# CARIBBEAN RIM INVESTMENT INITIATIVE

## BUSINESS ENVIRONMENT REPORT

## *JAMAICA*

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**CARIBBEAN RIM INVESTMENT INITIATIVE (CRII)**
**BUSINESS ENVIRONMENT REPORT (BER)**
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## Executive Summary


Jamaica, the third largest island in the Caribbean, is a parliamentary democracy half the size of the state of Vermont. Known for being the birthplace of reggae and for its pristine beaches and densely forested Blue Mountains, it is home to 2.7 million people who had an income per capita of US$ 2,750 in 2001. The country experienced modest growth rates over the past three years (0.7 percent in 2000, 1.7 percent in 2001, and 0.6 percent in 2002), having been beset by external and domestic shocks. Foreign direct investment (FDI), in contrast, increased sharply in recent years to reach a total of US$613.9 million in 2001, a nominal increase of 30 percent compared to the previous year.

After struggling to achieve economic growth in the 1970s and during many years throughout the following decade, at the beginning of the 1990s Jamaica embarked on an economic program aimed at lowering inflation, removing exchange controls, and liberalizing trade. These reforms were accompanied by others, which eliminated barriers to investment and contributed to attract FDI.

Jamaica is essentially a services economy. Whereas agriculture accounted for 6.5 percent of GDP in 2001, the services sector captured 63 percent of the total during the same year. Tourism, information and communication technology (ICT) and telecommunications, chemicals and minerals, manufacturing, textiles, and culture (film and music) are the core sectors benefiting from FDI.

The Jamaican economic policy has played a significant role in improving the business environment for foreign investors, albeit more remains to be done to ensure that investors can reap the full benefits of their efforts. The country has been successful in reducing inflation from 50 percent in 1991 to 7 percent in 2002 but economic growth remains sluggish. The key economic challenges of the Government lie with the restoration of the fiscal account so as to induce a reduction in interest rates and spur demand, and the implementation of a monetary policy, which does not lead to an overvalued currency and higher interest rates, hence resulting in lower demand and income growth. In recent years, the country's exchange rate policy has had a dampening effect on the ability of Jamaican-based companies to export, albeit the Jamaican dollar began to weaken in 2002 given the pressures of the increasing fiscal deficit. The Government must also keep encouraging the recovery of the financial sector, which benefited from a rescue package from 1997 to 2002. Cognizant of all these factors, the Government requested a Staff-Monitored Program (SMP) with the International Monetary Fund and a World Bank's Country Assistance Strategy. As to the financial sector, the Government is implementing a restructuring plan with a view to fostering competition among strong capitalized institutions.

FDI remains an integral part of the development strategy of the country. Jamaica's main objective is to transform itself into a knowledge-based economy generating value-added exports and sustaining wealth creation with high-paying jobs, using foreign private investment as a strategic tool to meet its development goals of human capital improvement, increased productivity, job creation, transfer of technology, and export diversification.

The Government is targeting the ICT sector (call centers and back-office centers, and software development services) to create employment and increase export earnings. In the tourism sector, the Government is promoting diversification focusing on attracting European investors (e.g. Spain), broadening its products to include eco-tourism, and heritage and wellness tourism, and encouraging local expansions through timeshare. In the non-services sector, investments for agribusiness (aquaculture/fresh produce), recycling, plastics and minerals/chemicals, as well as value-added products in food processing are the key priorities.

As a result of very generous incentive packages and other measures implemented over the last decade, the country continues to be very attractive for foreign investors. Numerous opportunities are now available with the liberalization of the telecom sector, completed in March 2003 when Cable & Wireless lost its monopoly on international communications. As mentioned above, other targeted sectors include the fast-growing tourism industry, the nascent but vibrant ICT sector, specialized minerals and the bauxite-rich mining industry, the agribusiness sector, and also the music and film industries.

The Government's economic program has aimed at strengthening the framework for private investment. Numerous initiatives have been implemented in this regard. For example, measures aimed at reducing the deficiencies in infrastructure services, particularly with respect to water shortages, inadequate sewage facilities, and the underdeveloped transport network have been prioritized. Additional investment requirements in the infrastructure sectors are estimated to amount to US$600 million in power and US$1 billion in the water sector over the next fifteen years, and the Government is actively encouraging the participation of the private sector.

In 2001, the Jamaica Public Service Co. (JPSCo.), the country's electricity and power company, was privatized and is now owned by US-based Mirant Corp. More recently, in March 2003, the Government announced that it plans to establish a new licensing regime in the next legislative year, under the new Water Supply and Sewerage Services Act, which will remove the power of granting licenses for water and sewerage projects from the National Water Commission (NWC). Prime Minister Patterson made this announcement at the ground-breaking ceremony for the US$39-million Great River/Lucea Water Supply System. The objective of the Government is to give the private sector a legitimate role in the water sector with the appropriate regulatory controls to ensure high quality service and fair tariffs. The Great River/Lucea Water Supply project, which is jointly funded by BNP-Paribas of France, and the National Commercial Bank (owned by Canadian-based AIC) and Pan Caribbean Financial Services of Jamaica, will also receive financing from the French pipe manufacturing firm, Pont-A-Mousson, and will benefit from the expertise of the contractors of the project, French-based SOGEA/SATOM. Moreover, in January 2003, the Government signed an agreement sub-contracting all the rights and responsibilities in respect of management, operation, maintenance and development of the Sangster International Airport in Montego Bay to Vancouver Airport Services for a period of thirty years. The consortium also includes Spanish construction and services group Dragados, Chilean group Agunsa, and Israeli-based construction company Ashtorm.

Over the last decade, Jamaica has implemented a major privatization program under which several public sector entities have been divested, though some 150 enterprises remain in the public sector. To ensure that the country takes full advantage of its privatization program, it is implementing a regulatory framework providing investor confidence, ensuring competition, and protecting consumer interests.

Other Government initiatives aimed at improving the investment and business climate in Jamaica includes the modernization of the Customs Department, under the *Public Sector Modernisation Programme (PSMP)*, scheduled to be completed in 2005. The Customs Department will be one of the revenue departments and as such it will fall under the *Tax Administration Reform Programme (TAXARP)*. All the revenue departments have been brought under one umbrella (TAXARP) to create the standardization of all processes and procedures. The objective is to achieve a faster and more efficient service to travelers and importers, enhance compliance from importers as well as to further the capacity to detect illegal imports. Moreover, in November 2002, the Inter-American Development Bank (IADB) approved a loan of US$17 million to help improve the country's access to Internet and e-government services. The funds will be used in part to help increase Internet access for 60 low-income communities throughout Jamaica. The resources will also be used to help upgrade Jamaica's e-government system. Businesses and citizens will be able to pay taxes online and obtain export and import permits on government Internet sites. The Government of Jamaica will administer the project, estimated at US$23 million, with remaining funds coming from local business contributions.

In March 2003, the Government launched the *Corruption Prevention Commission*, which was established to detect, investigate and dispose of any acts of corruption among public servants. Under the Corruption Prevention Act of 2000, a public servant is defined as any person who is employed in the public, municipal or parochial service in Jamaica, in the service of a statutory body or authority or a government company. Public servants earning in excess of J$2 million must submit their annual statutory declarations.

Several public-private sector initiatives are also playing a key role in creating a more enabling environment for business and private investment. The *New Economy Project (NEP)*, a US$6 million project funded by the United States Agency for International Development (USAID) since 2001, is aimed at improving the business environment for Jamaica's small, medium and micro enterprises, which dominate Jamaica's commercial landscape generating up to 40 percent of GDP annually. These enterprises face significant constraints on their growth. These weaknesses include limited access to finance; weak financial management; and inadequate client management and marketing capacity, in particular with respect to developing linkages with foreign investors in the country. In February 2003, another project aimed at promoting private investment was launched. The *Jamaica's Cluster Competitiveness Project* is sponsored by the U.K. Department for International Development (DFID), USAID, Jamaica's Ministry of Commerce, Science and Technology, and the Jamaica Exporters Association. The main objective of this two-year project is to mobilize eight clusters of firms to compete in the global marketplace. Also, in February 2003, the Government of Jamaica announced that it was spearheading legislation aimed at revising the incentive scheme regimes. The Government is working in collaboration with USAID and the Jamaica Chamber of Commerce on the *Jamaica Regulations Legislation and Process Improvement Project*. The intent is to look at the legislative framework, regulations and the administrative practices, which impinge on the efforts at ensuring that incentives are properly applied and effectively implemented. The Government however emphasized that any new incentive system has to be applied in a non-discriminatory manner to both local and foreign investors and allow for continuing assessment of the effectiveness of these incentive packages.

Investor perceptions of Jamaica as a prime location for FDI are improving. They are generally supportive of the Jamaican Government's efforts to attract FDI. Political stability and democratic Government rank high among the factors that draw investors to Jamaica. Investors also recognize that Jamaica's geographical proximity to North America, in particular easy air and shipping connections to Miami, good telecommunication services, and a qualified English-speaking work force are major assets contributing to invite foreigners to invest in Jamaica. In the case of export-oriented investors, preferential market access to the United States under the Caribbean Basin Initiative (CBI) and the Caribbean Basin Trade Partnership Act (CBTPA), as well as to other Caribbean countries under the soon-to-be-fully-implemented CARICOM Single Market and Economy are important considerations. Overall trade liberalization within the Free Trade Area of the Americas (FTAA) process will also provide foreign investors with additional market opportunities.

In a study conducted with twenty-nine existing or potential investors in Jamaica in August 1998, the U.S. Department of Commerce highlighted three primary challenges identified by foreign investors.[1] The need to modernize infrastructure services topped the list of concerns, in particular, traffic congestion, poor urban and inter-city roads, and inadequate mass transit. The reliability of electricity and telecommunication services was also singled out. These two sectors have since then undergone major changes and benefited greatly from an influx of foreign direct investment, following the privatization and liberalization in each of these sectors, respectively. Crime and lack of security came second as challenges facing foreign investors. Personal safety as well as safety against pilferage were of particular concerns. Finally, labor issues were mentioned as having a negative impact on the overall investment climate. Traditionally, management-labor relations have been quite difficult in certain industries, as demonstrated by the number of strikes in recent years. However, the recommendations contained in the 1994 Labour Market Reform Committee report, which included modernizing the island's labor laws, implementing flexible work arrangements and restructuring the Ministry of Labour to make it better able to deal with industrial relations disputes, have yet to be fully implemented. The process of labor market reform is on going in the country. In January 2002, the National Labour Market Information System was launched as a tool to improve the flow of information to users on demand and supply side of the labor market.

Given its geographical proximity to North America and its English-speaking work force, Jamaica offers numerous opportunities to investors but the country has yet to reap the full benefits of increased FDI, due in part to structural, regulatory, and macroeconomic constraints. Other factors also play a central role. Before the next plenary meeting of the Caribbean Rim Investment Initiative, a number of concrete measures should be implemented by the Government of Jamaica, with the support of international organizations such as the Inter-American Development Bank and the Organization for Economic Cooperation and Development (OECD), to improve the investment climate in the country. These measures should include:

a) the review of tax regulations to identify inefficiencies in statutes and procedures, and the strengthening of Jamaica's Double Taxation Treaty network, which does not include major investors such as France, Ireland, and Spain; and

b) the review of work permit procedures and business visas to facilitate greater access for key personnel related to investment projects.

[1] See Department of Commerce, Jamaica : Investor Attitude Study, August 1998, at http://usembassy.state.gov/kingston/wwwhfjia.html.

Moreover, cognizant of the need to eliminate export subsidy programs such as free zones under the WTO Agreement on Subsidies and Countervailing Duties by the end of 2007, Jamaica should also carry out:

c) a review, as announced in February 2003, of its investment-related incentive packages, using a cost-benefit analysis to assess the use and provision of such incentives in the country.

With a view to encouraging linkages between foreign and local investors, Jamaica should undertake:

d) the establishment of a clearing house where small and medium-sized local companies meeting some well-defined standards of performance would register and could become suppliers of the foreign (and local) companies operating in free zones. Such a mechanism would encourage backward linkages; and

e) the establishment of an annual employment survey and assessment of economic inputs to monitor the progress in employment and linkages arising from FDI so as to use these results in shaping future policy.

Initiatives such as the recent IADB-financed e-government loan, which offers some 900 Jamaicans partial funding for high-level professional training in information and communication technology should be replicated and encouraged. As the country is targeting the ICT sector and telecommunications, Jamaica should review:

f) its investment in training and re-training programs aimed at improving the technological skills of its work force with a view to increasing the competitive advantage of the country as a knowledge economy. In particular, Jamaica should undertake a full review of skills needed for the future and skills presently available so as to measure and address the gap with skills training, skills upgrading, and conversion programs.

Jamaica would also greatly benefit from:

g) the establishment of an annual benchmark survey of investors views on critical issues affecting investment decisions.

Reducing crime should remain one of the Government’s top priorities, although it is worth noting that the real impact of violent crimes on FDI is difficult to assess since tourists and foreign business people are rarely the victims of such acts. Nevertheless, there is no doubt that it contributes to deter foreign investment. The Government is addressing this major problem and has recently adopted a multifaceted approach to strengthen and reorganize the police force and improve the country’s access to the justice system.

## PART I
## FDI Trends

### 1.1. Flows and Stocks of FDI

FDI inflows into Jamaica grew at an average annual rate of 13.47 percent from 1990 to 2000. The first half of the decade was marked by a succession of declines in FDI inflows and a negative average annual growth of 2.2 percent (see Table 1). In contrast, the second half of the 1990s saw a steady increase in foreign direct investment flows into the country with an average growth rate reaching 29 percent per year. A package of investment incentives provided by the Government of Jamaica (GOJ) in the key sectors of tourism, bauxite/alumina, agriculture, and manufacturing help explain the increase in FDI inflows during that period. Moreover, the GOJ allocated US$275 million for infrastructure projects in the tourist areas of the North Shore, whereas US$600 million were spent for the modernization and expansion of the mining sector in the late 1990s. Likewise, various investment programs were implemented to revitalize specific agricultural sectors such as sugar and bananas, as well as to assist apparel makers.

**Table 1**
**FDI Inflows and Outflows, 1990-2000**
**(Millions of U.S. Dollars)**

| **Year** | **1990** | **1991** | **1992** | **1993** | **1994** | **1995** | **1996** | **1997** | **1998** | **1999** | **2000** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Inflows** | 174.9 | 171.2 | 190.4 | 139.2 | 129.7 | 147.4 | 183.7 | 203.3 | 369.1 | 523.7 | 456.0 |
| **Ouflows** | 37.0 | 38.0 | 48.0 | 61.3 | 52.7 | 66.3 | 93.3 | 56.6 | 82.0 | 94.9 | 74.3 |

*Source*: JAMPRO

**Table 2**
**FDI Inflows in Selected CARICOM and Central American Countries**
**(Millions of U.S. Dollars)**

| | **1998** | **1999** | **2000** | **2001** |
|---|---|---|---|---|
| Dominican Republic | 700 | 1338 | 953 | 1198 |
| Trinidad and Tobago | 730 | 643 | 662 | 835 |
| **Jamaica** | **369** | **524** | **471** | **613.9** |
| Panama | 1296 | 652 | 603 | 513 |
| Guatemala | 673 | 155 | 230 | 456 |
| Costa Rica | 612 | 620 | 409 | 448 |
| El Salvador | 1104 | 216 | 173 | 268 |
| Honduras | 99 | 237 | 282 | 195 |
| Nicaragua | 184 | 300 | 265 | 132 |
| St. Kitts and Nevis | 32 | 58 | 96 | 83 |
| Guyana | 47 | 48 | 67 | 56 |
| Antigua and Barbuda | 27 | 37 | 33 | 54 |
| Saint Lucia | 83 | 83 | 49 | 51 |
| Grenada | 49 | 42 | 36 | 34 |
| Belize | 16 | 17 | 19 | 18 |
| Haiti | 11 | 30 | 13 | 3 |

*Source*: UNCTAD, *World Investment Report 2002*. Geneva: UNCTAD, 2002; and Bank of Jamaica for Jamaica's 2001 figure on FDI inflows.

The improvement in the business climate, the adoption of a program aimed at privatizing state-owned enterprises, the consistent decline in the inflation rate for nearly a decade, and the proximity to the United States market are other variables that have played a central role in the increase of FDI inflows into Jamaica. Table 2 shows that Jamaica is among the top three largest recipients of FDI inflows in the Caribbean Basin, behind the Dominican Republic and Trinidad and Tobago in absolute terms. But Jamaica scores ahead of the Dominican Republic in FDI inflows per capita, having received US$227.37 in 2001 and $US181.15 in 2000, whereas the Dominican Republic attracted US$139.30 in 2001 and US$113.45 in 2000, respectively. Moreover, the increased flow to Jamaica in 2001 contrasts with what took place in several Latin American countries such as Argentina and Brazil, which experienced a significant reduction in FDI inflows in 2001.

The repatriation of profits represents the most prevalent factor causing FDI outflows to other countries. These flows fluctuated significantly during the last decade from US$37 million in 1990 to a peak of US$94.9 million in 1999.

### 1.2 Country of Origin and Destination

Firms from several countries have been very active in Jamaica. The mining sector was until recently concentrated among U.S. and Canadian investors. However, with the arrival of Swiss-based Glencore in 2001, the number of players has increased. In telecom, the United Kingdom with Cable & Wireless, Ireland with Digicel, and the United States with Centennial Digital Corporation are the key players. The financial services sector comprises firms from Canada (such as Bank of Nova Scotia, CIBC, and National Commercial Bank), the United States (e.g. CITIBANK), and Trinidad and Tobago (Union Bank). The United States tops the list of the foreign investors with companies in sectors such as accounting, advertising, agribusiness and beverages, banking and finance, chemicals and pharmaceuticals, computer and data processing, consumer products, courier services, insurance, manufacturing and assembly, mining and energy, and tourism and hospitality industry. New players also include Spain in the tourism sector with, for example, Rui International Hotels in Negril. Dragados, a Spanish-based construction and services firm, is also helping managing the Montego Bay airport. The French have also been quite active recently. Bouygues, the French construction group selected to build the government's flagship project -Highway 2000- has undertaken to finance 72 percent of the US$390-million project. The road developer is expected to earn returns on its investment by charging tolls for use of the highway under a 35-year agreement. Bouygues has contracted ASF from France to assist in building and operating the proposed toll road system. Sogea, another French firm that constructed a water treatment plant in Negril for the National Water Commission, is also returning to the island in the Great River/Lucea Water Supply project, while Gregori International, also out of France, built the golf course for the Ritz Carlton Hotel in Montego Bay. Another French firm, Total, is currently prospecting for business opportunities in the local petroleum industry.

Jamaica has also become an outward investor. In fact, outward investment almost doubled between 1994 and 1999, from J$53 million to J$95 million. Some Jamaican companies such as Grace Kennedy and Co. have long been established abroad.[2]

[2] Francis, Patricia. *Recent Trends & Policy Development in the Caribbean Region: The Case of Jamaica*, April 5, 2001.

### 1.3 Distribution by Economic Activity

In addition to the telecom and IT sector which has become one of the fastest growing sectors in Jamaica, other segments of the economy receiving FDI include mining, tourism, and textiles. Financial services, as shown in the next section, also represents a key sector for FDI, whereas agribusiness is growing.

*Telecommunications*

Jamaica has a 100 percent digital telecommunications network. The country's advanced telecommunications infrastructure is one of the most resilient and highest capacity telecom backbones in the region. Having identified telecommunications and technology as critical to Jamaica’s development, the Government started a three-phased liberalization of the telecommunications industry in 1999. The new Telecommunications Act is based on pro-competitive principles. As a first step to liberalize the telecom sector, the Government of Jamaica issued two licenses for nearly US$100 million to foreign companies to operate mobile telephone networks. U.S.-based Centennial Digital Jamaica and Irish-owned Digicel, which respectively paid US$45 million and US$47.5 million, hold these licenses.

*IT Sector*

Jamaica's Information Technology (IT) sector has experienced radical growth over the past five years spurred by substantial investment in the country’s telecommunications infrastructure and the delivery of IT services. Information technology is now perceived as being one of Jamaica’s most lucrative industries and the sector employs well over 6,000 persons.

Jamaica is a premier near shore investment location and has earned an international reputation for service and efficiency. The island provides a diverse number of informatics services, which ranges from basic data entry to multimedia and software development services.

Most of the companies in the IT sector are located either in the Montego Bay Free Zone area or the Kingston Metropolitan area. Both areas are in close proximity to shipping, airport facilities and support services. The Montego Bay Free Zone is particularly conducive to investments in the information technology sector due to the presence of Jamaica Digiport International (JDI), which holds powerful data transfer facilities for international exchanges as well as sophisticated imaging, voice and facsimile services. Jamaica Digiport International Ltd. is a fully owned subsidiary of Cable and Wireless Jamaica, which has significantly enhanced the country's ability to offer an impressive range of telecommunication services. With facilities that offer high-speed voice and data transmission through fibre, Jamaica Digiport guarantees the delivery of state of the art telecom services to an international clientele.

*Mining*

In mining, nearly one-third of Jamaica’s refining capacity changed ownership when Glencore, the Switzerland-based commodities trading group, bought Canadian-owned Alcan’s two Jamaican alumina refineries in 2001. Jamaica has excellent prospects in the non-metallic mineral sector, which offer several lucrative opportunities in trade and investments. Jamaica is noted for its bauxite both in its crude form and that converted from alumina. However, a large and significant concentration of high purity limestone reserves, marble, riverstone, gypsum and anhydrite deposits are complimented by numerous mineral springs across the island. Suitable clays are also readily available in Jamaica to produce commercial quantities of fine ceramics and building components. Economic quantities of gold are also present in central Jamaica in the parish of Clarendon. Mining began in early 2000 and since March 2001, over 1,000 ounces of this precious metal has been exported. There are some major advantages to be gained from activities in this sector: the accessibility of mineral resources through surface mining; the strategic location to the large export markets of the world; trade being facilitated through multilateral and bilateral agreements.

The chemical sector in Jamaica is mainly distributive in nature, with a few manufacturers of bulk industrial chemicals, e.g.. sulphuric acid, acetylene, sodium chloride, etc. The tropical marine climate of Jamaica coupled with strong ocean currents and consistent wind pattern in various areas of Jamaica, make the exploitation of alternate sources of energy a realistic goal and prime investment opportunity. Areas being exploited include wind, solar, hydro-power and biomass, among others.

*Tourism*

In recent years, Jamaica has been ranked within the top five of the world's most favored tourist destinations. The significant contribution that the tourism sector has made to the economy is reflected in the strong Government support through the establishment of a number of technical support teams. In addition to a Ministry of Tourism there exists two other offices given the mandate of developing a growth path for tourism in Jamaica.

First, the Tourism Office within the Office of the Prime Minister is an overseer to all the organizations within the industry established to develop the tourism product, such as the Jamaica Tourist Board (JTB) and the Tourism Product Development Company (TDPCo). Secondly, JAMPRO, Jamaica's export and investment promotion agency, also has a Leisure Industry Department responsible for the promotion, development and facilitation of investments within the sector.

*Apparel*

The apparel sector grew phenomenally growth during the period 1983 to 1996 to the point where it recorded the largest increase in non-traditional exports. The value of exports generated by the sector amounted to US$7.1 million in 1980 and peaked at US$535.68 million in 1996. There were some 80 manufacturing entities of which thirty-six were exporters, employing approximately 7,000 workers in 2001.

The Government is currently pursuing policies to transform the sector from basic assembly type to full packaged production-going up-market. This will require more value-added processes, fabric supplies and more efficient workers, if local apparel firms are to be able to form partnerships with US-based firms. These firms are requiring full packaged partners, expeditious style changes through the utilization of modern technology and quick turn around time at minimum cost. One of the single most important elements in ensuring access to the US market and the development of the local industry is the type of rules of origin existing in the textiles and apparel sectors. The soon-to-be-concluded Free Trade Area of the Americas represents an opportunity in that regard. More liberal rules of origin which would allow for non-US (but made in FTAA) inputs would greatly benefit the Caribbean Basin, including Jamaican, industry.

The Government has therefore embarked on Modernization of Industry Program to help the sector to become more technology driven and efficient. The replacement of obsolete machinery and equipment is an integral part of this program. The European Union-funded Trade Development Project has also been helping Jamaican firms to improve their competitiveness. Although these initiatives have contributed to a revitalization of the sector, the Government plans to implement a productivity incentive and cost reduction scheme, to give companies incentives linked to productivity.

Clustering around the transshipment ports in Kingston, Montego Bay, as well as at the air cargo airport, which will be built at Vernamfield, will also be pursued to encourage investments into the sector.

**Table 3**
**Foreign Direct Investment by Sector, 1990-2000**
**(Millions of U.S. Dollars)**

| **Years** | **Manufacturing** | | **Agriculture** | | **Services** | |
|---|---|---|---|---|---|---|
| | Absolute | Relative (%) | Absolute | Relative (%) | Absolute | Relative (%) |
| **1997** | 5.57 | 10.56 | 0.23 | 0.44 | 34.43 | 65.25 |
| **1998** | 5.62 | 7.44 | 6.79 | 9.00 | 50.99 | 67.50 |
| **1999** | 11.50 | 14.00 | 0.94 | 1.14 | 38.42 | 46.76 |
| **2000** | 37.40 | 20.23 | 0.30 | 0.16 | 113.13 | 61.20 |

## 1.4 Main Foreign Investors

There are nine foreign-owned firms among the fifteen largest Jamaican-based companies, as measured by the turnover in year 2000. Air Jamaica was unequivocally the largest Jamaican company during that year, whereas U.K.-based Cable & Wireless, which lost its monopoly on international communications on March 1, 2003, had the largest income among foreign investors. Moreover, a number of companies have changed ownership since the year 2000. Jamaica Public Service Co. (JPSCo) was privatized and sold to Atlanta-based Mirant Corp. in March 2001. Several financial institutions, which experienced serious problems, were revamped and sold to foreign investors. National Commercial Bank was bought by Canadian-based AIC in March 2002, whereas Union Bank was sold to Trinidad-based RTTB in 2001.

**Table 4**
**Jamaica's Fifteen Largest Companies, Based on Turnover in US$000**[3]

| Company | Investor/ Country of Origin | Turnover (US$000) in 2000 | Sector(s) |
|---|---|---|---|
| 1-Air Jamaica | Jamaica | 896,860.57 | Provider of air transport |
| 2- Cable & Wireless Jamaica | Cable & Wireless, United Kingdom | 381,830.42 | Provider of domestic and international telecommunication services |
| 3- Jamaica Public Service Co. (JPSCo) | Owned by US-based Mirant Corp. since March 2001 | 379,268.51 | Supplier of electricity and power |
| 4- Bank of Nova Scotia | Bank of Nova Scotia, Canada | 338,988.92 | Commercial, merchant banking, and trust company operations |
| 5- Grace Kennedy and Co. | Jamaica | 325,575.97 | Merchandising of food, hardware and lumber, building and construction supplies, cosmetics, pharmaceuticals, and other items |
| 6- National Commercial Bank | Owned since March 2002 by Canadian-based AIC, a fund management company | 292,918.26 | Commercial banking operations |
| 7- Alumina Partners of Jamaica (Alpart) | US-based Kaiser Aluminum | 282,094.57 | Manufacturer and exporter of alumina |
| 8- Jamaica Producers Group | Jamaica | 256,035.90 | Marketing and distribution of bananas and other fresh produce; agricultural production, shipping and investment holdings |
| 9- Alcan Jamaica Co. | Sold by Canadian-based ALCAN to Swiss-based Glencore in June 2001 | 282,094.57 | Manufacturer and exporter of alumina |
| 10- Lascelles De Mercado | Jamaica | 183,757.66 | Cultivators of sugar cane and manufacturer of sugar and rum |
| 11- Alcoa Minerals, which jointly owned an alumina refinery (JAMALCO) with the Government of Jamaica | US-based Alcoa | 181,854.45 | Manufacturer and exporter of alumina |
| 12- Life of Jamaica | Jamaica | 142,527.70 | Life insurance |
| 13- Union Bank | Trinidad-based RBTT | 131,368.40 | Financial services (banking) |
| 14- Desnoes & Geddes (Red Stripe) | Irish-based Guinness Brewery | 126,927.01 | Beer |
| 15- Jamaica Broilers Group | Jamaica | 124,529.22 | Producers and suppliers of meat protein and animal feeds |

## 1.5 Main Explanatory Factors for FDI

[3] The information on the turnover was extracted from Business Observer, July 8, 2001.

Several factors have contributed to the increase in foreign direct investment in Jamaica over the past decade. The restructuring of a number of financial institutions starting in 1997, the liberalization of the telecom sector since 1999, the privatization of Government-owned public companies, the phenomenal growth in the tourism industry, as well as a myriad of incentives have a played a key role in attracting foreign investment to Jamaica.

### 1.5.1 Market-Seeking FDI in Jamaica

Jamaica has recently benefited from a large influx of market-seeking FDI in numerous services sectors with the liberalization of the telecom sector and the arrival of foreign-owned companies to operate mobile telephone networks. Internet service providers and call centers have also been recently established by foreign companies. Moreover, as mentioned above, the restructuring of the financial services system has led to the acquisition in March 2002 of the largest Jamaican commercial bank by a Canadian fund management company, and of another important financial institution, Union Bank, by Trinidad and Tobago's largest bank, RTTB one year earlier in March 2001. The privatization of numerous Jamaican Government entities such as JPSCo, the electricity and power company, attracted foreign capital. Finally, tourism, which was traditionally Jamaican-owned, has become a key sector for foreign investors, including newcomers such as Spain.

### 1.5.2 Natural-Resource Seeking FDI in Jamaica

The percentage of FDI geared towards extracting natural resources is significant in Jamaica. The mining sector is the second most important generator of foreign exchange, after tourism. Bauxite and alumina production represent more than 50 percent of Jamaica's merchandise exports. Multinationals such as Kaiser, Alcoa, and Alcan (whose two refineries are now owned by Glencore) have long been established in the country. Other mining products of importance include non-metallic materials, such as limestone/lime, marble and gypsum.

### 1.5.3 Efficiency-Seeking FDI in Jamaica

Efficiency-seeking investment in Jamaica is concentrated in three free zones. The Montego Bay Free Zone has more than 450,00 sq. ft of factory, office and information processing space. It specializes in data entry, telemarketing and electronic firms. The Kingston Free Zone is located near the Kingston Harbor. Apparel, pharmaceutical, electronic, and ethanol businesses are established in that zone. The Garmex zone, located in the industrial section of Kingston, includes apparel and footwear companies. It is worth emphasizing that unable to compete with low-cost producers in Central America and Mexico and burdened by an overvalued exchange rate, the once flourishing apparel sector has suffered a severe contraction since the mid-1990s.

Several information technology companies, including call centers, are located in the Portmore Informatics Park. There is also a number of stand-alone free zones in the country.

## 1.6 Economic Impact and Linkages with the Local Economy

There is no data on the number of jobs that are directly the result of foreign direct investment in Jamaica. It is clear, however, that this number has been increasing steadily during the last decade with the boom in the tourism industry, the restructuring of the financial services sector, the recent liberalization of the telecom sector, and the privatization of numerous state-owned enterprises.

FDI linkages with the local Jamaican economy have been particularly strong in the tourism industry. Local restaurants and clubs, as well as the retail and distributive services sectors have also benefited from the fast growth in the tourism industry. The creation of an informatics park has helped the country reap the benefits of the information technology revolution.

The FDI-GDP ratio has grown rapidly since the mid-1990s, from 2.86 percent in 1995 to 6.61 percent in 2000.

### 1.7 Future Perspectives

The People's National Party (PNP) gained an unprecedented fourth consecutive term of office in the last general election held on October 16, 2002. Prime Minister P J Patterson saw his majority reduced to eight seats in the 60-seat parliament. His previous administration had a 38-seat majority. No significant policy changes are envisaged with respect to foreign direct investment but policymaking may prove to be more challenging on issues such as restoring the fiscal balance and reducing poverty, crime, and unemployment.

**PART II**
**Investment Environment**

## 2.1 Structure of the Economy

Jamaica’s real gross domestic product experienced positive growth for a third consecutive year in 2002. After posting a rate of 0.7 percent in 2000, GDP grew by 1.7 percent in 2001 and 0.6 percent in 2002. Several factors contributed to the slow growth of the economy in 2001-2002. The fiscal deficit limited the Government’s ability to spur demand. Flood damages in May 2002 and Hurricane Michelle in November 2001 adversely affected numerous crops, whereas the September 11, 2001 terrorist attacks on the United States impacted negatively on tourism, the country’s main foreign exchange earner (approximately US$1.4 billion in 2000). Moreover, Jamaica was also beset by the closure in October 2001 –for three months- of JAMALCO Refinery --a joint venture between the Jamaican Government and Alcoa, following a strike at this alumina processing plant.[4]

The services sector accounts for a total of more than 70 percent of Jamaica’s GDP (in current prices) and is undoubtedly the most dynamic sector of the Jamaican economy. Although tourism experienced a decline in 2001, numerous projects aimed at promoting the diversification of the tourism industry have been put in place by the Government and JAMPRO -- the Jamaican Government agency responsible for promoting and processing investment proposals-- in order to take advantage of the country’s full potential in that sector. Hotels, restaurants, and clubs have benefited significantly from this increase in tourism, as shown in Table 5.

Retail and distributive trade continues to be a sector in expansion, whereas the transport, storage and communication sector has grown at a fast pace since the mid-1990s. The real GDP for transport storage and the telecommunication sector increased by an impressive 6.3 percent in 2001. The expansion of the Jamaica Urban Transit Company and the increase in cargo and ship activities at the port contributed to this high growth rate. The implementation of the second phase in the liberalization of the telecom sector in 2001 with the granting of new licences also played a significant role in boosting the growth rate of this sector. Irish-owned Digicel and Centennial Digital Jamaica -a subsidiary of US giant Centennial Communications - began offering mobile service in 2001. The monopoly of the U.K.-based Cable & Wireless in the phone market, which ended in March 2003, will lead to further growth in the sector.

The contribution of the financing and insurance services sector to the GDP is growing again after the Government decided to intervene and the sector underwent major restructuring, beginning in 1997. The Government created FINSAC (Financial Sector Adjustment Company), with the objective of restoring liquidity and solvency to the banking and insurance sectors, protecting policyholders and pensioners, and strengthening these sectors through stronger regulation. FINSAC swapped bad debt, and took over and closed a number of banks and financial institutions. For example, in 1999, it merged four commercial banks, five merchant banks and four building societies to establish Union Bank, which was sold in 2001 to RTTB, Trinidad and Tobago’s largest bank. The National Commercial Bank (NCB), Jamaica’s largest commercial bank, was restructured in 2000 and sold in early 2002 to AIC, a

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[4] For more detail on the market structure of the Jamaican economy, see Planning Institute of Jamaica, *Economic and Social Survey 2001*, April 25, 2002, (www.pioj.gov.jm).

Canadian company. In October 2002, the World Bank approved three loans for Jamaica totaling US$129.8 million. The first loan of US$75 million helped convert all remaining liabilities at FINSAC into tradable loans, therefore closing FINSAC operations.

Agriculture accounted for 7.3 percent of total real GDP in 2001, having increased by 5.2 percent (1986 prices) mainly as a result of an increase in hectares of crop production. But the sector was severely affected in the last quarter of 2001 by flood rains that took place in November. Extensive flooding also occurred in May and June of 2002, leading to significant losses for farmers. The country had also seen a substantial decline in agricultural output in the late 1990s, following a severe drought caused by El Niño. As a whole, the contribution of the agriculture, forestry and fishing sector to the GDP, as measured in producers' values at constant 1986 prices, declined from 9.2 percent in 1996 to 7.1 percent in 2000. The value of agricultural exports grew by 7.9 percent in 2001 to reach US$151.9 million. Traditional exports recorded a decline of 11 percent, whereas non-traditional exports grew by 23.6 percent. Sugar cane remains the single most important Jamaican crop. The industry has often been unable during the last few years to meet its sugar quota set by the Lomé Convention (now the Cotonou Agreement). The Government has had to import sugar and financially support private producers. The sugar industry employs approximately 28,000 people plus 13,000 seasonal workers. In addition to coffee production and the internationally popular Blue Mountain coffee blend, roots and tubers, as well as fruits are the other main agricultural crops.

The mining and quarrying sector captured 9.1 percent of total real GDP in 2001 and enjoyed a growth rate of 3.8 percent (real GDP). As in the case of agriculture, this increase reversed the decline in real terms that the sector had experienced during the previous two years. A strike at JAMALCO Refinery led to the closure of the plant for three months and a decline in the exports of alumina. As exports of crude bauxite grew during 2001, total mining exports remained virtually stable compared to the year 2000. Jamaica is the third largest producer of bauxite ore in the world after Australia and Guinea. The bauxite and alumina industries employ more than 4,000 people. The quarrying industry, which includes gypsum, marble, silica and clays, enjoyed an increase in its output in 2001, in large part due to the growth in road construction and repairs.

The manufacturing sector grew at the modest rate of 0.6 percent in 2001 to represent 15.5 percent of total real GDP. Food processing and beverages were the major driving force of the manufacturing sector, whereas chemicals and textiles and apparel continued to suffer closure of plants and factories. The textiles and apparel sector has faced major competition from Mexican producers since the implementation of the North American Free Trade Agreement (NAFTA) in 1994 and from Central American low-cost producer countries in the context of the Caribbean Basin Initiative (CBI). As shown in Table 5, its share of the Jamaican GDP has been declining for several years. An overvalued exchange rate has also eroded Jamaica's competitiveness in this sector. Other manufacturing industries include sugar, molasses, and rum; machineries and tools; metal products; glass; and cement. Manufacturing exports declined in 2001.

The construction sector benefited from the modernization of the road infrastructure and the reconstruction which followed the damage caused by floods at the end of 2001. The sector, whose share of real GDP has remained practically unchanged since 1998, recorded a growth rate of 2 percent in 2001.

**Table 5**
**Gross Domestic Product by Sector in Producers' Values at Constant 1986 Prices**
**(In Percentage of GDP in Producers' Values)**

| | **1996** | **1997** | **1998** | **1999** | **2000 (est.)** |
|---|---|---|---|---|---|
| **Origin of GDP** | | | | | |
| Agriculture, forestry, and fishing | 9.2 | 8.0 | 8.0 | 8.1 | 7.1 |
| Mining and quarrying | 8.6 | 9.1 | 9.4 | 9.3 | 9.1 |
| --- Bauxite /alumina | 8.5 | 8.9 | 9.3 | 9.2 | 9.0 |
| Manufacturing | 16.7 | 16.6 | 15.9 | 15.9 | 15.8 |
| --- Food (excluding sugar) | 3.2 | 3.2 | 3.2 | 3.3 | 3.4 |
| --- Petroleum refining | 1.7 | 1.9 | 1.8 | 1.8 | 1.8 |
| --- Alcoholic beverages | 1.6 | 1.6 | 1.6 | 1.5 | 1.6 |
| --- Textiles and apparel | 1.1 | 0.9 | 0.8 | 0.6 | 0.6 |
| --- Sugar, molasses, and rum | 0.5 | 0.5 | 0.4 | 0.5 | 0.4 |
| Construction | 8.4 | 8.2 | 7.7 | 7.7 | 7.6 |
| Services | | | | | |
| --- Distributive trade | 19.7 | 20.3 | 20.1 | 20.0 | 20.0 |
| --- Transport, storage and communication | 12.7 | 13.7 | 14.5 | 15.8 | 16.9 |
| --- Financing and insurance services | 14.0 | 11.7 | 11.5 | 13.6 | 14.9 |
| --- Hotels, restaurants, and clubs | 7.9 | 8.3 | 8.6 | 8.8 | 9.2 |
| --- Real estate and business services | 9.2 | 9.0 | 8.9 | 8.9 | 8.8 |
| --- Government services | 6.2 | 6.4 | 6.5 | 6.5 | 6.4 |
| --- Electricity and water | 4.4 | 4.8 | 5.1 | 5.4 | 5.5 |

*Source*: International Monetary Fund, *Jamaica: Statistical Appendix*, June 2001.

On the macroeconomic front, the country has been growing in real terms since the beginning of 2000, after having contracted in the mid-1990s. The total public debt, which will remain a challenge for the years to come, increased in the late 1990s with the bailouts of numerous financial services institutions. The total debt represented 79.1 percent of GDP in Fiscal Year 1996/97[5] and 145 percent of GDP at the beginning of 2003. This increase has been shouldered by domestic financing (85 percent) and also by the external debt, which accounted for approximately 60 percent of GDP in early 2003.

The prospects for growth are good for the Jamaican economy, albeit they are, in part, dependent on the recovery of the US economy, Jamaica's main trading partner. The liberalization of the telecom sector, the restructuring of the financial services sector and the privatization of numerous infrastructure public services are vital components for the efficient operation of the economy. They will contribute to increasing the competitiveness of other sectors such as tourism and manufacturing, and allow Jamaica to play a greater role as a small but active player on the international scene.

As mentioned above, three shocks (civil disturbances in Kingston in July 2001, the terrorist attacks on the United States on September 11, and the flood rains in November 2001 which damaged one fifth of Jamaica's crop acreage) had a considerable impact on Jamaica's fiscal revenue in 2001. For the first nine months of Fiscal Year (FY) 2001/02 (i.e. from April to December 2001), expenditures increased by J$17.9 billion over the corresponding period during the previous year, whereas revenue grew only by J$1.9 billion. Much of the increase in revenue came from the sale of the Jamaica Public Services Company Limited (JPSCo.), Jamaica's primary source of electricity.

[5] The fiscal year begins on April 1.

The Government, which is targeting a deficit of 4.4 percent of GDP, excluding income from divestments, in Fiscal Year 2002/03, may have a hard time meeting its objective. In 2002, revenue from the tourism industry, which generates a large amount of direct and indirect tax revenue, fell below expectations, whereas increase in local tax for electricity bills and property valuation were postponed or reversed. In fact, for the first six months of FY 2002/03, tax revenue fell 13 percent short of the Government's original projection.

The public sector fiscal deficit, which represented as much as 11.1 percent of GDP in FY 1998/99, remains a challenge for the Jamaican administration. Divestment proceeds from the sale of public sector enterprises have helped finance the public sector fiscal few years but as there are fewer entities to privatize the Government will have to devise new ways to boost revenues and keep expenditures in check.

The current account deficit, which increased to reach 10.1 percent of GDP in 2001 continued to deteriorate in 2002 due to external shocks and a sharp fall in tourist expenditure after September 11, 2001. A rise in interest payments has also led to the worsening of the current account deficit. Tourism recovery and increase in export earnings should contribute to lower this ratio in 2003.

**Table 6**
**Central Government Revenues and Expenditures as a Percentage of GDP**

| | **1996/97** | **1997/98** | **1998/99** | **1999/00** | **2000/01 (est.)** |
|---|---|---|---|---|---|
| **Total Revenues** | 26.4 | 25.8 | 27.1 | 30.5 | 30.8 |
| **Total Expenditures** | 31.9 | 33.5 | 34.1 | 34.8 | 31.8 |
| 0f which | | | | | |
| --- Interest | 11.4 | 9.5 | 12.7 | 14.1 | 13.1 |
| --- Savings | 0.1 | -2.7 | -4.3 | -1.2 | 1.9 |
| **Public Sector Primary Balance** | 6.8 | 1.3 | 7.1 | 11.0 | 12.6 |
| **Public Sector Balance** | -4.6 | -9.4 | -11.1 | -7.4 | -5.3 |
| **--- Domestic Financing** | 5.5 | 8.3 | 11.9 | 8.5 | 1.6 |
| **--- Banking system** | -1.2 | 18.9 | 8.6 | 2.9 | 4.3 |
| **--- Others (incl. divestment proceeds)** | 6.7 | -10.6 | 3.3 | 5.6 | -2.7 |
| **--- Foreign Financing** | -0.9 | 1.1 | -0.8 | -1.2 | 3.7 |

*Source*: International Monetary Fund, *Jamaica: Statistical Appendix*, June 2001.

**Table 7**
**Current Account Balance**
**(in Percentage of GDP)**

| | 1996/97 | 1997/98 | 1998/99 | 1999/00 |
|---|---|---|---|---|
| **Current Account Balance** | -1.4 | -5.4 | -3.0 | -4.3 |
| **--- Goods Balance** | -14.9 | -15.9 | -15.0 | -16.2 |
| **--- Exports** | 24.6 | 23.6 | 20.9 | 21.0 |
| **--- Imports** | 39.5 | 39.5 | 36.0 | 37.2 |
| **--- Services** | 7.3 | 6.5 | 7.3 | 7.5 |
| **--- Income** | -3.4 | -4.4 | -3.8 | -5.0 |
| **--- Transfers** | 9.6 | 8.5 | 8.6 | 9.4 |

*Source*: International Monetary Fund, *Jamaica: Statistical Appendix*, June 2001.

## 2.2 Infrastructure

The following section covers some of the most important infrastructure networks in Jamaica: the road and rail network, naval transport, air transport, telecommunications, and energy.

*Road and Rail Network*

Jamaica's national road web is comprised of approximately 5,000 kilometers of main roads and 11,000 kilometers of parochial roads. Approximately 12,000 kilometers are paved. The highway system is in need of improvement, and various projects for the renewal and maintenance of roads have been put into work. In total, the Government's FY01/02 budget allocated to roadwork was of J$2 billion.

One of the main road projects initiated in 1999 was the construction of the first phase of North Coast highway, linking the principal coastal tourist sites of Montego Bay and Negril. After land acquisition problems and the withdrawal of the first Korean contractor Bosung Engineering and Construction Co. Ltd, the Jamaican Government awarded a contract for the second phase (97 kilometers between Montego Bay and Ocho Rios) to Argentine contractor José Cartellone Construcciones Civiles.

As mentioned earlier, in July 2001, the French firm Bouygues Travaux was awarded a $390 million contract to build the first phase of "Highway 2000," a six lane bridge from Kingston to Portmore plus 74 kilometers of four-lane highway. Eventually, "Highway 2000" will link the cities of Kingston and Montego Bay, becoming a principal road across the island. In November 2002, the French company ASF, which develops and operates toll roads in the south of France, announced that it was taking a one-third stake in TransJamaica Highway, the vehicle being used by Bouygues, to develop and manage Jamaica's first toll road in the south-central part of Jamaica.

The rail network coverage of Jamaica is 272 kilometers. The Government has signed an agreement with Rail India Technical and Economic Services Ltd. (RITES) to rehabilitate and upgrade the island's rail system.

*Naval Transport Infrastructure*
Jamaica has two world-class international seaports—Port of Kingston and Port of Montego Bay—and a number of smaller, specialized ports and harbors including Alligator Pond, Discovery Bay, Ocho Rios, Port Antonio, Rocky Point, and Port Esquivel. Kingston Harbour is the seventh natural harbor in the world with 21 square kilometers of navigable water. Ports are both privately and publicly administered. Kingston transshipment port, which handles approximately 80 percent of all imports to the island, underwent expansion to increase docking capacity in 2001, at a cost of $120 million. Facilities have also been recently upgraded in Ocho Rios, Montego Bay, and Port Antonio.

Jamaica is located in the center of the main shipping lanes through the Panama Canal. This makes the island very attractive to international shipping companies and as such, there are over 30 international shipping lines operating in the island and linking Jamaica with the rest of the world. The main shipping lines include Zim, Evergreen, Maersk, Jamaica Producers, Happag Lloyd, Ned Lloyd and Kent Lines.

Customs clearance procedures last approximately 48 hours. On average, it will take three days for a shipment to reach the premises of the company of the importer after the ship has docked in the port.

*Air Transport Infrastructure*
Jamaica has a total of thirty-five airports. Two of these are major international airports, Norman Manley International Airport located in Kingston and Sangster International Airport (SIA) located in Montego Bay. The Norman Manley Airport is mainly used by Jamaica's local residents and business travelers, and has a capacity of approximately 500 passengers per hour. The Sangster Airport caters mainly to tourists and has a capacity of 1242 passengers per hour. Domestic air travel is facilitated namely through the aerodromes of Tinson Pen (Kingston), Ken Jones (Portland), Boscobel (St. Mary), and Negril (Westmoreland).

All airports in Jamaica are publicly administered, with the exception of Norman Manley International Airport, and recently privatized (January 2003) Sangster International Airport in Montego Bay. The Jamaican Government will continue to own the Sangster airport property and will have the right to terminate the concession to Vancouver Airport Services of Canada in the event that the private operator fails to meet his contractual obligations. Eleven major international airlines operate in Jamaica, including American Airlines, Air Canada, British Airways, Trinidad-based BWIA, USAirways, Panama-based COPA, ALM Antillean Airline, and Northwest Airlines. The main provider of domestic travel is Air Jamaica Express. Both international airports offer cargo facilities and air cargo services.

*Infrastructure in Telecommunications and Energy*
Basic telecommunication services in Jamaica are provided by the Government of Jamaica with Cable and Wireless of Jamaica Limited – C&WJ, whose main shareholder --Cable & Wireless (UK)—control 82 percent of C&WJ. Under an agreement signed in 1999 to begin a phased end to C&W's stranglehold on Jamaica's telecommunications sector, the company was allowed to maintain a three-year exclusive position as a carrier of international voice, the most lucrative part of its business. As mentioned previously, C&WJ lost its monopoly on international communications on March 1, 2003.

Jamaica's telecommunication sector is booming, with the expenditure of J$30 billion by the island's three mobile telephone companies over the period 2000-2002 and the expansion in the number of cellular and fixed phone lines to 1.4 million. There are 900,000 cellular phone lines and 500,000 fixed lines in Jamaica. Installation of phone lines have in the past taken place seven working days after the receipt of an application in the case of business customers, and fourteen days after the receipt of an application in the case of residential customers. Approximately 4.5 faults are estimated to occur per 100 phone lines per year.

The call centers (or telemarketing) component of the information technology (IT) industry has also been progressing. Three new call centers were established in the Spring of 2002. These include the New Kingston-based Jamswitch with 48 employees; the Montego Bay-based Teleservices Direct, employing 72 people, and Inter-Sat, which is also based in Montego Bay and has 34 employees. Two other companies -- Sitel Caribbean and Affiliated Computer Services -- are expanding their operations. The Government of Jamaica also recently announced that a US$20 million loan from the Inter-American Development Bank would be used to implement an Internet-based communication system to enable the electronic payment of a range of taxes, customs duties and other Government charges.

The interest of the Canadian-based telecommunications firm, the Goldline Group, in Jamaica’s Internet and domestic voice telecommunication service is worth noting. The Goldline Group is Canada's largest provider of prepaid long distance calling cards servicing almost 80 percent of that market. Established in 1991, the Goldline Group will join another Canadian firm, Hemitel, in Jamaica's telecommunications industry. Hemitel Incorporated has been competing with Cable & Wireless Jamaica (C&WJ) for voice service since October 2001 when it launched its Irie Vibes international calling card. It expanded into local services earlier this year. Hemitel and Goldline are just two of the 69 recipients of local and international voice carrier licenses issued by the Ministry of Commerce and Technology, as of March 2002, for operation in the local telecommunications industry. Hemitel, which has registered offices in Jamaica, was granted its international and local voice service provider licenses in April and November 2001 respectively.

Also worth noting is that the Government of Jamaica planned to establish a one-stop regulatory agency to govern the converging information and telecommunication sectors in light of the full liberalization of the industry in 2003. One of the issues to be addressed in the new policy framework is the role of several regulatory agencies such as the Spectrum Management Authority, the Broadcasting Commission, the Office of Utilities Regulation (OUR) and the University of the West Indies (UWI) which administers the .jm domain, in light of the convergence of telecommunication, broadcasting and Internet technologies.

**Table 8**
**Telecommunications Country Profile: Jamaica**

| | |
|---|---|
| Telephone Density | 19.73 per 100 inhabitants (2001) |
| Cellular Density | 26.94 per 100 inhabitants (2001) |
| Equipment Market Size | $64.3 million (2000) |
| U.S. Telecom Equipment Exports | $72.24 million (2001) |
| Telecom Services Revenue | $462.6 million (2000) |
| WTO Basic Telecom Services Agreement signatory | Yes |

*Source*: Telecommunications Country Profile, US Department of Commerce

*Electricity and Power*
Over 95 percent of electrical power in Jamaica is generated from imported fuel oil. The principal producer and distributor of electricity in the island, Jamaica Public Service Company (JPSCo.), was privatized and sold to Atlanta-based Mirant Corp. in March 2001. In 1999, the annual production of electricity in the island was 6.53 billion kwh, of which 92.28 percent was produced from fossil fuel; 1.36 percent from hydro energy; and 6.36 percent from other sources (but none from nuclear energy). The electricity consumption for that year amounted to 6.073 billion kwh.

### 2.3 Human Capital

The labor force in Jamaica consisted of approximately 1,100,000 persons in 2001. The labor force participation rate declined as it has during the last few years. The unemployment rate, which is generally higher among women, was of 15 percent, more specifically 10.3 percent for males and 21 percent for females. The services sector's share of employment grew to reach 63 percent of total employment, whereas the goods-producing sector saw its share decline by 1.6 percent.

Under the laws of Jamaica, an employer must observe the regulation regarding the statutory national minimum wage, which increased by 50 percent in January 2002 to reach J$1800 per 40-hour week. The minimum wage varies according to sectors. For example, industrial guard services now receive J$2828 per 40-hour week, an increase of 40 percent compared to 2001.

Firing practices are also subject to industrial and labor laws. An employer may terminate an employment contract for a specific reason provided that he gives the worker advanced notice, or, alternatively, pay in lieu of notice. Statutory notice spans from two weeks for employment under five years, to eight weeks for employment fifteen years and over. If the employment contract is terminated through redundancy, there is an additional statutory provision of three weeks severance pay for each year of service in excess of ten years.

Under the Jamaican Constitution, a Jamaican citizen enjoys "freedom of association." Therefore, there are no restrictions on trade unions or the right to strike except for certain rules that apply to essential services. The year 2001 was the best in the past ten years with respect to industrial relations, as reported by the *Planning Institute of Jamaica*. The number of work disruptions declined by 50 percent to fourteen. The *Labour Relations and Industrial Disputes Act (LRIDA)* provides for conflict resolution mechanisms. If there are parties to a dispute who are unable to arrive at a settlement within a reasonable time, the dispute may be referred to the Industrial Dispute Tribunal for Resolution.

While education is provided by a number of public and private institutions, Jamaica needs to increase the number of its technical and tertiary-level education programs in order to train skilled workers capable to attract high value-added FDI. Moreover, better targeted training would also contribute to increase the productivity level of the Jamaican labor force. Although the average years of schooling of the non-professional work force is estimated to be of eleven years, more remains to be done if the country intends to be a real player in the knowledge economy.[6]

[6] There are three types of secondary schools in Jamaica: traditional, vocational and technical. Traditional high schools focus their curriculum around academics, whereas vocational and technical high schools emphasize the skill-training aspect of the curriculum. Enrollment in secondary technical schools increased by more than 400 percent between 1990 and 2000.

**Table 9**
**Jamaica's Labor Force**

| | **1997** | **1998** | **1999** | **2000** | **2001** |
|---|---|---|---|---|---|
| **Labor Force (000)** | 1 133.8 | 1 128.6 | 1 119.1 | 1 105.3 | 1 104.8 |
| Male (000) | 613.8 | 614.3 | 611.7 | 615.0 | 618.1 |
| Female (000) | 520.0 | 514.2 | 507.4 | 490.3 | 486.7 |
| **Labor Force Participation Rate (%)** | 66.5 | 65.6 | 64.5 | 63.3 | 63.0 |
| Male (%) | 74.6 | 73.9 | 73.0 | 73.0 | 73.0 |
| Female (%) | 59.0 | 57.8 | 56.6 | 54.3 | 53.6 |
| **Total Unemployment Rate (%)** | 16.5 | 15.5 | 15.7 | 15.5 | 15.0 |
| Male (%) | 10.6 | 10.0 | 10.0 | 10.2 | 10.3 |
| Female (%) | 23.5 | 22.1 | 22.5 | 22.3 | 21.0 |
| Average Weekly Earnings of All Employees (1990 J$) (a) | 5 177.2 | 5 881.9 | 6 869.1 | 7 277.7 | N/a |

a) From Survey of Employment, Earnings and Hours Worked in Large Establishments, Statistical Institute of Jamaica

*Source*: Planning Institute of Jamaica (www.pioj.gov.jm/statistics/statis_gdpi.stm)

## 2.4 Public Governance: Transparency, Integrity, and Rule of Law

For the past three years, Transparency International has not included Jamaica in its Corruption Perceptions Index. However, in 1999, when Jamaica was last included, it ranked 50th on the list of Transparency International, ahead of Mexico, Guatemala, Nicaragua, Argentina, Colombia, Venezuela, Bolivia, Ecuador and Honduras but behind Chile, Costa Rica, Peru, Uruguay, Brazil, and El Salvador (see Table 10). Many Jamaicans believe that corruption remains a major problem in the country and that it is rooted in the country's political culture. Jamaica is a signatory of the OECD convention on combating bribery and has ratified the Inter-American Convention Against Corruption. On March 11, 2003, the Government launched the Corruption Prevention Commission, which was established to detect, investigate and dispose of any acts of corruption among public servants. Under the Corruption Prevention Act of 2000, a public servant is defined as any person who is employed in the public, municipal or parochial service in Jamaica, in the service of a statutory body or authority or a government company. A public servant is appointed, elected, selected or otherwise engaged to perform a public function. The only public servants who must submit their annual statutory declarations are those who receive or earn emoluments in excess of the amount prescribed by the Minister of Justice. The amount that is now prescribed is J$2 million. Members of Parliament, although required to submit annual statements, do so in accordance with the Parliament (Integrity of Members) Act.

The Government has undertaken a program of Reform of the Public Sector and the Public Service Staff Orders. The program includes modernization of a number of agencies. It aims to achieve improvements in efficiency and the quality of customer service.

The number of violent crimes continues to be a problem for Jamaica. In order to fight crime and improve the country's justice system, a total of J$9.8 billion was devoted to Public Order and Safety Services in 2001. This new multifaceted approach aims at strengthening and reorganizing the Jamaican Constabulary Force (JCF), especially the Crime Management Unit, an elite crime-fighting unit within the JCF. The overall crime rate declined in 2001 from 1,507 per 100,000 inhabitants in year 2000 to 1,282 in 2001. The murder rate, however, increased from 34 to 43 per 100,000 inhabitants from year 2000 to 2001. Security cooperation between Jamaica, the United Kingdom and the United States has also led to specialized training to stem the flow of illegal weapons. Moreover, a number of new pieces of legislation seeking to improve the judicial process were tabled in Parliament.

**Table 10**
**1999 Corruption Perceptions Index for Latin American and Caribbean Countries**

| Country Rank | Country | Score |
|---|---|---|
| 19 | Chile | 6.9 |
| 32 | Costa Rica | 5.1 |
| 40 | Peru | 4.5 |
| 41 | Uruguay | 4.4 |
| 45 | Brazil | 4.1 |
| 49 | El Salvador | 3.9 |
| 50 | Jamaica | 3.8 |
| 58 | Mexico | 3.4 |
| 68 | Guatemala | 3.2 |
| 70 | Nicaragua | 3.1 |
| 71 | Argentina | 3.0 |
| 72 | Colombia | 2.9 |
| 75 | Venezuela | 2.6 |
| 80 | Bolivia | 2.5 |
| 82 | Ecuador | 2.4 |
| 94 | Honduras | 1.8 |

***Source*:** Transparency International (www.transparency.org)

A competition policy law was promulgated in Jamaica in 1993 and amended in 2001. The Fair Trading Commission (JFTC) was established as a specialized agency to administer the 1993 Fair Competition Act (FCA). The FCA provides for the maintenance and encouragement of competition in the conduct of trade, business and in the supply of services in Jamaica. The JFTC has the power to carry out investigations in relation to the conduct of business in Jamaica to determine if any enterprise is engaging in practices that are in contravention of the Act. Such investigations may be self-initiated by the JFTC or be carried out following a complaint. All investigations are carried out by the staff of the JFTC, which has the power to obtain any information that it considers necessary for the purposes of the investigation. Where necessary, an authorized officer of the JFTC may, with a warrant, enter and search any premises. The officer may remove any documents from the premises. Copies of documents removed may be made and the original must be returned within seven days. Also, the Commissioners have the power to summon and examine witnesses; to call for and examine documents; and to administer oaths. The JFTC can also take to Court any business or individual who has been found guilty of anti-competitive practice and has failed to take corrective measures, after being instructed by the Commissioners.[7]

The Jamaican judicial system is based on English common law and practice and consists of local courts, a Court appeal, and a Supreme Court. Final appeals are made to the Judicial Committee of the Privy Council in the United Kingdom. Discussions are currently taking place among a number of Caribbean nations, including Jamaica, with a view to establishing a Caribbean Court of Justice (CCJ) to replace the Judicial Committee of the Privy Council. In July 2002, CARICOM leaders mandated the Caribbean Development Bank (CDB) to raise US$100 million for a trust fund to finance the proposed Caribbean Court of Justice. The CCJ is to have original jurisdiction in interpreting the CARICOM treaty, which officials say is critical for the functioning of a single market and economy -- which the community intends to fully implement by 2005 -- as well as to be the final court of appeal of several Caribbean countries.

### 2.5 Trade Regime

Jamaica signed the General Agreement on Tariffs and Trade (GATT) on December 31, 1963 and has been a member of the World Trade Organization since its inception.[8] It has also been an active participant in the Free Trade Area of the Americas (FTAA) process since 1994. In addition, the country is participating in a number of other trade initiatives. Jamaica is an original member of the Caribbean Community and Common Market (CARICOM), established by the Treaty of Chaguaramas signed on July 4, 1973. CARICOM currently comprises 15 member states.[9] In 1989, the Heads of Government of the Caribbean Community agreed to deepen the integration process and determined that the Region would work towards the establishment of a single market and economy. The Caribbean Single Market and Economy (CSME) revolves around five main axes: the free movement of goods, services, and factors of production; the harmonization of laws and regulations affecting economic activities; the reform of CARICOM's institutions; the coordination of macroeconomic policies and foreign trade relations; and the implementation of a common external tariff with a maximum tariff of 20 percent on non-agricultural goods and 40 percent on agricultural goods. The Revised Treaty of Chaguaramas, which includes nine Protocols amending the original Treaty and which provides the legal framework for CARICOM to move to a Single Economy and Market, was signed by most CARICOM Heads of Government, including Jamaica's, when they met in July 2001 in The Bahamas.[10] On March 1, 2002, CARICOM Member States agreed on a program with a timetable for the removal of

[7] http://www.jftc.com/news&publications/Statistics/statistics.htm

[8] Jamaica has also signed a bilateral textiles and apparel agreement with the United States and Canada within the context of the WTO Agreement on Textiles and Clothing.

[9] The founding members were: Barbados, Guyana, Jamaica, and Trinidad and Tobago. The Bahamas, Belize, Dominica, Grenada, Montserrat, St. Lucia, and St. Vincent and the Grenadines acceded in May 1974. Antigua and Barbuda and St. Kitts and Nevis joined in July 1974, while Suriname joined July 4, 1995. Haiti became an official member in July 2002 after having ratified the Treaty. The Bahamas is an associate but not a full member of the Common Market.

[10] CARICOM Members have yet to ratify the Revised Treaty and enact it into domestic law.

existing restrictions impeding or infringing on the rights of CARICOM nationals to provide services, move capital and establish business enterprises. CARICOM Members made the commitment to remove these restrictions progressively from 2003 to 2005.

Through its membership of CARICOM, Jamaica signed a trade agreement with Venezuela in October 1992 (which entered into force on January 1, 1993) and with Colombia in 1994 (which became effective on January 1, 1995), respectively. Both agreements were concluded under the provision for non-reciprocal partial scope agreements of the Latin American Integration Association (ALADI), of which Colombia and Venezuela are members. Certain CARICOM products are given duty-free access to Venezuela. Tariffs on a second group of goods are reduced in annual stages until reaching zero, and tariffs on the remaining products receive most-favored-nation (MFN) treatment when they enter the Venezuelan market. The agreement with Colombia is very similar to that with Venezuela, except that it calls for "postponed reciprocity" where four CARICOM Member States –Barbados, Guyana, Jamaica and Trinidad and Tobago, also known as the "more-developed countries" of CARICOM, must since June 1, 1998 grant duty-free access to some Colombian products.

CARICOM has also signed a free trade agreement with the Dominican Republic in 1998,[11] and a trade and economic agreement with Cuba in 2000, providing the framework for the promotion and expansion of trade between the Member States of CARICOM and Cuba.[12] In March 2003, CARICOM and Costa Rica concluded a free trade agreement. Under this agreement, a wide range of products will be traded freely or at preferential rates although some sensitive products will be excluded from free trade. The duty on other products will be phased out over a four-year period beginning January 1, 2005. CARICOM countries, including Jamaica, have also expressed interest in negotiating a free trade agreement with Canada. On the occasion of the Canada-CARICOM Summit on January 19, 2001, in Montego Bay, Jamaica, Canada's Prime Minister Jean Chrétien and his CARICOM counterparts announced the launch of discussions towards the negotiation of a Canada-CARICOM free trade agreement.

Several industrialized countries have established a generalized system of preferences (GSP), which allows for duty concessions to exports originating in developing countries. The magnitude of the duty concession and the number of countries covered vary among countries. Jamaican products are accorded GSP benefits by Australia, Austria, Canada, the Czech Republic, the European Union, Japan, New Zealand, Poland, the Slovak Republic and Switzerland.

Jamaica also benefits from the unilateral preferential tariff treatment granted by the United States to countries qualifying under the 1983 Caribbean Basin Initiative (CBI), which was given new impetus with the Caribbean Basin Trade Partnership Act (CBTPA), effective since October 2000. The CBTPA will remain in effect until the earlier of two dates: September 30, 2008, or the date the Free Trade Area of the Americas enters into force.

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[11] The Framework Agreement was signed on August 22, 1998 and the Protocol to Implement the Agreement Establishing the Free Trade Area between CARICOM and the Dominican Republic was signed on April 28, 2000.

[12] The Agreement was signed by the Chairman of the Conference of CARICOM Heads of Government and the Minister of Economic and International Affairs of Cuba at the twenty-first conference of Heads of Government of the Caribbean Community in July 2000.

Under the 1986 CARIBCAN agreement, Canada grants duty free access to goods (most products excluding textiles, clothing, footwear, luggage and other leather goods, lubricating oils, and methanol) from the Commonwealth Caribbean, including Jamaica, as long as they satisfy the specific requirements of rules of origin. That is, a minimum of 60 percent of the price of the product must originate within the beneficiary country or in Canada.

Jamaica is also a member of the African, Caribbean and Pacific (ACP) group of states that benefit from the Cotonou agreement. The partnership agreement between these states and the European Union (EU) was signed in Cotonou, Benin on June 23, 2000, as a successor agreement to the Lomé Trade and Aid Convention, which had provided the structure for trade and cooperation between the ACPs and the EU since 1975. On April 9, 2002, the European Commission adopted a negotiating strategy for Economic Partnership Agreements, the free trade areas that will replace preferential trading arrangements currently offered by the EU to its ACP partners. Negotiations will take place between September 27, 2002 and January 2008. The resulting agreement will enter into force in 2008, but will have a twelve-year transition period, i.e. until 2020. Until 2008 when the outcome of these negotiations is to be implemented, the current non-reciprocal tariff preferences will remain in place.

The preferential agreements signed by CARICOM members with United States, the European Union, and Canada have resulted in closer trade links between Jamaica and these countries, as shown in Tables 11 and 12. The United States is the single most important export market for Jamaica, accounting for 39.1 percent of all Jamaican exports in 2000. It is important to point out here that this figure is undoubtedly underestimated by at least 15 percent since it excludes free zone exports, which generally capture between 14 and 17 percent of all exports. The European Union came second at 22.5 percent and Canada third at 10.2 percent. On the import side of the trade balance equation, U.S. goods represented 44.8 percent of Jamaican imports, whereas CARICOM accounted for 11.1 percent, with Trinidad and Tobago representing 91 percent of CARICOM's share. It is worth noting that Venezuela has become a key partner for Jamaica with respect to imports, particularly in crude oil, and that the EU import share has plummeted in recent years.

**Table 11**
**Exports to Principal Trading Partners (in Percentage of Total Exports)**

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| **Canada** | 11.8 | 14.1 | 11.5 | 10.9 | 10.2 |
| | | | | | |
| **CARICOM** | 3.8 | 3.3 | 3.3 | 2.1 | 2.5 |
| **-- Guyana** | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 |
| **-- Trinidad and Tobago** | 1.2 | 1.1 | 1.2 | 1.2 | 1.7 |
| | | | | | |
| **EU (formerly EEC)** | 30.8 | 29.0 | 27.7 | 24.7 | 22.5 |
| **-- United Kingdom** | 13.3 | 13.4 | 12.1 | 12.3 | 11.5 |
| | | | | | |
| **Norway** | 6.6 | 5.8 | 6.7 | 6.4 | 9.1 |
| **Japan** | 2.2 | 2.3 | 1.3 | 1.8 | 2.3 |
| **United States** | 36.8 | 33.4 | 40.9 | 37.0 | 39.1 |
| **Venezuela** | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| **Others** | 7.9 | 12.1 | 8.6 | 17.0 | 14.2 |

*Source***:** World Bank and Statistical Institute of Jamaica

**Table 12**
**Imports from Principal Trading Partners (in Percentage of Total Imports)**

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| **Canada** | 3.0 | 3.0 | 3.2 | 3.3 | 3.1 |
| | | | | | |
| **CARICOM** | 10.0 | 10.1 | 10.4 | 10.7 | 11.1 |
| **-- Guyana** | 0.2 | 0.7 | 1.0 | 1.0 | 1.0 |
| **-- Trinidad and Tobago** | 8.5 | 7.8 | 7.7 | 9.8 | 10.0 |
| | | | | | |
| **EU (formerly EEC)** | 11.0 | 12.8 | 9.6 | 3.8 | 3.8 |
| **-- United Kingdom** | 3.9 | 3.7 | 3.8 | 3.2 | 3.1 |
| | | | | | |
| **Netherland Antilles** | 0.3 | 0.4 | 0.2 | 0.8 | 0.4 |
| **Japan** | 5.6 | 6.9 | 6.7 | 6.1 | 6.0 |
| **United States** | 52.2 | 48.1 | 50.9 | 48.5 | 44.8 |
| **Venezuela** | 2.3 | 2.1 | 1.5 | 1.8 | 3.9 |
| **Others** | 15.6 | 16.6 | 17.5 | 25.0 | 27.0 |

*Source*: World Bank and Statistical Institute of Jamaica

Traditional products such as bauxite, alumina and sugar still account for the bulk of Jamaican exports. More specifically, crude materials represented 51.2 percent of all Jamaican exports in 2001, whereas food at 15.5 percent and free zone exports at 13.5 percent were the other two most important items. On the import side, machinery and transport equipment at 25 percent, mineral fuels at 16.5 percent, food at 13.5 percent, manufactured goods at 13.2 percent were the main import goods. Imports from free zones accounted for 3.8 percent of all Jamaican imports in 2001.

**Table 13**
**Goods Exports and Imports (in Percentage)**

| | Exports (2000) | Imports (2000) | Exports (2001) | Imports (2001) |
|---|---|---|---|---|
| **Total Goods Exports** | 100.0 | 100.0 | 100.0 | 100.0 |
| **--- General Merchandise Exports** | 83.2 | | 84.4 | |
| **--- General Merchandise Imports** | | 94.8 | | 95.3 |
| | | | | |
| **- Food** | 14.6 | 12.8 | 15.5 | 13.5 |
| **- Beverages and tobacco** | 3.8 | 0.8 | 3.3 | 0.9 |
| **- Crude materials** | 47.2 | 1.5 | 51.2 | 1.3 |
| **- Mineral fuels** | 0.2 | 18.6 | 1.4 | 16.5 |
| **- Animal and vegetable oils** | 0.0 | 0.6 | 0.0 | 0.5 |
| **- Chemicals** | 4.5 | 10.8 | 4.4 | 10.7 |
| **- Manufactured goods** | 0.8 | 12.7 | 0.7 | 13.2 |
| **- Machinery & transport equipment** | 1.7 | 21.6 | 1.1 | 25.0 |
| **- Miscellaneous manufactured goods** | 10.4 | 12.9 | 6.8 | 11.2 |
| **- Miscellaneous commodities** | 0.0 | 2.5 | 0.0 | 2.5 |
| | | | | |
| **--- Free Zone Exports** | 14.3 | | 13.5 | |
| **--- Free Zone Imports** | | 4.1 | | 3.8 |
| **--- Goods Procured in Ports** | 2.5 | 1.1 | 2.1 | 0.9 |

*Source*: Statistical Institute of Jamaica

## 2.6 Investment Regime

All investment related activities in Jamaica are governed by general legislation. Jamaican law does not provide for a legal and regulatory framework specifically applicable to foreign direct investment. In fact, foreign investment is not defined as such in domestic legislation, albeit it is protected under common law and by legislation related to investment incentives. Moreover, Jamaica does not apply any screening process for foreign investors, as was the case before the country liberalized its investment regime at the beginning of the 1990s. Very few barriers to the right to establish a business exist for foreign investors. Most restrictions are with respect to work permits and visa requirements. Some restrictions may take the form of higher minimum capital requirements such as in the banking sector. In other cases, discrimination could be exercised in the application of registration and licensing requirements in a number of services sectors.[13]

The Government of Jamaica has no restrictions on the movement of foreign currencies flowing either into or out of Jamaica. This facilitates the free movement of capital to other countries, whether for investment or repatriation purposes.

The right of property is upheld in the Constitution, subject to a few limitations. Expropriation of lands may take place under the Land Acquisitions Act, which provides compensation on the basis of market value. With the exception of free zones, foreign investment profits are subject to a 25 percent tax rate for individuals and 33 1/3 percent for companies under the Income Tax Act. Dividends are subject to the applicable rate of 25 percent or 33 1/3 percent withholding tax.

[13] An inventory of non-conforming measures (i.e. discriminatory) measures is being prepared by Jamaica in the context of the Caribbean Rim Investment Initiative.

The Government of Jamaica offers a number of investment incentives through various pieces of legislation. Some of these incentives falls under the definition of export subsidies, as defined by the WTO in its Agreement on Subsidies and Countervailing Duties (SCM), and will therefore need to be eliminated by the end of 2007.[14] In February 2003, Dr. Paul Robertson, Jamaica's Minister of Development, announced that the Government was spearheading legislation aimed at revising the incentive scheme regimes. The Government is working in collaboration with USAID and the Jamaica Chamber of Commerce on the *Jamaica Regulations Legislation and Process Improvement Project*. The intent is to look at the legislative framework, regulations and the administrative practices, which impinge on the efforts at ensuring that incentives can be properly applied and effectively implemented. The Development Minister however emphasized, that any new incentive system had to be applied in a non-discriminatory manner to both local and foreign investors and allow for continuing assessment of the effectiveness of these incentive packages.

Under the Jamaica Companies Act, investors are generally required either to establish a local company, or to register a branch office of a foreign-owned enterprise. Branches of companies incorporated abroad must register with the Registrar of Companies within a month of their establishment in Jamaica. Applications for incentive benefits must be made to JAMPRO, the Jamaican Government agency responsible for promoting and processing investment proposals.

### Agricultural Incentives

#### *Approved Farmer Status:*

The farmer that engages in the production of certain crops qualifies for 'approved farmer' status and the ensuing benefits.  Activities qualifying include:

- Most agricultural products grown and produced in Jamaica
- Companies involved in the hatching of eggs

The successful attainment of 'approved farmer' status guarantees the farmer income tax and import duty concessions for up to ten years, after which the status may be renewed.

### Film, Music and Entertainment Incentives:

#### *Motion Picture Encouragement Act*

A 'recognized film producer' is entitled to:

- Relief from income tax for a period not exceeding nine (9) years from the date of the first release of the motion picture

[14] At their Ministerial Meeting held in Qatar in November 2001, WTO members agreed to postpone to the end of 2007 the elimination of export or local content subsidies by developing countries under the SCM Agreement. Export subsidies were to be eliminated by 2003.

- An investment allowance of 70 percent of the expenditure on the facilities, which may be carried forward beyond the initial nine (9) year period, is also granted for income tax purposes

- Exemption from the payment of import duty on equipment, machinery and materials for the building of studios or for use in motion picture production.

**Manufacturing Incentives**

***Export Industry Encouragement Act***

To qualify for incentives under this act the manufacturer must be an exporter of manufactured products. In the case of a full exporter (that is, 100 percent of the goods manufactured are exported), the business must be designed to export manufactured products in exchange for hard currencies (therefore, the CARICOM market is not usually the focus of this exporter). In the case of a partial exporter, producers must export a threshold of 5 percent of their production to non-CARICOM markets.

Having fulfilled these requirements the manufacturer may receive concessions on income tax for ten (10) years as well as exemption from import duties on raw materials and machinery. The income tax rebate is granted according to the percentage of export profits to total profits. For new exporters, the rebate is calculated based on percentage of export sales to total sales, while for the already existing exporter, the rebate is calculated based on incremental export sales over a base year. The Act has been amended to provide benefits where incremental exports to non-CARICOM countries are in excess of 5 percent of total exports.

***Bauxite and Alumina Industries Encouragement Act***

Under this Act, if a business is engaged in the mining of bauxite or the production of alumina in Jamaica they are automatically qualified for import duty concessions on capital goods, lubricating oils, grease and other chemicals.

***Petroleum Refinery Encouragement Act***

A registered oil refiner may import articles for the construction and operation of the refinery as well as for the purpose of manufacturing petroleum products duty free. Furthermore, the manufacturer is exempt from paying income tax, or tax on dividends paid to shareholders, for a period of up to seven (7) years after which he has six (6) years to carry forward net losses incurred during that period.

## Tourism Incentives

### *Hotel Incentives Act*

For a hotel to benefit from this Act they must contain ten (10) or more bedrooms as well as facilities for meals and the accommodation of transient guests, including tourists. The Act offers income tax relief and duty concessions for up to fifteen (15) years for convention-type hotels (hotels with at least 350 bedrooms), and ten (10) years for regular hotels.

### *Resort Cottages Act*

The resort cottage must contain at least two (2) furnished bedrooms with kitchen, living room and bathroom facilities, used for the accommodation of transient guests including tourists, in order to qualify for reward. In this case, the business receives income tax relief for up to seven (7) years as well as duty free importation of building materials and furnishings.

## Manufacturing / Information Technology Incentives

### *Jamaica Export Free Zone Act*

Before a manufacturer can take advantage of the concessions made available by this Act, they have to ensure that all transactions must be conducted in US currency in addition to the fact that they are actually located within the free zone area. However, some firms outside of the free zone area may be allowed to benefit under the single entity free zone incentive. To get single entity free-zone status, a company must:

- be registered according to the provisions of the Companies Act
- export at least 85 percent of its production, and
- receive an approval from the Bank of Jamaica.

The 'free-zone' status enables manufacturers and service providers (in the case of informatics free zones) to benefit from the exemption from income tax on profits as well as import duties and licensing. Furthermore, there exists a special provision under this Act, which permits the repatriation of foreign exchange by overseas investors to its parent company without any form of recourse on the part of the Government.

### *Accelerated Depreciation/Special Capital Allowance*

Qualified businesses must be certified by the Ministry of Industry, Commerce and Technology. For data processing/system development businesses, at least 20 percent of its gross income must be derived from exports. Upon qualification, a certified business is granted a special allowance of capital expenditure for:

- 50 percent of the full cost of any new machinery in the year of purchase, and
- a further 50 percent in the 2nd year.

## Incentives that Apply to All Industries

### *Industry Incentives Act*

If the business is a producer of an ‘approved product’ which has a supply market of less than 60 percent of the demand market, then they may gain ‘approved enterprise’ status and thus, stand to benefit from this Act. This exempts them from the payment of income tax for a period of time, depending on the product.

### *Foreign Sales Corporation (FSC) Act*

An FSC is a foreign sales corporation, which is allowed to earn some tax exemption on its exports to the United States. This Act provides relief from the Common External Tariff and the General Consumption Tax on equipment, machinery and materials coming into the country. In addition, it provides for up to five years income tax relief.

### *International Financial Companies Act*

In an effort to promote offshore banking facilities, Government has provided international financial companies with income tax relief on both profits and capital gains.

### *Shipping Act*

Once a company is recognized as an ‘approved Shipping Corporation’ they may receive tax relief and concessions on import duties for up to ten (10) years.

### *Moratorium on Duties*

This is granted to companies which do not qualify under existing incentives laws yet have the potential to contribute significantly to foreign exchange earnings, employment, and so on. If the company is able to prove that it holds this potential, it may be granted relief from import duties for up to three years by the Minister of Finance.

### *Modernization of Industry*

To qualify under this incentive program the investor must provide necessary support, service, or raw material, to export manufacturer(s); or, be involved in export trade or plan to enter the export market. This will guarantee them relief from the General Consumption Tax levied on capital goods.

### *Urban Renewal Act*

This Act is targeted at persons or organizations that facilitate or carry out urban development in depressed areas. Relief from income tax, stamp duty and transfer tax is given to those persons who engage in transactions geared towards urban development.

*Factory Construction Law*

This law focuses on companies who construct factories and lease or sell them to manufacturers under the Export Industry Encouragement Act. It grants relief from:

- import duties for items which are not available locally, and
- income tax on income from factory leasing or gains made from sales.

**Bilateral Investment and Double Taxation Treaties**

In addition to the incentives packages, Jamaica has signed several bilateral investment treaties (Argentina, China, Cuba, Egypt, France, Germany, Indonesia, Italy, the Netherlands, Switzerland, the United Kingdom, the United States, and Zimbabwe) to improve the business environment and provide legal certainty to the investor. It has also signed double taxation treaties with Canada, CARICOM, China, Denmark, Germany, Israel, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

### 2.7 Investment Promotion Agency: Jamaica Promotions Corporation (JAMPRO)

JAMPRO was created in 1988 as a way to consolidate into a single body all the functions related to investment promotion and facilitation. In 1990, while housed within the Ministry of Development, Planning and Production, the JAMPRO Act was passed in Parliament, establishing the company as a statutory body of the Government of Jamaica. Today, JAMPRO functions under the Ministry of Development and its mandate and services have become more facilitatory, while focusing primarily on investment and export promotion within the Leisure, Manufacturing, Agribusiness and Information Technology sectors.

JAMPRO develops and implements programs to encourage, expand and diversify investments; modernize production and management systems of companies; and stimulate growth of exports from Jamaica. These programs are designed to meet the needs of the entrepreneur in business development from project idea through to implementation and beyond. JAMPRO provides information on Jamaica's investment opportunities, economic and market trends, as well as cost models and data on various types of investment.

JAMPRO's focus is to support the development of businesses in:

- Leisure Industry – Tourism, Film and Music
- Manufacturing and Mining
- Agriculture and Agro-industry
- Information Technology and International Business

JAMPRO also facilitates various types of Government approvals on behalf of investors, including the following:

- Approval for incentives as applicable
- Film and mining licenses
- Work permits and visas

• Land and building approvals
• Other approvals

With respect to joint venture partnerships, JAMPRO assists investors by:

• Evaluating project proposals
• Preparing internationally acceptable business profiles
• Identifying joint venture partners and offering matchmaking services for investors seeking cooperation in the areas of capital, technology, management, marketing and training
• Advising and participating in the negotiation of joint ventures
• Identifying sources of financial assistance and endorsing projects for funding

JAMPRO provides assistance with the identification of appropriate sites (land and factory space) for projects. It can also assists with all aspects of film production, including

• Provision of a comprehensive service for all film makers in production or location scouting.
• Provision of incentives for production companies.

Business enterprises can benefit from technical assistance sourced by JAMPRO from bilateral and multilateral agencies. JAMPRO also provides counterpart staff to help with:

• in-plant consultancy
• advice on production methods and equipment selection
• plant design and layout

JAMPRO provides the secretariat for both the Trade Facilitation and Investment Facilitation Boards. The Trade Facilitation Board, a private and public sector grouping, is responsible for ensuring that exporters are afforded an opportunity to have their trade concerns/problems considered and resolved. The Investment Facilitation Board, comprising of members from the public sector, seeks to resolve any problem arising during the investment process and to expedite the granting of the necessary Government approvals.

JAMPRO also registers all exporters. There is an annual registration fee. The register provides current data on exporters, their bona fides and ability to carry out their declared activities. It provides market intelligence and assistance with product promotion in order to help exporters locate and penetrate overseas markets.

JAMPRO is also committed to the development of new market areas through overseas-funded business development programs such as the European Union-funded Trade Development Project, and projects through the Caribbean Export Development Agency (CEDA) and the Centre for the Development of Enterprises (CDE).

JAMPRO is strategically located in New York, London and Toronto, to serve business interests. The activities at these offices include:

• Processing trade enquiries that emanate from overseas sources;
• Promotions such as arranging incoming and outgoing trade missions, direct sales visits to companies, in-store promotions and representing Jamaican companies at trade fairs;
• Conducting market surveys and research to identify export opportunities.

## PART III
## Investor Perceptions

Investor perceptions of Jamaica as a prime location for FDI are improving. They are generally supportive of the Jamaican Government's efforts to attract FDI. Political stability and democratic Government rank high among the factors that draw investors to Jamaica. Investors also recognize that Jamaica's geographical proximity to North America, in particular easy air and shipping connections to Miami, good telecommunication services, and a qualified English-speaking work force are major assets contributing to invite foreigners to invest in Jamaica. In the case of export-oriented investors, preferential market access to the United States under the Caribbean Basin Initiative (CBI) and the Caribbean Basin Trade Partnership Act (CBTPA), as well as to other Caribbean countries under the soon-to-be-fully-implemented CARICOM Single Market and Economy are important considerations. Overall trade liberalization within the Free Trade Area of the Americas (FTAA) process will also provide foreign investors with additional market opportunities.

Certain areas can be improved to further enhance Jamaica's investment climate. Investors express concern on labor issues, particularly on difficult management-labor relations in some industries. This reflects the need to refocus investment promotion strategy on knowledge-intensive industries that value workers as productive assets. The implementation of productivity incentive programs, coupled with greater flexibility in workweeks, would bring added productivity gains. Another factor that investors perceive to be detrimental to their investments is the high cost of utilities and especially the high cost of petroleum. Electric power is generated from imported fuel oil, which partly explains the higher costs. Yet the cost of the utility should be significantly reduced with adequate investment and modernization of facilities following the privatization of Jamaica Public Service Company (JPSCo). Transaction costs are also identified to be relatively high. Investors are stressing the need to minimize bureaucratic business approval procedures. Lastly, there are perceived social costs to doing investment in Jamaica, particularly in Kingston, due to problems in personal safety, as well as in security. This issue might be partially addressed by increasing security measures at business facilities and residences.

In a study conducted with twenty-nine existing or potential investors in Jamaica in August 1998, the U.S. Department of Commerce highlighted three primary challenges identified by foreign investors.[15] The need to modernize infrastructure services topped the list of concerns, traffic congestion, poor urban and inter-city roads, and inadequate mass transit. The reliability of electricity and telecommunication services was also singled out. These two sectors have since then undergone major changes and benefited greatly from an influx of foreign direct investment, following the privatization and liberalization in each of these sectors, respectively. Crime and lack of security came second as challenges facing foreign investors. Personal safety as well as safety against pilferage were of particular concerns. Finally, labor issues were mentioned as having a negative impact on the overall investment climate. Traditionally, management-labor relations have been quite difficult in certain industries, as demonstrated by the number of strikes in recent years. However, the recommendations contained in the 1994 Labour Market Reform Committee report, which included modernizing the island's labor laws, implementing flexible work arrangements and restructuring the Ministry of Labour to make it better able to deal with industrial relations

[15] See Department of Commerce, Jamaica : Investor Attitude Study, August 1998, at http://usembassy.state.gov/kingston/wwwhfjia.html.

disputes, have yet to be fully implemented. The process of labor market reform is on going in the country. In January 2002, the National Labour Market Information System was launched as a tool to improve the flow of information to users on demand and supply side of the labor market.

## Recommendations

Before the next plenary meeting of the Caribbean Rim Investment Initiative, a number of concrete measures should be implemented by the Government of Jamaica, with the support of international organizations such as the Inter-American Development Bank and the Organization for Economic Cooperation and Development (OECD), to improve the investment climate in the country. These measures should include:

a) the review of tax regulations to identify inefficiencies in statutes and procedures, and the strengthening of Jamaica’s Double Taxation Treaty network, which does not include major investors such as France, Ireland, and Spain; and

b) the review of work permit procedures and business visas to facilitate greater access for key personnel related to investment projects.

Moreover, cognizant of the need to eliminate export subsidy programs such as free zones under the WTO Agreement on Subsidies and Countervailing Duties by the end of 2007, Jamaica should also carry out:

c) a review, as announced in February 2003, of its investment-related incentive packages, using a cost-benefit analysis to assess the use and provision of such incentives in the country.

With a view to encouraging linkages between foreign and local investors, Jamaica should undertake:

d) the establishment of a clearing house where small and medium-sized local companies meeting some well-defined standards of performance would register and could become suppliers of the foreign (and local) companies operating in free zones. Such a mechanism would encourage backward linkages; and

e) the establishment of an annual employment survey and assessment of economic inputs to monitor the progress in employment and linkages arising from FDI so as to use these results in shaping future policy.

Initiatives such as the recent IADB-financed e-government loan, which offers some 900 Jamaicans partial funding for high-level professional training in information and communication technology should be replicated and encouraged. As the country is targeting the ICT sector and telecommunications, Jamaica should review:

f) its investment in training and re-training programs aimed at improving the technological skills of its work force with a view to increasing the competitive advantage of the country as a knowledge economy. In particular, Jamaica should undertake a full review of skills needed for the future and skills presently available so as to measure and address the gap with skills training, skills upgrading, and conversion programs.

Jamaica would also greatly benefit from:

g) the establishment of an annual benchmark survey of investors views on critical issues affecting investment decisions.

Reducing crime should remain one of the Government's top priorities, although it is worth noting that the real impact of violent crimes on FDI is difficult to assess since tourists and foreign business people are rarely the victims of such acts. Nevertheless, there is no doubt that it contributes to deter foreign investment. The Government is addressing this major problem and has recently adopted a multifaceted approach to strengthen and reorganize the police force and improve the country's access to the justice system.