to facilitate Jamaican trade. A Single Window is a facility that allows parties involved in trade and transport to submit standardized information and documents at a single entry point to fulfil all import, export, and transit-related regulatory requirements. Major components of a comprehensive single window environment for trade are a Port Community System (PCS), a Customs Management System (CMS) such as ASYCUDA World and a trade facilitation system of the government entities that regulate trade. Each of these components, implemented using the World Customs Organisation data model, other international standards and best practices for trade will seamlessly integrate into a comprehensive electronic platform for trade facilitation.

The STEW fits within overall government strategy to automate Business to Government (B2G) and Government to Government (G2G) processes and will integrate the Port Community System of the Port Authority of Jamaica, the Jamaica Customs Agency management system, Automated System for Customs Data (ASYCUDA World) as well as the trade facilitation systems of the various governmental authorities involved in trade. STEW also provides the platform for the establishment of a central registry for all the import and export licences granted by government. The benefits of implementing STEW include reducing the contact point from four or five entities to one single entity as well as reducing the number of documents required for submission. This will significantly reduce the time associated with export/import transactions..

The JCA has recently embarked on a modernisation exercise itself which will see the implementation of ASYCUDA World, a Customs Management System developed by UNCTAD which covers foreign trade procedures. This system is one of the most widely used system internationally and handles manifests, customs declarations, accounting procedures, transit and suspense procedures and can pinpoint high risk consignments for inspections. A prototype ASYCUDA World environment has been established and is currently being configured to Jamaican requirements. Importantly, this platform can provide the entry point for Single Window and may also in some instances be a platform for the electronic systems of the trade agencies.

The Port Authority of Jamaica (PAJ) is working to establish a Port Community System (PCS) which is an electronic messaging interface that enables intelligent and secure exchange of information between public and private actors who are part of the port community (terminal operators; maritime/ocean, highway and air transportation operators, freight forwarders, shippers, warehouses, port and airport authorities, customs and

inspections agencies). Its principal objective is to serve the interest of the various stakeholders related to port (air, sea and inland) and logistics activities, transportation and international trade. Critically, the STEW will interface the PCS. According to the World Customs Organisation , there are ports in which there is no PCS, but a single point of entry for the presentation of declarations, license licence and permit applications by means of a STEW. Given Jamaica's push to become the fourth regional logistics hub, the PCS will be critical in extending the reach of the STEW for greater efficiency for end to end logistics and supply chain efficiency.

Customs and Trade Facilitation Issues

Customs operations must be reformed to be concerned with much more than simply the traditional thrust of revenue collection. Synchronous policy implementation demands that other critical functions such trade facilitation, a component of the business climate reforms and the new special economic zone regime, must be equally important as revenue enhancement in a nation with a culture of customs duty evasion . When the current modernization process reaches a mature state, Customs must be in a position to translate the reforms to significant contributions to the economic growth strategy of the country. A modern customs will support the logistic hub where customs must be present yet unobtrusive. According to the World Bank, it would be counter intuitive for Customs to interfere with trade flows of trade, but rather to support its optimization. Ultimately the Jamaica Customs modernization efforts are critical to the success of the Logistics Hub.

The effective and efficient trade facilitation measures are of extreme importance in a logistics centred economy, and the unimpeded movement of goods between an SEZ and points of entry into or departure from the country, is among the most important factors in the success or failure of the

LHI. If Customs and other government officials – through ignorance, pressure to raise revenues, or other causes – fail to allow seamless and easy movement of goods provided for in the relevant trade facilitation agreements laws, the new SEZ regime will not achieve its full potential in terms of attracting investment, adding value, and creating employment. Trade facilitation measures including modifications to Customs processes required for implementation of Bali agreement on trade facilitation; and the establishment of a single electronic window facility to lodge standardized information and documents with a single entry point to fulfil all import, export, and transit-related regulatory requirements for the trade facilitation and the rationalization of site inspections. The entities whose activities affect traders and need to be rationalized are:

- The Ministry of Health
 - o Pharmaceutical & Regulatory Affairs Division
 - o Pesticide Control Authority
- The Ministry of Agriculture
 - o Veterinary Services Division (Fishery and Non-Fishery)
 - o Plant Quarantine
- Ministry of Industry Investment and Commerce
 - o Food Storage and Prevention of Infestation Division
 - o Bureau of Standards Jamaica
 - o Trade Board Ltd.
 - o JAMPRO

Trade Policy

The Centrality of the Jamaica Trade Policy to the LHI

Jamaica's Trade Policy is a critical supporting instrument for Jamaica's Growth Agenda, in which, the development of Jamaica as a Global Logistic Hub plays a major role. While access to domestic markets has played an important role in location decisions in the past - in an era of highly protected markets - new investments are largely driven by access to regional or global markets for exports. In addition, both export oriented and domestic market-oriented investors are strongly impacted by access to inputs at world prices. In an island country with a small industrial base, such as Jamaica, many domestic producers are dependent on imports of raw materials and intermediate inputs. Consequently, both low tariff walls at home and access to free or preferential trade opportunities can provide a strong incentive to investors.

The International Policy Working Group is working on a strategy for expanded trade engagement. The goal is to ensure that Jamaica has in place the necessary international and bilateral trade and investment agreement framework to facilitate the successful implementation of the Logistics Hub.

The strategy will contextualize the anticipated trade engagement within Jamaica's existing trade framework, consisting of the National Trade Policy, the National Aid for Trade Strategy, and the NCC Reform Agenda. The government is examining the current status of Jamaica's international and bilateral agreements impacting trade and investment (trade agreements, bilateral investment treaties, double taxation agreements, air services agreements, among others).

Most importantly, a review of the agreements that the other three Logistics Hub nodes (Singapore, Dubai, and Rotterdam) have in place, will serve as a model for what may be needed in the Jamaican context. The strategy will also address a way forward, in conjunction with the Ministry of Foreign Affairs and Foreign Trade and the Ministry of Finance, for implementation of current agreements and moving ahead expeditiously any needed future agreements.

Through the strategy for expanded trade engagement, the MIIC intends that Jamaica will be an attractive venue for investment and creates the best environment for success of the Logistic Hub generally.

To support the Logistics Hub, the Jamaica Trade Policy has to be founded on the principles of trade liberalization, openness and be futuristic. Logistics is about the fast and efficient movement of goods, services, data, capital or any combination thereof, to serve global markets. Liberal and open trade policy helps to make Jamaica an attractive location for foreign direct investment seeking lower costs associated the near market location of segments of supply/value production system that benefit from world class logistics services .

Jamaica's trade policies have been traditionally guided by the concept of selling of primary raw materials and low value finished goods in the global market place; however, with the rise of global value chains, a new type of thinking is required to reflect current business realities. The new reality is one where the global trading system is based increasingly on disaggregated production chains utilizing not only inputs of raw materials but also intermediate goods and outputs not only of goods and services produced by a country but also re-exports . Barriers to trade (tariff or non-tariff) therefore take on a new dimension for policy makers when examined from this angle. In other words Jamaica's trade policy has to facilitate production

to attract the global value chains, the resulting supporting logistics services and the resulting increase in trade. What is more Jamaica's ability to earn from global value chains is directly related to how its trade policies affect production and market access for goods "originating" in Jamaica.

The Role of Logistics in Trade

Logistics has a direct connection to the trade in goods but is also a series of tradable services in and of themselves and increasingly has an impact on other services sectors (such as banking). Logistics is the connector; it is the service at each end of the manufacturing value chain that allows the whole global production system to function. Jamaica's Global Logistics Hub Initiative seeks to cluster, in Jamaica, of these services supporting the segments of the value chain sprouting from the global flow of private capital and investment.

Logistics and Connectivity

Jamaica's Trade Policy must be synchronized to attract the FDI to achieve the large scale integration and entrenchment of Jamaica into the global supply and value production system.

The nation's development and prosperity are increasingly joined to its connections to the rest of the world. In today's world of globalization it is not sufficient to simply have market access, the ability to turn that access into market presence is a necessity. Logistics is critical link between market access and market presence. Therefore, a nation's connectedness should be thought of as part of a nation's logistics capabilities. According to the World Bank (Trade Dimensions of Logistics services: A Proposal for Trade Agreements, pg 5): "Logistics services has become critical for competitiveness. Better logistics performance is strongly associated with

trade expansion, export diversification, ability to attract foreign direct investment and economic growth.”

The Importance of Imports

Within a logistics centered economy imports form a central plank of economic activity. The liberalization of imports, whether in the form of raw materials, intermediate goods or final products for re-export, are a precursor to increased exports that will require greater market access and result in greater market presence and entrenchment into the global value/supply production system. Jamaica will not grow its exports without growing its imports. This is a fact that must be internalized by policy makers and implementers alike. Of immediate concern to the Logistics Hub Initiative is the treatment of intermediate goods intended as inputs into the production process, both in the domestic economy and the proposed Special Economic Zone.

Valued Added vs Volume

The Trade Policy should follow a dual track of simultaneously pursuing increasing trade volumes and valued added trade. However, the Policy should place increased focus on value added trade rather than simply focusing on increasing trade volumes. This is not to say that trade volumes have become irrelevant, for they have not; however given globalization, modern production practices, multinational inter-related trade and their resulting transfer pricing schemes, and the ever blurring lines between services and manufacturing, value added trade has attained primacy. Increasing the proportions of value added trade can have a greater impact on employment and economic development than merely increasing trade volumes.

The Logistics Hub and CARICOM

In CARICOM the Hub has two functions. The first is as a tool for greater regional integration and the second to be placed at the center of the regional trade negotiations with other nations.

Partial Scope Agreements (PSAs)

The role for PSAs must be contemplated as a strategy for the immediate expansion of Jamaica’s trade liberalization and market expansion objectives in order to support the Logistics Hub. Jamaica does not currently provide effective market access to SEZ occupants seeking to trade in the main logistics routes “tradelanes”. SEZ operations in Jamaica would be mainly ‘efficiency seeking’ investments (i.e investors who locate in a host country to access export markets, moreso than the domestic market of the host). Hence, investors will require market access to the existing trade lanes and the future trade lanes which will emerge in the medium term. This situation could immediately hamper the country’s attractiveness to larger SEZ investors that are interested in value added manufacturing for markets in the Americas, Africa and Europe. Priority will be placed on engaging in Partial Scope Agreements (PSAs) with existing and future tradelanes beginning with reviewing accession to existing PSAs between Brazil, Guyana and Suriname; Belize and Guatemala; and Trinidad and Tobago and Panama.

Other Trade Agreements

Given globalization, modern production practices and the global supply/value chain production system trade is not simply about trade in goods and or services. The means by which these good and services are delivered has become of equal importance and given rise to the blurring of the lines between trade and investment and between goods and services trade. Therefore, the importance of other types of agreements to a modern Trade Policy cannot be over stated.

Bi-lateral Investment Treaties

The line between investment and trade is increasingly becoming blurry especially with regard to the trade in services. A good example of this is logistics services. The GOJ is implementing business climate reforms and establishing a new Special Economic Zone (SEZ) regime to attract large globally integrated enterprises to locate their operations in SEZs to benefit from Jamaica's more competitive position in the global logistics chain. And thirdly, facilitating the participation of smaller firms in export supply chains through collaborations with globally integrated enterprises in industry specific clusters. The ultimate goal of the MIIC and the LHI is to increase the number, capacity and capabilities of Jamaican enterprises engaged in global commerce, irrespective of whether the business is indigenous or foreign owned; whether it is large, medium sized, small or micro.

Double Taxation

Transfer pricing has come an issue for tax authorities globally. The Logistics Hub will see a greater portion of multinationals investing in Jamaica, especially in our Special Economic Zones therefore as part of our trade policy Jamaica must have appropriate responses to transfer pricing.

Air Service and Open Skies Agreements

Air transport while occupying a smaller portion of the international freight space none the less has higher margins and greater value added than does maritime shipping. Moreover, the aviation sector is set for expansion and Jamaica through its Trade Policy needs to be well positioned to take advantage.

Labour Treaties

The free movement of people has increasingly become an important part of modern trade; especially within the services industry sector. The ability to move highly skilled services personnel rapidly to the locations required by the client is a major determining factor in choosing offshore locations. International labour standards and talent mobility while generally not thought of as part of a trade policy must now become part to allow market access to services providers in a predictable and expedited way. As part of the Logistics Hub Jamaica will be looking, and in fact is already doing so, to export labour specializing in logistic services in both the maritime and aviation space. Therefore our mariners and aircraft crew will be in need of protection.

New Types of Agreements

(i) Port and Airport Access Agreements

While it is true that such agreements are generally between a landlocked nation and one with sea access, in the case of a port, it does not preclude a nation that already has sea access from concluding such an agreement with a landlocked nation or nation that already has sea access. The point here, and this also includes airports, is to have greater access, especially closer to key markets. Jamaica with its centrality in the Western hemisphere offers this near shore capability. Likewise, Jamaica should be looking to conclude agreements with other nations globally that offer a similar near shoring capability in order to give exports or transshipments coming out of Jamaica both better opportunities for market access and presence.

(ii) Special Economic Zone Co-development Agreements

The co-development of Special Economic Zones between nations is a growing trend that Jamaica should be willing to at least investigate and discuss.

(c) Coherence Between Trade Policy and Macroeconomic Policy

The Draft Policy highlights the need for coherence in various GOJ policies, plans and strategies. Coherency is a fundamental principle, and we would strongly recommend an elaboration of the critical nexus between trade policy and macroeconomic policy. The theoretical framework for interdependent trade and macroeconomic variables are well established. It is generally accepted that properly crafted trade measures can lead to growth and development but the efficacy of those measures are heavily influenced by macroeconomic policy. For example, a current account deficit can be tackled in several ways and these policy options will have a positive or negative impact on trade. It is recommended that the Draft Trade Policy specifically outline the empirical relationship between these two policies and why the expansionary approach (which is implicit in the Draft Policy) complements macroeconomic policy.

(d) Key Stakeholders and Their Roles

The Draft Policy provides an ideal opportunity for the GoJ to clarify the roles of the various Ministries in the development and management of trade related instruments and disciplines. This will provide clarity for non-state actors and it will demonstrate the ‘whole-of-government’ approach amongst the key trade related Ministries. This articulation of roles and responsibilities of key institutional stakeholders is recommended in the Draft Guidelines for Policy Documents prepared by the Cabinet Office. It is also timely as there has been some confusion expressed in the private and public sectors on roles and responsibilities with regards to trade issues.

Energy Considerations

Affordably priced energy is a critical element in the success of the industrialization efforts and the larger Logistics Hub Initiative. The Ministry

of Science Technology Energy and Mining has been steadfast in its approach to bring new and renewable generating capacity to the energy grid. However, the question remains whether in the interim, the Jamaica Public Service All Islands Licence as it pertains to power generation and power distribution will be applied to the Free Zones and if going forward it will apply to SEZ. The option of an economic development or wholesale rate for large consumers of electricity will assume greater importance.

Security Considerations

The world we live in is becoming increasingly dangerous. A variety of threats have become global in scope and more serious in their effects as a result of the spread of knowledge, the dispersion of advanced technologies, and the movements of people. As globalization increases, stronger emphasis must be placed on maintaining secure borders. This must be achieved while enhancing trade flows and protecting the integrity of legitimate shipments. The GLHI creates real possibilities to achieve economic prosperity but also create critical vulnerabilities that have important security implications that will arise from increased passage of aircraft and ships, and increased passengers throughput and cargo volumes.

The GLHI will improve the quality of the international network of maritime and aviation connections to the world, but will also make the country more vulnerable to a range of threats such as the smuggling of small arms and weapons or more sophisticated weapons proliferation, cyber-attacks, ethnic violence, organized crime, drug trafficking, human trafficking, environmental degradation, invasive species and the spread of infectious diseases. Therefore, the success of the GLHI also relies on a commitment to protecting the safety and security of goods and passengers in transit and minimizing the exposure of our small island nation to destabilizing threats.

Many different consequences of the Logistics Hub combine to increase the exposure to a variety of threats mentioned above. To reduce the country's vulnerabilities, policy makers, security administrators and operatives would need to focus on a number of nonproliferation tools: domestic and international security mechanisms for storage and transfers, multilateral export controls, arms control verification and enforcement measures, intelligence surveillance and tracking operations, and military and other forms of interdiction. Each of these would need to be evaluated, individually and then in combination, in light of technological developments.

The dangers arising from environmental degradation can often spread across the "borders" of the special economic zones. The most publicized danger involves the rising global temperatures, associated with greenhouse gases from industrial plants, for example, that are touching off devastating droughts, floods, and violent storms. Other environmental dangers include air and water pollution, the loss of forests and biodiversity, and the potential introduction of toxic substances into the human food chain.

The increased passenger traffic will raise the threat from infectious diseases will spread globally and quickly, as a result of increasingly drug-resistant microbes, the lag in development of new antibiotics, poor patterns of land and water use, shifts in climate, the rise of mega-cities with severe health care deficiencies, the ease of movement of peoples across borders, and the growing number of refugees. U.S. intelligence estimates/ projects only limited gains over the coming 20 years against the overall infectious-disease threat, with virulent diseases, led by HIV/AIDS and tuberculosis, continuing to take a significant toll.

These transnational threats can often seem diffuse and uncertain. No doubt, this will trigger a debate around the question of their seriousness and whether they actually endanger Jamaican security. Absent any consensus,

the GOJ may need to give them priority or to pursue credible preventive strategies, remembering that little priority was being given to preventive counterterrorism strategies before the September 11th terrorist attacks on the USA. This is not to suggest that giving these threats priority or pursuing preventive strategies would be easy. In implementing preventive strategies, authorities must prepare for what are only theoretical possibilities and often take politically difficult steps before the actual danger appears. They must acquire information that is credible, reliable, and available sufficiently in advance to be able to act. They must gain political support for programs and obtain resources that hold no clear promise of success, even though preventive steps that succeed are far more cost-effective than responding to tragedies after they unfold.

While there is always value in further analysis, the main elements of credible preventive strategies for these transnational threats are fairly well understood. The problem is that other areas such as the ICT backbone now are potentially vulnerable to the threat of cyber attacks and disruption. Preventing cyber attacks will require security standards and systems to provide early warning and attack assessments. Information will need to be shared between governments and private businesses, both domestically and internationally. Securing supply chains requires companies to take measures to protect not only their employees, suppliers and customers but also their data. Government will be required to take similar measures.

Abating global warming depends upon changes being made in human activities involving the burning of oil, gasoline, and coal. The Rio Summit in 1992 and the Kyoto Protocol in 1997 focused on the emissions of greenhouse gases and represented a credible preventive strategy, with legally binding and enforceable commitments. Its flaws were in setting unrealistic target dates for emission reductions, especially for the United States, and in leaving key developing countries uncovered. Beyond global

surveillance and response systems, the delivery of medical goods and services to those who go without them is key to preventing the spread of infectious diseases. Preventing ethnic violence depends first upon understanding its unique causes within Jamaica and then the design of systems that could give policymakers advance warning of a conflict and the chance to determine whether it might be amenable to outside intervention.

Policy makers will need to participate in international initiatives to enhance security. Initiatives such as the "smart container" initiative, which will soon become a requirement for anyone involved in cross border transport with the US, is expected to add a considerable sum to the cost of doing business. Under the initiative, containers will be required to have global positioning transponders, smart seals that indicate whether the cargo has been tampered with, and other technologies. These devices can be expensive to install.

Another initiative spearheaded by US Customs and Border Protection is the Customs-Trade Partnership Against Terrorism (C-TPAT), a voluntary partnership between Customs and businesses, and the expanded 24-Hour Rule, requiring shippers using all modes of transportation to submit electronic manifests to Customs before cargo arrives at U.S. borders. The C-TPAT is quickly becoming the industry norm for any company hoping to do business globally in the near future. The joint government-business initiative is intended to help strengthen overall supply chain and border security. But for those companies who do not elect to participate, getting goods through Customs may turn out to be a long and tedious process.

Adopting preventive strategies in practice would mean, for example, that governments, along with private businesses, would have to take new and expensive steps to secure their information systems. Policy makers would have to expand domestic regulations and bear the commercial losses

associated with reducing the emissions of greenhouse gases. They would have to find resources far beyond those currently being committed to fight the threat of infectious diseases. So the issue is to determine the threat posed by these transnational threats and to continuously gather intelligence to determine whether imminent threats are sufficiently serious to jeopardize the Logistics Hub Initiative. If so, it therefore warrants taking the difficult steps necessary to implement credible preventive strategies.

Reducing Anti-competitive practices

As global markets and trade volumes through the hub grow, so will the potential for unfair trade practices by producers or suppliers of goods and services to detriment of the local consumer e.g. transshipment rates subsidized by domestic traffic. The economic position of local consumers in most cases is weak in comparison with that of producers and suppliers and indeed, the consumers in external target markets, giving rise to market failure.

Many different consequences of the Logistics Hub will combine to increase the exposure to a variety of market failures. To reduce the country's vulnerabilities, policy makers, in particular the Fair Trading Commission, would need to focus on minimizing the occurrence of price fixing, restrictions of competition and misleading trade practices due in part to the asymmetrical and unilateral structure of communication, namely the knowledge and information advantage held by the producer disadvantaging consumers. Furthermore, any lack of safety provisions, barriers to access to justice and representation may call for some kind of government intervention to help consumers. Any measures which aim to correct and remedy these market failures form an important part of the active consumer protection rules interventionist measures was to re-establish consumers' market power and safeguarding their sovereignty. The responsibility of the

state imparts certain duties of economic development in order to create greater economic security and guarantee certain rights for every citizen. The GOJ would be required to adjust the effects of externalities, provide the market with information and contest monopolies. The state is seen as being able to distribute welfare in a just way and to guarantee allocative efficiency. State intervention may be justified by its obligation to correct and remedy market failures.

These actions are necessary to strengthen Jamaica's allure and appeal as a location where indigenous and transnational corporations can realize their global ambitions.

Chapter 5

Role of Ministries, Departments and Agencies



MDAs

Notwithstanding the respective role of all MDAs, for MIIC, its Departments and Agencies, in particular, there are specific and prescribed leading roles to facilitate the wide range of pre-production, production and post-production value chain activities. Whether facilitating buyers and/or sellers in the international marketplace, industry cluster development, business-supplier linkages programs, intellectual property protection, business development and incubation services, support to innovators, establishing SEZs and providing industrial, commercial and office space, establishing global standards, international financial services, business life cycle funding, competition and competitiveness issues, trade facilitation, innovation and creativity, intellectual property protection..... the country's progress in undertaking business environment reforms will guarantee competitive transaction costs, speed and predictability in the new logistics centered economy.

Factories Corporation of Jamaica

Factories Corporation has been designated the implementing agency for the first phase of the Caymanas SEZ and the Naggo Head TechnoPark. The Caymanas lands, the only undeveloped lands of sufficient size in close proximity to Kingston Harbour, that can accommodate the needed developments to support the value added services and grow KCT's through put. The Kingston Container Terminal and NMIA, key supporting assets of the Logistics Hub, are currently undergoing divestment processes that are far advanced. The eventual concession awardees will have a keen interest in growing the throughput of their facilities. This will entail a necessary shift away from the dependence on

transshipment model to one including more value added services, some of which will naturally occur on the port or very proximate (e.g. container repair). The provision of logistics value added services is also being pursued by Kingston Wharves in its expansion strategy. However, other value added activities such as warehousing, packaging, kitting and even light assembly can be conducted on lands closest to but not necessarily abutting the port. The existing industrial, commercial and residential developments on the land closest to the port puts a severe restriction on the scale and scope of the value added activities that can be conducted proximate to the port. For example, Kingston Freezone is operating at full capacity and has a growing waiting list. Some uncertainty exists regarding the future of KFZ arising from the possible demolition of the Kingston Free Zone to facilitate port expansion.

Consequently, sections of the Caymanas area is to be developed as the Caymanas Special Economic Zone. MIIC has already given Factories Corporation the mandate to coordinate development of Caymanas and to act as the public representative in an eventual PPP to develop the zone. Caymanas is an excellent choice for the first SEZ site, absent any compelling reason to the contrary. The FCJ undertook a Request for Proposal (RFP) exercise which resulted in considerable investor interest. However, the Cabinet decided to abort the original RFP process and appointed an Enterprise Team to chart the best course forward. In addition, the Enterprise Team will be guided by a new SEZ regime. The Caymanas Special Economic Zone Development Enterprise Team (Enterprise Team) was established to prioritise the implementation of the Caymanas Special Economic Zone (CSEZ) as a critical component of Government's Program to become a value added and logistic-centred economy under the wider Global Logistics Hub Initiative. The Enterprise Team, chaired by Dr Vin Lawrence, is comprised of expert representatives from a wide cross section of technical areas, has been given the task of guiding the process for the

generation of strategies and programs for the development of the CSEZ. They also have general oversight for the built out of the project to ensure cohesion, alignment and synergy between the various project components.

The CSEZ is expected to attract sustained economic activities in specific value added industries as well as the MSME sector through a clustered approach. It is also expected that the CSEZ as a project will be financially feasible and delivers value for money while serving as a model for the development of future economic zones across the country in keeping with the Government of Jamaica (GOJ) growth and development agenda. According to the World Bank, the most appropriate way to initiate development of Caymanas would be for the GOJ and/or Factories Corporation to commission a detailed feasibility study for the first phase of 200 acres, which would include:

- Demand assessment and competitiveness benchmarking;
- Conceptual and detailed master plans;
- Costing of on-site infrastructure, buildings, and other installations;
- Identification and costing of necessary off-site infrastructure to ensure the success of the zone;
- Financial feasibility study;
- Economic impact evaluation and economic rate of return calculations;
- Environmental analysis (or full EIA, depending on categorization of the project);
- Preparation of TOR for detailed engineering design or design/build contract;

- Recommendations on form and structure of PPP;
- Recommendations on SEZ management and governance.

It may be prudent that a private developer and operator be recruited. The PPP that is eventually created should give a maximum of autonomy to the private developer – preferably under some form of BOT or BOOT arrangement – with Factories Corporation acting as government’s partner in the venture and owner of the land on which the zone sits.

FCJ has allotted \$120 million in 2014/15 to retrofit the Garmex Freezone. Garmex is in the process of being master planned, to reflect the country’s entry into logistics, and the increasing demand for warehouse and factory space. The Garmex Free Zone and Commercial Complex is sited on approximately fifty (50) acres of land and comprises several industrial buildings totalling about 550,000 sq. ft. The FCJ has produced a concept for the redevelopment of Garmex (as seen below) and the mechanism to carry out this development is being assessed.



The redevelopment plan includes:

- Rehabilitation of infrastructure to include roadways and parking areas, storm water drains and reconstruction of the Boundary Walls.
- Construction of redesigned entrance at Marcus Garvey Drive.
- Construction of new Administrative Building.
- Construction of multi-level parking garage.
- Construction of four (4) new industrial buildings totalling approximately 120,000 sq. ft.
- Redesign/Improvements to existing buildings.

The FCJ is also engaged in the re-opening of the Free Zone facility at Hayes, Clarendon, as a logistics centre, on a phased basis. That property had been closed for more than five years. Factories Corporation is to be overhauled in process to increase its technical, legal and financial capacity.

The Jamaica Promotions Agency (JAMPRO) has a well-defined role for packaging and marketing investment opportunities under the LHI and developing a solid value proposition for potential investors and master developers, an important component of which is the facilitation of landed investments into SEZs. JAMPRO will be targeting specialized Industries consisting of trans-national corporations (TNCs) that have a proven track record in the industry and therefore bring a level of expertise that further attracts other corporations, supplier companies and service providers involved in the industry. . This requires a global outlook which incorporates research, understanding the investor’s business model, the global indicators for the industry such as major developments and trends. This may include

advanced technology utilized in the industry or techniques and equipment used for packaging or remodeling a product. The Government is expecting World Bank financing to undertake a detailed sector/value chain analysis to identify the specific industries most likely to succeed, not only in Caymanas but in other zones as well. IBM Plant Location has undertaken an initial assessment of three sectors, and MIIC intends to such a firm to undertake a more comprehensive analysis of more sectors.

With a proper understanding of issues such as value chains, intellectual property protection, research and development facilities or the availability of a highly skilled workforce coupled with the features of the Special Economic Zones regime **JAMPRO** is in a good position to present Jamaica's value proposition to potential investors. As a direct consequences of high-level targeted investment missions to Europe, Kuwait, Dubai, Singapore, China, USA, Canada, India and Panama during the 2013-2014 operational year, ongoing discussions are being held with prospective investors and influencers around large-scale manufacturing investments in a range of sectors including energy and extractive industries, as well as in ICT/ Knowledge Services, medical devices, distribution and logistics. To date, investors, originating primarily out of Asia, Europe, North America and Latin America have being identified and are being courted by JAMPRO for investment opportunities in the our seaports, airports, developers and value added industries for our special economic zones, Third Party Logistics (3PL) providers, ship repair and recycling, bunkering and consumer product industries. JAMPRO will continue to engage these investors while seeking to attract new players to the table. The **Jamaica Business Development Corporation** (JBDC) has a significant support role to play as the central agency of the Ministry responsible for business development and technical advisory services to SMEs. Several institutions are engaged in a suite of business development services such as technical assistance, marketing

assistance, business incubation, etc. Through these institutions a network of business development centres will be formed within the SEZs and anchored by the JBDC which currently manages the several Business Information Centres (JAMBICs) across the country. The formation of a network of business development centres creates synergies across various institutions (which include training agencies, departments and universities). It also helps to streamline the offerings of these institutions, eliminates the duplication of effort and increases economies of scale. This network of business development centres will provide a platform for achieving other important objectives such as leveraging the scientific research and development resources of universities and colleges and aligning these to the opportunities in the marketplace through Government-University-Industry collaboration.

Industries require support in specialized areas to ensure that the standards can be maintained and the MNCs own quality of service is guaranteed. As Jamaica moves forward with the Logistics Hub Initiative, a strategy aimed at attracting FDI while promoting local enterprises will be implemented. Stimulating business linkages is an important part of the strategies for building local enterprises that could compete at home and abroad as well as meet employment goals. The sectors that SMEs choose to compete in will be as important as how they compete. Sustainable competitiveness can only be achieved through a niche approach that leverages technology, innovation, invention, and quality. At the heart of this transformation must be a clearly defined partnership between education, public and private sectors; a partnership that creates impact and positive results.

The Ministry is committed to developing facilities to support an emerging generation of new entrepreneurs that are engaged in the roll-out of business ventures that are positioned further up the knowledge-chain. This includes software technology, animation, and other ventures within the creative

economy. The Bureau of Standards of Jamaica (BSJ) has embarked on the implementation of Enterprise Jamaica, a project that is designed to provide mentoring, leadership development and capacity building through a virtual incubator programme and a leadership and innovation component. The Ministry intends to continue this project as part of its strategy of encouraging and facilitating entrepreneurship and new venture start-ups. It is expected that the Enterprise Jamaica initiative and similar efforts aimed at driving entrepreneurship will generate potential entrepreneurs seeking equity capital to launch their start-ups.

The single most critical impediment to the development of the MSME sector is access to capital. The availability of adequate and appropriate financing remains a major barrier to start-ups and the long-term sustainability of early-stage business ventures. A start-up company is typically made up of the business idea articulated in a proper business plan. The financial life cycle model predicts that young and small firms, in the early stage of their life-cycle face a situation of having neither a track record nor collateral assets, usually have negative revenues/cash flows, and no established market presence (especially for innovative high-tech start-ups). The risks involved in this type of business are consequently much higher than in mature businesses.

Self-Start Fund (SSF) has embarked on repositioning itself as a new and vibrant entity in order to execute its mandate including meeting the demands of the growing MSME sector. The thrust of SSF's restructuring and repositioning strategy seeks to strengthen its operational controls, design and implement a new suite of loan products that are more suited to the needs of the productive sector. The repositioned and capitalized lending operations will be more focused on existing businesses and start-ups that are in the productive sector. Based on an analysis of surveys conducted by the SSF, the entity estimates that it could provide financing to approximately

1,152 entrepreneurs (valuing \$469M) thereby resulting in the creation/preservation of some 4,608 jobs within the MSME sector.

Self-Start Fund has developed seven (7) new and enhanced sector sensitive products to meet the demands in the productive sectors. This diverse line of products will target industries including the manufacturing, agro-processing and creative industries. The new suite of financial products will include reduced client costs and provide greater emphasis on the productive and creative industries. The focus of the new loan package is on the productive sector, namely, Agriculture, Manufacturing, Agro Processing, Creative Industries (fine arts, fashion, gifts, crafts, cuisine, publishing, film and video, advertising, architecture), Tourism related activities, Information, Communications Technology (ICT), Energy related projects, Non-Metallic Mining and Support Services for Manufacturing.

MIDA will be restructured and repositioned to function largely as a financial management and micro-venture financing entity. Micro venture capital financing focuses on projects too small to garner the interest of more traditional venture capitalists but too big or risky to attract capital from traditional lending sources. Founders of innovative high-tech ventures are often engineers and scientists, who tend to lack relevant business skills. Furthermore, there usually exists no prior market history of comparable cases and the products or services of high-tech firms are normally new to the market and technically complex; hence, market success and the high degree of uncertainty in the company's ability to create sustainable revenues. In addition, their assets are usually knowledge-based and thus intangible. Clearly, the present financing environment does not offer appropriate financing options for start-ups and new ventures.

The role of Intellectual Property (IP) will figure prominently in the micro-venture funding process. This is especially critical to entrepreneurs who

have developed IP, which forms the core asset to get the business started. The passage of the Security of Interest in Personal Property (SIPP) bill and the setting up of the Collateral Registry are fully supportive of the effort. Accordingly, MIDA is seeking grant funding injection from GOJ and other sources of \$1 Billion to establish a micro-venture revolving fund. This fund will be administered by a Funding Committee, which will include professionals with industry experience. This Funding Committee will convene quarterly investor forums where entrepreneurs will be given an opportunity to pitch their business plans. Funding limits will be set at US \$25,000 initially.

Another important activity that MIDA will lead is in the strengthening of the tracking and monitoring of lending portfolio. In addition to risk assessment that is associated with the credit underwriting process that supports its lending activities, MIDA will also position itself to actively monitor and assess the performance of retail loan portfolio and the risks that are associated with the businesses on an ongoing basis. MIDA will collaborate closely with DBJ and Scotiabank Enterprise-Wide Risk Management and Financing (SERMaF) Programme for SMEs, to implement business credit risk rating for SMEs. This initiative will support the credit risk management needs of Self Start Fund to improve its credit risk management system and procedures.

The **Trade Board** is Jamaica's certifying authority for goods imported and exported under the various trade agreements. The Trade Board Limited has responsibility for:

- WTO Agreement on Import Licensing.

- Issuing import and export licences for specific items that may have a negative impact on the environmental, social or economic conditions of the country;

- Issuing certificates of origin for Jamaican exports under various Preferential Trade Agreements;

- Ensuring that Jamaica meets its international obligations under the following:

- WTO Agreement on Rules of Origin

The Trade Board is leading the process of reducing the inefficiency that exists in the import/export process and working to establish a single electronic trade window. The creation of a Single Window environment in which information associated with trade and transportation needs be submitted only at one single point of entry to be distributed to all the pertinent public entities for subsequent processing (customs, regulatory agencies concerned with foreign trade operations, law enforcement and port authorities etc.) is critical.

The Trade Board Information System (TBIS) is already integrated with Customs and is serving as a benchmark in review process. The following pieces of legislations (and attendant regulations) impact import/export process optimization, namely:

- The Processed Food Act
- The Food and Drugs Act
- The Agricultural Produce Act
- The Plant Quarantine Act

- The Aquaculture, Inland and Marine Products and By-Products (Inspection, Licensing and Export) Act
- The Pesticide Act
- The E-Transactions Act

Inherent in some legislations are implications or expressed provisions requiring payment of fees for applications, licenses, certificates as the case may be, to be paid directly to institutions where the applications are made. Prescribed applications forms for licenses, permits and certificates are in instances stipulated in the body of the Act or in Regulations. The form of the permit, license or certificate is also prescribed in instances. In order to standardize fees, consolidate collection (a key recommendation of the Cabinet Office Business Process Review of the trade Facilitation processes) and standardize the permitting process around a single electronic form these pieces of legislation will need to be reviewed and where necessary, amended. Details are provided in Appendix III.

In addressing the issue of electronic fee payment and forms; standardization of fee collection and application forms the following was recommended:

- The E-Transactions Act 2006, makes provision for the submission of documents in electronic format. The Act in Section 14 and 15 makes provision for electronic forms and payment to the Government by electronic means respectively. It should therefore be amended to explicitly state that its provisions supersedes those of prior legislation.
- Where necessary, affected legislations be should be amended to allow the responsible minister to make regulations providing for electronic forms and the format of electronic licenses and permits that is substantially

the same as the physical prescribed ones and can be used in their place; make regulations providing for electronic fee collection and the manner in which such payment may be made by electronic means.

The single electronic window will work in conjunction with the PCS and ASYCUDA as an important part of the one-stop-shop for business facilitation in the SEZs, along with company formation toolkits, work permit processing and development approvals.

Chapter 6

Multi-lateral support



Untitled

MULTILATERAL SUPPORT

Our supreme confidence of success in the GLHI is based on the concrete actions of local and global investors, and our bilateral and multilateral partners that have made independent assessments and have concluded that that Jamaica's prospects as a Logistics Hub are real. As such, investments, grants and other forms of technical assistance are beginning to materialize to rehabilitate existing port infrastructure, airport infrastructure, industrial/ commercial infrastructure and ICT infrastructure and to develop new projects such as commodity ports, cargo airports, dry dock and special economic zones.

The World Bank Group (WBG) has committed to providing enhanced technical and other assistance for specific aspects of the Global Logistics Hub Initiative (GLHI). This is an upgrade to the plan to become a regional logistics hub outlined in the 2010-2013 World Bank Country Partnership Strategy (CPS). Previous WBG assistance focused on reducing impacts of climate change, improving access by the poor and privatizing certain government assets.

The World Bank sees the Logistics Hub initiative possibly operating within the context of the Caribbean Growth Forum, a joint venture by the Inter-American Development Bank, the World Bank and the Caribbean Development Bank. The World Bank has offered to fund the Logistics master plan with the WBG providing essential building blocks of the master plan. The LHS is working with the PIOJ on the terms of reference for the master plan to

finalize our request to the World Bank. The World Bank Group has already started to assess the Bank's role in the LHI and is providing technical assistance in the development of aspects of the master plan for the logistics hub, support for the Port Community System and the SEZ regime. The Special Economic Zones will accommodate a mix of activities, expected to include light manufacturing and assembly, information technology, food processing, logistics and distribution, and creative industries. The Government, however, is expecting World Bank financing to undertake a more detailed sector/value chain analysis to identify the specific industries most likely to succeed, not only in Caymanas but in other zones as well. IBM Plant Location has undertaken an initial assessment of three sectors, and MIIC hopes to hire them or a similar firm to undertake a more comprehensive analysis of more sectors.

Several mission from the World Bank Group visited Jamaica throughout the year for consultations on the new Country Partnership Strategy that will feature the Logistics Hub Initiative. On April 29, 2014, the World Bank Group's Board of Executive Directors endorsed the new Country Partnership Strategy (CPS) for Jamaica for 2014-2017. The CPS focuses on creating the conditions for growth and prosperity for all Jamaicans. The strategy proposes a lending program of \$510 million over the next four years, which is part of a comprehensive and ambitious package of reforms led by the Government of Jamaica with the support of the international community including the International Monetary Fund's (IMF) Extended Fund Facility and the Inter-American Development Bank's (IDB) program. The Country Partnership Strategy will govern the relationship between the island and the World Bank for the period 2014-17. The strategy will include issues such as private sector involvement in the logistics hub through Public Private partnerships, infrastructure needs and infrastructure investment funds, facilitation mechanisms, energy needs, capacity building and the provision of a skilled workforce. The WBG is also committed to

providing a safety net for the most vulnerable in society. Features of the CPS are:

- Modernizing the public sector by strengthening the government capacity and effectiveness. New activities will focus on the implementation of a new Debt Law and will support the reform of the public pension system and the Public Sector Investment Program. It will improve customs administration and standardization of the Kingston port and continue to support Public Private Partnerships in energy, transport, waste water treatment and education.
- Creating an enabling environment for private sector growth by fostering investments in high potential sectors, such as logistics and agriculture. The strategy is expected to help reduce the time needed for an entrepreneur to register a new business, obtain a construction permit and pay taxes. It will also provide digital training opportunities for the youth and establish regional incubators for mobile and climate innovations.

An important component is the assessment of the ability of internal logistics to unlock the growth potential of the country, and in this regard the WBG has already started ground work on an economic assessment involving a trucking survey, a port and aviation survey, a regional trade survey, and an assessment of air, marine and ICT connectivity. An added component, which is a part of the current CPS, involves creating a GIS database to assess the vulnerability of the project by determining the resiliency of logistics infrastructure, the impact of hurricanes, climate change and disaster risk management. An evaluation of the Jamaica Customs Department was conducted in August 2012. This initial work will feed into the master plan and should be completed by June 30, 2014. The master plan will serve to define how Jamaica should be positioned as a global hub, assess the internal logistics and the infrastructure and energy needs of the

special economic zones being created demonstrate how the Logistics potential of Jamaica can motivate international interventions plus attract private sector investment.

According to the 2010-2013 CPS, the growth momentum of the telecoms sector is hampered by low broadband access. Broadband penetration remains low due to high international connectivity prices, unavailability of national backbone networks and artificial barriers through inefficient regulation. As part of the GLH the GOJ proposes to establish a regional internet exchange point (IXP) in Jamaica with assistance from the WBG, US Chamber of Commerce preferably as a PPP or totally private sector project.

In the 2010-2013 Country Partnership Strategy, the Doing Business Reform Unit of the Bank and IFC, included Jamaica in the Caribbean Business Enabling Environment analytical work and worked with JAMPRO and MIIC around the areas covered by the Doing Business indicators. WBG support in these areas was in close collaboration with CDB, DFID, IDB, UNDP and USAID. Jointly with the Bank, IFC action included developing a better business environment for special economic zones, investment and trade promotion. This work should continue under the new Country Partnership Strategy.

The impact of the World Bank intervention will be assessed beginning with creating baseline indicators and monitoring these on an ongoing basis. The World Bank Group will also provide targeted assistance to:

- I. Working Groups of the GOJ's Logistics Task Force
- II. Project Pipeline, "low hanging fruit", establishing negotiating positions to ensure appropriate allocation of risk.

- III. Investor Pipeline, attracting world class and best in class investors, organizing investor forums, private sector engagement, PPPs , initiating large scale targeted and/or "unsolicited" private investments and Investment Promotion

- IV. MSME development

- V. Revitalization of Downtown Kingston & Port Royal, Montego Bay, Spanish Town and Falmouth

Capacity building is factored into the work program. The World Bank notes that thousands of jobs will have to be created to support the logistics hub and the MIIC has started to look at the training of human capital to fuel the needs of the hub and also strategically for export under special agreement with large markets like the United States and Canada. This 'export' of Jamaican labour, can enhance the island's comparative advantages of having a strategic geographical location, and a strong English speaking work force. Thousands of jobs are expected to be created in areas such as, mechatronics integration of marine engineering, (mechanical, electrical and informatics), various ship board professions such as electromechanical engineering, port operations management, heavy duty equipment operations, logistics and supply chain management.

The Minister of Industry Investment and Commerce, Anthony Hylton led a mission to Washington over the period February 18-22, 2013 to hold talks with the World Bank Group and IDB on additional areas of collaboration and support for the Logistics Hub Initiative.

The Jamaican mission held a number of meetings with the World Bank, the International Finance Corporation(IFC), the Multilateral Investment Guarantee Agency (MIGA), the Inter-American Development Bank (IDB), and the Inter-American Investment Corporation (IIC). Meetings were also held

with US Chamber of Commerce and the US Trade and Development Agency. The US Chamber offered to promote the Logistics Hub among its membership while the USTDA will assess specific components of the Logistics Hub for grant assistance especially where these components support US exports, creates an enabling environment for trade, investment and sustainable economic development. Separate meetings were held with the law firms Curtis, Mallet-Prevost Colt & Mosle and Sandler, Travis, Rosenberg.

The recent IMF staff-level agreement on the key elements of an economic program to be supported by a 48-month arrangement under the Extended Fund Facility (EFF), in the amount of US\$750 million, calls for reforms to improve growth-generating efficiency through enhancements to the business environment, increased competitiveness, and strengthened institutional capacity. This requirement demands a growth agenda. Despite considerable inertia within multilateral circles due to Jamaica's development record, the implementation of the Global Logistics Hub Initiative has been recognized as a catalyst for the economic growth of the country.

Under the Extended Fund Facility with the IMF the country faces stringent fiscal restrictions. In this past, MIICs budget requests have been slashed and otherwise contained by the Ministry of Finance due to fiscal constraints. However, it is well recognized that a programme of fiscal consolidation is contra cyclical to growth. The endorsement of the LHI by the multilateral financial institutions is reflected in technical assistance along with investment and loan funding from our international development partners, namely the World Bank and IDB, and specific interventions to be supported over the next four years. The World Bank is funding the Foundations for Competitiveness and Growth Project which is geared towards improving the business environment, attracting large investments

and supporting MSMEs. This largely reflects the strategic policy priorities of the Ministry.

A separate World Bank project Youth Employment in Digital and Creative Industries Project, focused on the creative industries is being finalized to identify key projects within this sector. The IFC introduced a US \$500 Infrastructure Fund denominated in Jamaican Dollars to finance projects including the Logistics Hub.

Chapter 7

Conclusion



Conclusion

Conclusion

The eventual success of the Global Logistics Hub Initiative (GLHI) relies on a conscious approaches to planning, policy development and investment dependent upon public private partnerships and collaborations across transportation modes, industrial infrastructure, as well as across the public and private sectors. The actions complement current market-oriented policies, with the GOJ creating a conducive environment for private investment in infrastructure and locating businesses while safeguarding the public interest. The GLHI involves sustained commitments to ongoing policy coordination and integration within and among government, public and private sector.

The Logistics Hub serves as a platform for local and global businesses to secure and expand trade while improving their links with traditional and emerging markets and economies. The GOJ's efforts will ensure that Jamaica's transportation infrastructure and supporting services are ready to enhance international trade as the global economy continues to rebound from the global financial crisis. This no doubt will result in Jamaica's participation in a greater share of growing trade flows along the major trade corridors serving the Americas.

Jamaica's strategy involves the creation of specially planned and designed economic zones operating outside Jamaica's customs territory with attractive incentives where licensed activities (e.g. design, processing/assembly, manufacturing, distribution and specified internationally traded services) would take place with the requisite supporting business facilitation and open trade

arrangements with strategic markets. The special economic zones are supported by the following:

- A labour market that is adequate, has the appropriate talent and the competences oriented towards meeting the global standards required in the logistics related industries and labour policies that allows the free movement of skilled persons;
- An environment that fosters innovation while providing a low appropriability risk to preserve the value created to the benefit of the patent or copyright holders and/or licensees;
- A business community system that leverages technology and business analytics in a collaborative fashion that results in multi-echelon optimization;
- World class ports, airports and telecommunications infrastructure providing superior maritime, aviation and digital connectivity for business located in Jamaica.
- Top class residential, commercial and urban developments to support modern lifestyles.
- A home grown business community with special focus on MSMEs fully integrated into global value chains

Public Private Partnerships

The current policy of the GOJ is the privatisation of certain strategic assets such as the Kingston Container Terminal (“KCT”) using the Public Private Partnership (“PPP”) form of privatisation. In the case of KCT the objective is to identify the best possible candidate to take over the existing Container Terminal located at the Port of Kingston, owned by the PAJ and currently

operated by a management agreement dated 11th August, 2011 between the PAJ and KCT Services Ltd., which is a wholly owned subsidiary of the PAJ.

At the present time the PAJ is indebted to various financial institutions for the development of the KCT over a period of many years, in several phases. At the present time the KCT has a total of 19 Ship-to-shore Gantry Cranes, of which 5 are not operative, and other necessary equipment and systems to achieve a rated capacity of 2.8 m TEU’s per annum.

The Government of Jamaica (“GOJ”) wishes to achieve a privatisation which will allow the new private operator to increase the productivity and efficiency of the KCT by virtue of its international experience in other ports.

The other very important aspect of the project is to accomplish the necessary dredging of the port to increase the depth of the channel and begin to accommodate larger vessels which will be coming through the expanded Panama Canal. In addition, the existing berths have to be dredged to the maximum depth that they can accommodate, and new berths will have to be constructed with the capability of berthing larger vessels than can be berthed at the existing terminals after they have been dredged to their maximum depth.

The financing of this dredging has not yet been finalised as the PAJ would normally undertake this exercise, but because of the very substantial cost involved it may have to be financed by the private sector partner as part of the expansion of the port. One possible solution may be to share the cost between the PAJ and the private sector partner on the basis that the former undertakes the access channel, the turning basin, and the deepening of the

existing berths, and the latter undertakes the expansion of the South terminal.

Policy and Regulations issues

It is clear that the Logistics Hub strategy goes well beyond upgrading transportation infrastructure. Shifting international trade patterns and evolving supply chains suggest an important role for Jamaica's Global Logistics Hub as suggested by Asian, North American and European interests. Strong developmental linkages exist between the LHI and CARICOM and Latin America. The LHI is being implemented at a time when Jamaica's Trade policy is under review, and CARICOM is being restructured to be more relevant. Commitment under the WTO require reforms to export subsidies. One way preferential trade agreements are giving way to reciprocal trade agreements. To be integrated in global value chains requires a restructuring of rules of origin to accommodate globally fragmented production processes. This requires a overhaul of tax and trade agreements. Maximizing and optimizing the opportunities emanating from the global trading system requires the government and private sector working together to identify and address policy and regulatory issues that impact on the Hub. These include:

- Human capital development
- A conducive business and investment climate
- Enhancing entrepreneurship and innovation in competitive industries while fostering MSME participation and development.
- Attracting and mobilisation private capital for investment and job creation;
- Equitable access to financing

- Open sky policies
- Trade policies
- Harmonizing and enforcing regulations
- Border efficiency and security
- Competitively priced energy
- Promotion and Marketing
- Technology and innovation
- Environmental protection

Human Capital Development

A highly skilled, productive, adaptable, reliable and mobile workforce is essential. The logistics sector is knowledge-based where innovation, research and development, science and technology are strategic drivers.

Labour markets and skills training requirements surveys have been conducted to inform a coordinated approach amongst government, private sector, labour organizations and higher educational institutions to make transportation skills and logistics training and supply chains management a priority. Post-secondary institutions including the Caribbean Maritime Institute (CMI), HEART, UTECH, NCU, UWI, UCCA are already increasing the quality and quantity of training options in the fields of transportation, logistics, engineering and supply chain management. Community colleges are working to incorporate logistics and supply change management into their curricula. Future innovations include transportation training simulation programs. Continuing to build academic capacity is important to ensure that innovative ideas and products are generated to support and train the

logistics labour force. The aim is to advance a skills and human resources strategy designed to attract, develop and retain a highly specialized, adaptable and skilled workforce to sustain the GLHI.

Promotion and Marketing

Ministerial Trade missions to Europe, Canada, USA, China, Singapore, Panama, Guatemala and other Latin American countries continue to generate and grow investor interest in the Logistics Hub as a fast, reliable and cost-effective option for marine and air cargo including containerized and bulk cargo.

The Initiative recognizes that international trade fuels economic growth. As such, various studies to assess existing trade activities and trade potential within the region have been undertaken in conjunction with the World Bank, IDB, IFC and other consultants. A sector-specific industry analysis to determine investment potential and to develop specific marketing strategies will enhance export capacity in the region by aiding export-ready businesses into international markets by IBM -PLI is currently underway. This study will help identify sector-based opportunities to provide value-added services within the GLHI.

Technology and Innovation

The incorporation of innovative business models, processes and technologies are essential to optimize safety, security and efficiency of the logistics and transport system. Next generation productivity improving systems are to be introduced to allow strategic integration across the transportation system. Application of cutting edge technology by some of the world's leading technology companies is aiding the GLHI to achieve its goals. Connectivity related reforms will result in the reduction of the cost of internet and increased broadband penetration.

Environment

In implementing the Global Logistics Hub, the GOJ is committed to the principles of economic, social and environmental sustainability. From a broad policy perspective, it is the foreign direct investments in targeted industries and their spinoffs that will trigger the transformation of the Jamaican economy and achieve robust job growth. The GLHI promotes environmental, societal and economic sustainability in a holistic manner. A more efficient trade system must optimize existing environmental footprints and better manage the impacts on communities.

Jamaica has an idyllic natural environment and the GOJ recognizes that sustainable development involves balancing economic, social and environmental safeguards necessary for the country's future development as articulated in Vision 2030. This approach has received the full support of the multilateral lending institutions, namely the International Monetary Fund (IMF), World Bank Group (IBRD, IFC, MIGA) and the Inter-American Development Bank (IDB).

Public Sector - Private Sector Collaboration

The GOJ has formalized the collaborative mechanism and structure to build a positive working relationship that is established among stakeholders. This is a dynamic process with GOJ and engaged private sector stakeholders working together to develop creative and innovative ways to respond to the challenges and opportunities facing the nation in a transparent manner. The GOJ is working with the multilateral community and the private sector to select, structure and implement public private partnerships in various projects involving substantial investment and technology transfer in projects related to industrial infrastructure such as freezones, industrial parks, logistics and storage facilities.

A joint business plan approach is to be adopted as part of the Country Partnership Strategy with the World Bank Group to support policy reforms along with investments to spur growth. Policy support in Logistics related activities, trade and customs facilitation, local currency bonds, infrastructure funds and project preparation funds. Investment support will be obtained from the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA).

Utilize the industry knowledge from the private sector for maximum impact in a formalized manner through the National Logistics Initiative Council. The NLIC will identify and address the range of issues impacting the competitiveness of the GLHI, such as :

- The availability of competitively priced energy is a major/critical requirement to the success of the GLHI.
- Border efficiency and security are essential to the Logistics Hub:

 - Pre-clearance services
 - Advance notification

Neither the Government, organization nor firm acting alone can effectively tackle the range of interconnected issues that will determine the GLHI's success or to capitalize on potential opportunities presented by future forecasted shifts in global trade patterns.

As argued above, the gravamen of the Logistics Hub Initiative is to stimulate much needed economic growth; achieved primarily through multiplier effects and linkages between multinational corporations and MSMEs located in SEZs . Although large transnational businesses are the catalyst for the Global Logistics Hub, the outputs and knock-on effects from such

corporations through vertical and horizontal linkages to Jamaica's Micro, Small and Medium sized Enterprises (MSMEs) that account for 70-80% of the companies that will occupy the SEZs, are the primary focus of the Government.

The cruise shipping industry is a major economic driver for the redevelopment of downtown Kingston and other urban areas.

Each economic zone would be characterized by some level of differentiation linked to the type of industry clusters located in the respective zones. The SEZ component of the Logistics Master Plan involves a clear demarcation for all the proposed SEZs in Jamaica with clear purposes for each and showing the interconnections. The requirements of the SEZs for utilities and internal logistics linking the zones to the ports and airports, commercial and residential areas and other social services must be factored in the master plan. bearing in mind that the Logistics Hub is situated within a global context, understanding forecasted demand and competition is important in designing the Hub. In this regard, a strategic framework study is the next step in the implementation process.

A new strategic approach is needed to attract large scale and/or strategic investments to stimulate significant job creation and sustained economic growth and development of the Jamaican economy. Securing substantial amounts of foreign direct investments is one of the criteria for success along the critical path of the Country's Growth Agenda. Such a new approach is needed to convert Jamaica's unfilled potential into landed investments in industries that are essential for export led growth such as logistics, manufacturing, energy, ICT, creative industries, agro-business etc. Such an approach goes beyond the mere fiscal incentives contemplated by the Income Tax Relief (Large-Scale Projects and Pioneer Industries) Act (LPPA).

The proposed strategy is a combination of negotiating tactics, investment facilitation, domestic supplier networks and enhanced procurement rules that seeks not only to complement LPPA but also to match actions by competing jurisdictions. It will also overcome the bureaucratic inertia and operational challenges in securing these investments and put in place legislated measures to ensure smooth and quicker implementation.

Going forward, creating strong sustainable and balanced growth must be underpinned by productivity improvement and innovation, enabling transition into higher value added activities and leveraging opportunities in a changing global landscape. Investment in areas of logistics, ICT, energy generation, and creative industries are being targeted. This represents a carefully prioritized strategy to encourage and facilitate transformational private sector investment in promising high growth areas in a market friendly way. The most relevant and pressing of these projects is perhaps the Logistics Hub Initiative (LHI). The LHI is attracting large scale and strategic projects to the country and represents a bold response to decades of underachievement, and must be carried out in a manner that provides “the greatest benefit to the greatest numbers” in the Jamaican society.

It is expected that under LPPA the capital investment or employment thresholds for qualifying large scale projects shall be either:

- i. initial capital investment of approximately US\$500 million; or
- ii. an average level continuing employment of no less than 1,000-1,500 jobs per year.

A pioneer industry, apart from making a strategic contribution is considered as one having a potentially transformational impact on the economy, and also involves the following:

- The use of innovative new technology, cultural assets or other available resources
- Uses a labour profile that is intensive in high-skilled labour
- The industry facilitates a sustainable transfer of technology to the local economy
- Produces a high-value, non-primary product(s)
- Involves value-chain activities concentrated in Jamaica (i.e. a significant share of the value of the final product must originate in Jamaica).

Large scale and technologically advanced industries are necessary to catalyse the growth process. They also can improve the efficiency of existing and new infrastructure development. The ability of new investments to generate a substantial number of jobs are a key consideration.

The full impact of the LHI necessitates the integrated development of all its components because the physical components of the GLHI consist of brownfield and greenfield projects with KCT, NMIA and the special economic zones featuring as prized attractions considering the in-principle attractiveness of infrastructure as an asset class. The Sangster International Airport in Montego Bay has already been successfully privatized. The short coming of the fragmented approach of privatization is that the greenfield projects and the less viable but critical components of the hub such as the railway may not be implemented in a manner that provides optimal impact.

To achieve the full potential of productivity-enhancement investments, then all the factors constraining investment and growth must be addressed. In this connection, reforms focused on improving the business environment

through legislative and operational upgrades, capacity building and financing to facilitate the integration of small firms into global value chains while necessary are not sufficient. Other components, such as the modernization of the public sector (to increase efficiency and accountability in the use of public resources, management of fiscal risks and improved public sector services) are receiving attention but not at a pace to steer strategic investments away from other more accommodating jurisdictions, such as Costa Rica and Panama. How the potential deals are facilitated at the political level, how they are negotiated and how the procurement process is streamlined are important activities demanding attention.

It is now taken for granted that Jamaica's flagship investment effort over the short to medium term will be the Logistic Hub Initiative. The investments in logistics related infrastructure is led by the impending privatization of Kingston Container Terminal, Norman Manley International Airport, and the infusion of at least US\$1.5 billion for a new port at Portland Bight in conjunction with an industrial park, which is proposed by China Harbour Engineering Co.

In addition, GoJ has established an Enterprise Team that is far advanced in the development of the Caymanas Special Economic Zone that will, inter alia, improve the competitive position of the seaport, airport and the Jamaica Railway.

Other notable private sector led projects include the aggressive expansion planned by existing major local players such as Kingston Wharves Ltd. The Kingston Wharves Group is set to invest more than US\$70 million over the next five years, which includes the construction of a 150,000 square foot state-of-the-art logistics centre in Newport West, adjacent to the Port of Kingston. The telecommunications infrastructure has been declared "hub ready" as a result of investment of several billion dollars by competing

telecoms providers to deploy advanced terrestrial and subsea fibre optics networks, state of the art wireless networks and supporting business solutions. Numerous investments in the construction of new and the upgrade of existing hotels, housing and commercial facilities in the urban support areas have already begun to materialize. Jamaica could attract even more foreign direct investment with a focused approach.

According to the World Economic Forum, many investors, particularly long-term ones such as pension funds, insurance companies and sovereign wealth funds, want to allocate more capital in infrastructure but struggle to find bankable projects. A new approach is required to attracting this capital by undertaking thoughtful risk allocation and mitigation, enhancing understanding of counter-party needs, enabling an efficient and transparent transaction environment and developing a credible infrastructure pipeline.

Appropriate government interventions will be required where necessary to provide a platform that will enable the private sector to mobilize the intellectual, creative, financial and physical resources to power the growth process. Critical success factors to the attraction of Jamaica as a logistics and overall investment destination will, at a minimum, be centred around the following dimensions- (1) understanding and facilitating the unique counter-party needs of such investments, (2) negotiating tactics (3) strategies/incentives to improve innovation and establish service and supply networks.

Based on the potential economic impact, some of the projects that have been proposed may be most appropriately negotiated on a bilateral political level instead of through a tender process. Once a particular investment threshold and other criteria are reached the investment promotion agency should manage the process and reviews of other agencies. Complex

permitting processes that lack coordination and predictability will constrain investment even for the most financially attractive projects. The lead agency will roll out their VIP investor care and policy advocacy services featuring:

- (1) Enhanced responsiveness of public agencies;
- (2) proactive role and personal involvement of senior ministers in the investment process;
- (3) ability to respond with speed and decisiveness on complex issues that arise during the investment process,
- (4) leveraging the strategic projects and opportunities as flagship projects;
- (5) staying abreast of investor requirements and continually reviewing the investment climate.

The GOJ must also facilitate private and institutional investors by providing specific technical expertise to facilitate financing of mega logistics projects whether through Equity, User-financing, Self-financing, or Joint-venture financing with less reliance on government Debt financing. It would be the responsibility of the GOJ to firstly create a favourable risk environment making the effort to fully understand the unique business cases and to identifying the risks associated with these huge undertakings and the steps to be taken to minimize that risk. This would be accomplished through a Project Preparation Facility, policy framework e.g. PPP, institutional framework and transaction facilitation bearing in mind that the specific motivating factors of individual companies vary from industry to industry, and therefore international companies often conduct their own broad, cross-sectoral benchmark evaluation in the early stages of their site-selection process. Inherent to this task is a need to understand the

perspective of investors, who assess infrastructure projects against a multitude of options in other asset classes and countries. In this context, countries with more effective regulatory environments and credible project pipelines will attract more investment at a lower cost. Fortunately, the most critical policies to interest private finance also tend to benefit society. This underscores a key point: the GOJ can seek private investment while focusing on the ultimate goal of creating broader economic value and social benefits.

Concerted actions would also include a facilitating investment and business climate, high quality and technical skills of the labour force, a modern and enforceable, intellectual property and tax regime, a sound infrastructure and support industry, and relevant and competent institutional support.

Approaches to building and cultivating critical supplier networks must be offered to include –

- (1) facilitating domestic linkages, small business capacity building
- (2) intellectual property and technical skills promotion
- (3) extending fiscal relief to suppliers similar to those under Free Zone/SEZ schemes;
- (4) Strengthening the education infrastructure to provide a labour pool, sufficient in size and skills to support investor needs.
- (5) Employing measures to promote investment in innovation should include support programmes linking Universities and businesses for technology transfers; and increasing access to and use of knowledge technologies in production through job training interventions and encouragement of intellectual property of ideas.

A delicate yet controversial issue that must be noted concerns the Procurement Rules. Procurement issues must be considered within the context of the competitive environment, timing issues, feasibility and long term viability of these projects. Attention is drawn to the fact that Pakistan, faced with some of the very challenges Jamaica is experiencing, tabled a resolution for Government to award any contract or procure any goods or service through a more streamlined process. This move, it is alleged, is aimed at facilitating China and Middle Eastern Companies investing in Pakistan, and who have been affected by delays in the approval process. While we do not support some of the measures taken by Pakistan, it is perhaps useful to review our Procurement Rules against the best practices of other countries to determine if possible whether, the rules could be modified to allow speedier processing without compromising on issues of accountability, transparency and competition while supporting the growth imperative.

It is worth repeating that the LHI projects are sufficient to create an ongoing project pipeline to enhance Jamaica's market attractiveness. The LHI represents a set of realistic, comprehensive opportunities instead of ad hoc procurements to enable investors to see value in building capabilities and expertise in the country. Bidding for a public-private partnership (PPP) project is time consuming and costly for investors. A lack of standardization is a major obstacle to an efficient process. Even though the PPP Unit at DBJ is given the task of enhancing transactional capacity and efficiency on the government side, and of driving greater efficiency and standardization in the procurement process, the unit requires substantial capacity building to make the process more efficient.

The GoJ, where appropriate, must initiate bilateral discussions and negotiate with strategic partners to trigger the participation of their large transnational firms or consortia in the financing, delivery, management, and

operation of strategic projects. The recent U.S.-Africa Leaders Summit, aimed to strengthen ties between the United States and Africa is a case in point. The Summit focused on trade and investment in Africa and provided an opportunity for the US and its strategic partners in Africa to discuss ways of stimulating growth, unlocking opportunities, and creating an enabling environment. At the Summit, President Obama announced \$7 billion in new financing to promote U.S. exports to and investments in Africa. U.S. companies announced new deals in clean energy, aviation, banking, and construction worth more than \$14 billion, in addition to \$12 billion in new commitments under the President's Power Africa initiative from private sector partners, the World Bank, and the government of Sweden. Taken together, these new commitments amount to more than \$33 billion, supporting economic growth across Africa and the creation of tens of thousands of U.S. jobs..

Some large corporations may only locate small parts of their global production and distribution chains in Jamaica. Such investments within the Jamaican context can make substantial contributions to the country's economic wellbeing. GOJ must employ mechanisms at the political level that are no less attractive to secure private investments, which have the ability to deliver large scale and integrated solutions for infrastructure, residential and commercial development and operation.

Key actions to achieve the logistics centered economy

Key actions of MIIC to achieve the logistics centered economy:

1. Special Economic Zones nurturing industrial clusters with forward and backward linkages with the domestic economy. A new SEZ regime will further improve the prospects for Jamaica's airports and sea ports and thereby trigger enhancements in the country's capacity to offer improved and increased logistics services. SEZs are central to the overall GLHI as they will link industrial development and logistics services and will facilitate MSME participation in export industries. Caymanas Special Economic Zone and Naggos Head Technology are flagship projects of MIIC in this regard ;
2. A business linkages program matching transnationals with MSMEs
3. A new industrial policy that will result in standards based developments that benefit from technology and knowledge transfer e.g. the repair of damage vehicles recertification to the manufacturers specifications;
4. An national export strategy that takes account of importance of imports as key inputs into production and taps new markets;
5. A financial services center enhancing logistics transactions, key legislation to be tabled;
6. International policy complementarity and a trade policy that support the industrial and export policies;

7. Financially empowered, innovative , globally integrated MSMEs as a direct consequence of the implementation of the MSME and Entrepreneurship policy;

8. Trade facilitation including modifications to Customs processes and implementation of Bali agreement on trade facilitation;

9. The establishment of a single electronic window facility to lodge standardized information and documents with a single entry point to fulfil all import, export, and transit-related regulatory requirements for the trade facilitation and the rationalization of site inspections.

10. Digital infrastructure inclusive of fibre optics networks, 4G mobile networks, the Internet Exchange point (IXP), Port community system, single electronic trade window, etc. ;

11. Energy initiatives to industrial policy, e.g. waste to energy project;

12. Global standards including ISO certification;

13. Micro-financing policy linked to growth agenda;

14. A motivated workforce armed with relevant skills that are internationally certified;

15. Business development support for Entrepreneurs and innovators at widely dispersed small business development centers;

16. Mentorship, leadership development and capacity building programs such as the Bureau of Standards of Jamaica (BSJ) Enterprise Jamaica, a project that offers a virtual incubator programme and a leadership and innovation component. The Ministry intends to expand this

project as part of its strategy of encouraging and facilitating entrepreneurship and new venture start-ups. It is expected that the Enterprise Jamaica initiative and similar efforts aimed at driving entrepreneurship will facilitate potential entrepreneurs seeking equity capital to launch their start-ups.

17. Support for Customs operations that are being reformed to be concerned with much more than simply the traditional thrust of revenue collection. Synchronous policy implementation demands that other critical functions such trade facilitation, a component of the business climate reforms and the new special economic zone regime, must be equally important as revenue enhancement . When the current modernization process reaches a mature state, Customs will be in a position to translate the reforms to significant contributions to the economic growth strategy of the country. A modern customs will support the logistic hub where customs must be present yet unobtrusive. According to the World Bank, it would be counter intuitive for Customs to interfere with trade flows of trade, but rather to support its optimization. Ultimately the Jamaica Customs modernization efforts are a critical to the success of the Logistics Hub.

18. Establish coordinating bodies for logistics hub, i.e. Task Force and NLIC

19. Engage consultants.

20. Appoint representation from relevant ministries and agencies supported by specialist with appropriate expertise

21. Provide budget

22. Familiarize key public sector agencies, civil society and trade associations to introduce Logistics Hub Initiative and get familiarized with respective roles, operations and corporate plans related to logistics initiative.
23. Establish a genuine, and effective one stop shop to enable investors to obtain quickly and easily all necessary permissions, approvals and licenses, and complete all other steps necessary to set up a business operation.
24. Address local labour market constraints and restrictive practices
25. Providing investment visas and access to Jamaican passports for investors and managers.
26. Improving road access to logistics facilities
27. Activate technical assistance available under bilateral agreements
28. Obtain all existing studies, forecasts, master plans, reports related to logistics hub to avoid duplication of effort
29. Conduct forecasts, feasibility studies and cost benefit analysis.
30. Prepare geo-spatial map of logistics hub
31. Prepare detailed master plan.
32. Implement land zoning, acquisition and reservation for long term growth of logistics activities.
33. Place stop orders on activities that encroach on logistics development zones.
34. Take inventory of existing logistics facilities and where necessary package into investment grade projects.
35. Ensure divestment process of NMIA takes into account impact of logistics initiative by factoring suitable air Cargo and Logistics center.
36. Modify concession agreement for SIA to encourage development of logistics capabilities. The recommendation of the JCAA is that the Concession Agreement between the AAJ and MJB Airports Limited is amended to allow for the airport operator to impose a cargo throughput charge and for this to be capped by the JCAA.
37. Remove all capacity restrictions (if any) on the carriage of freight as belly hold cargo on charter and schedule carriers. The increased use of belly hold cargo capacity should result in a tumbling of freight prices with benefits to the export and light manufacturing sectors.
38. Improve air connectivity by securing a strong regional carrier(s) with frequent passenger and freight services to Latin America and the Caribbean.
39. Implement air cargo security regime in Jamaica with Regulated Agents that are certified for air cargo operations by the Jamaica Civil Aviation Authority (JCAA). All air cargo should be shipped through a Regulated Agent as required by ICAO Standards. These Regulated Agents would be overseen by the airlines that engage them, with the JCAA providing audits of the regime.
40. Cargo facilities including cold storage, should be built at both airports in order to establish expertise in air cargo logistics and

- transshipment in order to earn Jamaica a reputation as a cargo hub.
41. Restructure freezones to reap economies of scale/effort and to position for logistics activities.
 42. Introduce new framework and requirements for eligibility to locate in SEZs that overcome business environment, customs clearance difficulties and offers incentives.
 43. Develop logistics park to improve logistics capabilities of Port of Montego Bay.
 44. Prepare specific master plan for Caymanas Economic Zone and any other SEZ including the framework for a SEZ Authority.
 45. Integrate logistics centers operated by existing international enterprises such as Nestlé, Lascelles, Lasco, Tankweld and GraceKennedy and other bonded facilities.
 46. Prepare investment packages for KCT expansion, CEZ, Vernamfield, dry dock, commodity port etc.
 47. Facilitate establishment of floating dry dock as precursor to larger dry dock.
 48. Examine existing trade, open skies, and multilateral agreements and upgrade/ supplement accordingly.
 49. Creating a tailored Omnibus incentive package including low corporate and personal income tax for foreign firms and workers, and freedom to use foreign labour.
 50. Improving border efficiency and security
 51. Implement port community system and single electronic window. Funding for Technical Consultants (Idom-Portic Barcelona) has been identified to evaluate bids received from Bureau Veritas and SGS. Stage 1 Evaluation of Bids was completed in May 2013. Stage 2 Request for proposals to be issued in November 2013.
 52. Support institutions of higher education in developing training facilities and international school for logistics.
 53. Facilitate public private partnerships where applicable. Participate in respective enterprise and project teams.
 54. Create Jamaica logistics hub brand
 55. Conduct public awareness campaign
 56. Establish alliances/agreements with strategic regional trading partners.
 57. Action to reduce crime. Establishing special security arrangements for Logistics Zones.
 58. Ensuring adequate and reliable supply of power and water and that there is capacity in the offsite waste treatment and disposal infrastructure. The current electricity capacity must be upgraded and/ or the option of LNG explored.
 59. Facilitating establishment of an International Financial Center.
 60. Develop trade policy and plans that will facilitate the implementation of the logistics hub.
 61. Conduct legislative review to determine legislative agenda.