



MINISTRY OF INDUSTRY, INVESTMENT AND COMMERCE

SPECIAL ECONOMIC ZONES GREEN PAPER

Policy for the Establishment of Special Economic Zones under the Jamaica Logistics Hub Initiative

FOR DISCUSSION ONLY

January 2014



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I. Definitions¹ of Terms and Acronyms

Capital goods: Tangible items used in the production of other goods. Examples include factories, machinery equipment (e.g. computers) and tools.

Consumer goods: Goods destined for final consumption by individual households or communities (e.g. food and beverages, video games, recorded CDs and DVDs, sports goods, etc.).

Consumables: Materials (excluding lubricating oils or fuel for use in internal combustion engines) and articles consumed or expended by a taxpayer directly in the process of the production of primary products or the manufacture of goods.

Country of origin: According to the Kyoto Convention in international merchandise trade statistics, the country of origin of a good (for imports) is determined by rules of origin established by each country. Individual countries are free to define origin, but within boundaries set by WTO rules.

Customs duties: means the duties laid down in the Customs tariff to which goods are liable on entering or leaving the Customs territory

Customs territory: means the territory in which the Customs law of a Contracting Party applies in full

Demand chain: The demand chain is seen as the counterpart to the supply chain in the total value chain. It usually comprises the main activities in the context of marketing, sales and customer service. In demand-driven supply chains, research and development are closely linked to marketing.

¹ Definitions taken from various sources including the Revised Kyoto Convention.

Domestic content of exports (or domestic value added content of exports): The domestic content of exports measures exports net of imported inputs. It corresponds to the accumulation of the value added created by each of the various domestic sectors that contributed directly or indirectly to the supply chain.

Equal Footing: having the same rights and conditions as individual or business competitors

Free zone: a part of the territory of a Contracting Party where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the Customs territory.

Global manufacturing: Production activities in which different steps of the manufacturing process take place in different countries.

Gross fixed capital formation: A general measure of gross net investment in fixed capital (such as machinery, vehicles, and buildings) during an accounting year.

Intermediate goods and services: Tangible and intangible products utilized as inputs in production, excluding fixed assets.

Logistics Parks: A cluster of logistic related businesses that provide various services, including Container Freight Stuffing, storage, consolidation and distribution, and value added services.

Micro, Small and Medium-sized Enterprises: The classification for each category was agreed on at a one day workshop that was held at the Mona School of Business (MSB) July 2011. This workshop involved participants from the public and private sectors, including the respective Associations representing MSMEs (MSME Alliance and SBAJ). At the end of the exercise, it was agreed that a MSMEs should be defined as follows:

FIRM SIZE	NO. OF EMPLOYEES	TOTAL ANNUAL SALES/TURNOVER
Micro	≤ 5	≤ J\$10 million
Small	6 – 20	> \$10 million ≤ J\$50 million
Medium-sized	21 – 50	> J\$50 million ≤ J\$150 million

Non-Tariff Measures: Various bureaucratic or legal issues that could result in hindrances to trade.

Offshoring: Describes an enterprise's decision to sub-contract the supply of specific goods and services to foreign suppliers. These suppliers can be independent or affiliated firms. Offshore-outsourcing is a special case of outsourcing, when the contractual parties are not resident of the same economy.

Outsourcing: An enterprise's decision to acquire specific inputs and services from an outside (unaffiliated) company, instead of producing them internally.

Production network: A group of interconnected companies involved in the production of goods and/or services.

Special economic zone: Geographically delimited area, usually physically secured (fenced-in), single management/administration, eligibility for benefits based upon physical location within the zone, separate customs area (duty-free benefits) and streamlined procedures.

Trade in value added: An alternative to the traditional measure of international exchanges in goods and services, adapted to the evolution of global supply chains. Enables the domestic content included in gross export flows to be estimated.

Twenty-foot equivalent unit (TEU): A unit of measurement equal to the volume occupied by a standard 20-foot container.

Value added: The value of output minus the value of all intermediate inputs. It represents the contribution of, and payments to, primary factors of production (wages, profit and taxes).

Value chain (global): The sequence of activities that firms undertake to create value, including the various production steps (supply chain), but also all activities belonging to the demand chain, such as marketing, sales and customer service.

AEOs	Authorized Economic Operators
BITs	Bilateral Investment Treaties
CBERA	Caribbean Basin Economic Recovery Act
DARP	Development Applications Review Process
FDI	Foreign Direct Investment
FTP	Foreign Trade Policy
FTAs	Free Trade Agreements
FTZs	Free Trade Zones
GCT	General Consumption Tax
GLHI	Global Logistics Hub Initiative
HACCP	Hazard Analysis and Critical Control Points
IMF	International Monetary Fund
ITC	International Trade Centre
JBDC	Jamaica Business Development Corporation
KFZ	Kingston Free Zone
MBFZ	Montego Bay Free Zone
MERCOSUR	Southern Common Market
MDA	Ministries, Departments and Agencies
MEFP	Memorandum of Economic and Financial Policies
MIIC	Ministry of Industry, Investment and Commerce
MRO	Maintenance, Repair and Operations
MSMEs	Micro, Small & Medium-sized Enterprises
NCC	National Competitiveness Council
NTM	Non-Tariff Measures
OSS	One-Stop-Shop
POs	Procedural Obstacles
PSC	Policy Steering Committee
RTC	Revised Treaty of Chaguaramas
SADs	Single Administrative Documents
SADC	Southern African Development Community
SEZs	Special Economic Zones
WTO	World Trade Organization

Vision

Special Economic Zones are economic powerhouses catalyzing growth and development of a highly competitive logistics-centred Jamaican economy.

II. Introduction

Following a submission by the Ministry of Industry, Investment and Commerce (hereafter referred to as the “Ministry”) in 2012, Cabinet approved the pursuance of the global logistics hub initiative (GLHI), vide Decision No.33/12 dated September 18, 2012. Cabinet recognizes the GLHI as a national development priority as substantiated by the Vision 2030: National Development Plan and a critical growth-enhancing strategy. This is why all efforts to transform Jamaica into a global logistics hub are nestled in the Growth Agenda which is the general framework guiding economic and social development over the medium-term.

The implementation of the Global Logistics Hub Initiative (GLHI) will be transformative and will have far-reaching effects on the Jamaican economy over the medium- to long-term. Under the GLHI several geographical areas will be designated as clusters for high impact investors. The businesses in these geographical areas, called Special Economic Zones (SEZs), will experience enhanced procedures and regulations relative to businesses operating outside these areas. SEZs are central to the overall GLHI as they will link industrial development and logistics services and will facilitate MSME participation in export industries. These SEZs will also ensure a smooth transition towards a policy regime that complies with our international obligations under the World Trade Organization (WTO) by 2015.

The implementation of the GLHI also brings into sharp focus the importance of the SEZ regime in the shifting development paradigm for Jamaica. In this same vein, it must be emphasized that it is indeed crucial that there is an appreciation for the multiplicity of other initiatives that the

GOJ is also pursuing to support the creation of the hub. One other key initiative is the establishment of an International Financial Services Centre which is aimed at creating an international financial services hub with important differences from existing jurisdictions in the Caribbean.

The Ministry is the arm of government responsible for nurturing businesses and plans to introduce policy measures that will hasten the development of the SEZs in the short to medium-term. The development of the policy framework for SEZs will result in a phasing out the existing Free Zone regime with a modern regime that will enhance the country’s economic offerings to the local and foreign investor community. This necessitates the upgrading of existing legislative and regulatory frameworks in line with global best practices for SEZs that adequately fit Jamaica’s circumstances.

This Green Paper provides an overview of the issues and challenges that the policy framework needs to address and the approaches that are being contemplated to resolve them. It has benefited from consultative engagements with various organizations that are represented on the SEZ Policy Steering Committee (see list of organizations represented on the SEZ Policy Steering Committee in Appendix 1). Other local and international organizations were engaged through policy dialogues which were convened by the Ministry and the SEZ PSC. Research was also carried out by a team of technical officers at the Ministry to inform the recommended policy strategies.

The Jamaican Policy Context and the Special Economic Zone Regime

Following a submission by the Ministry, Cabinet by way of Decision No.3/14 dated March 12, 2014, approved the development of a modern Special Economic Zone regime to replace the Free Zone regime. In so doing, the government has demonstrated its commitment to build a competitive business environment and support growth-inducing economic activities that will stimulate sustainable economic growth and development. These outcomes are all encapsulated in the broader development planning policy framework of the country.

Competitive Business Regulation

The introduction of a SEZ regime is crucial to enhancing the competitiveness of the Jamaican economy. SEZs will be supported by efficient and cost-effective regulatory procedures for businesses, a single administrative authority, and attractive tax incentives for foreign and local investors alike-- all supported by modern legislation and best practices within the institutional framework governing their operations.

Already, there are signs of improvements in business regulation and facilitation. The 2015 Doing Business Report shows significant improvements in the country's rank relative to the previous year, with a move from 94 to 58 in the overall ranking. Several reforms spearheaded by the National Competitiveness Council have influenced these improvements. Two of these reforms are the introduction of the Business Registration Form (super form) and the National Collateral Registry. Further improvements are projected over the short to medium term on account of the work underway to reform insolvency and bankruptcy laws. Of significance also is the new SEZ legislation which will offer accelerated improvement in the business environment and will become an incubator for business reform in the wider economy. Hence, improvements in the business environment for SEZs will offset the major impediments in the country's administrative and regulatory framework governing the wider business environment.

Economic Activities

The SEZ regime will stimulate wide-scale economic activities, especially in new and emerging sectors. Through the SEZ regime and other initiatives, measures such as creation & stimulation of sustainable business-to-business linkages, harmonization of fiscal incentives and other reforms will be intensified so that over time, the Jamaican economy will be transformed to one with greater emphasis on efficiency, transparency and predictability. As a result of these reforms, both businesses in SEZs and businesses in the rest of the economy will be better prepared and equipped to access a larger share of the global market, expand and diversify their economic activities and hire more workers. These are all critical factors and conditions that must be satisfied in order to drive sustained growth and development in Jamaica.

National Policy Coherence

The expected outcomes under the SEZ regime are congruent with the Vision 2030 Jamaica: National Development Plan, especially in relation to national outcomes for the business environment, economic infrastructure and industry structures and there will be cross-cutting impacts for other priority areas in the Plan. Similarly, the SEZ policy is aligned to the priority outcomes, strategies and actions over the next three years, as outlined by the Medium-Term Socio-Economic Policy Framework for 2012-2015 and the Government's Medium-Term Priorities for enhancing economic growth.

The SEZ policy is linked to several national policies. These include: the Foreign Trade Policy, Environment Policy, MSME and Entrepreneurship Policy among others.

III. Situational Context – Jamaican Free Zones Regime

Free zone operations in Jamaica date as far back as 1976 with the establishment of the Kingston Free Zone (KFZ), on approximately 44 acres of land adjacent to the Port of Kingston. The Montego Bay Free Zone (MBFZ) which initially spanned 3.2 acres with one factory- Akom Limited (28,000 sq. ft.) - was established in 1985, in the southwest region of the city. The KFZ space has since decreased to 16 acres when the Port Authority of Jamaica used a large acreage for port expansion between 2004 and 2006. The MBFZ, on the other hand, has expanded to 44 acres with 352,966 sq. ft. office space and 249,000 sq. ft. factory space. In an effort to improve the efficiency of the public zones and enhance the quality of service to investors, in 1998 there was a merger of the management functions of the MBFZ and the KFZ.²

There has been an additional 50,000 sq. ft. of free zone space at the Portmore Information Park. The government also developed over 600,000 sq. ft. of free zone space at the Garmex Free Zones in Kingston and 120,000 sq. ft. at the Hayes Free Zone in Clarendon.

A number of free zones are privately-owned. The Cazoumar Free Zone, located in Montego Bay is a private free zone with over 200,000 sq. ft. of land space. In addition, companies located outside the zones have qualified for free zone status as single entity free zones. The majority of these single entity free zones are involved in the Information, Communication Technology (ICT) sector and a few are

involved in the petroleum sector (ethanol production), warehousing/logistics & distribution, furniture manufacturing. They are predominately located in St. Catherine, St. James, and Kingston.

The Jamaica Export Free Zone Act (1982) allows investors to operate with foreign currency in activities such as warehousing, refining, manufacturing, redistribution, processing, assembling, packaging, and services such as insurance and banking.

Administration and Tax Incentives

The Jamaican free zone regime is designed to encourage foreign direct investment (FDI), promote export growth and create new employment. Initially, businesses operating in free zones were primarily involved in the textile industries but there has been a gradual shift toward manufacturing, telemarketing, warehousing, data entry, electronic assembly, telecommunication services and business process outsourcing, among other activities. The value proposition that the free zones offer to investors involves easy access to air and seaports, duty-free benefits, minimal customs procedures, large skilled and semi-skilled English speaking workforce and telecommunication, logistics & transportation services.

Free zones are operated under the Jamaica Export Free Zone Act (1982). The Free Zone Council has authority to grant approval for free zone status and the Minister to designate areas as free zones. Approved free zone enterprises benefit from:³

² Source: Port Authority of Jamaica

³ World Trade Organization (November 2013). New and Full Notification Pursuant to Article xvi:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures

- Duty-free importation of capital goods, consumer goods, office equipment, raw materials or articles for use in connection with the approved product;
- No import licensing requirements;
- Duty-free treatment of articles for the construction, alteration, and repair of equipment of premises in the Free Zones;
- Total relief from income tax in respect of profits or gains earned from approved activities;
- Repatriation of profits (since liberalization of the foreign exchange market in 1991 there are no restrictions on the repatriation of profits);
- Exemption from the normal fees payable with respect to work permits.

Under the Jamaica Export Free Zones Act, MIIC grants approvals for free zone status. Enterprises that are approved to operate in the free zones are required to be registered or incorporated under the Companies Act and are required to carry out prescribed business activities as stipulated by the Act. Qualifying manufacturing entities are allowed to supply up to 15% of production to the domestic market which attract applicable duties and charges.

From Free Zones to Modern Special Economic Zones

The economic output from the zones has been in decline on account of the structural reforms, failure to encourage business higher up the value chain, preference erosion in the US market and increased foreign competition. Despite the downturn in activities, free zones continue to play a significant role in the country's economic development. In addition, the free zone regime continues to be a critical success factor in attracting investors to the country and supports the overall domestic capacity building efforts of the country.

The existing free zone regime in Jamaica follows the traditional model for free zones in terms of its underlying policy framework. The regime stipulates rigid eligibility requirements in terms of qualifying activities and the amount of manufactured goods that have to be exported. Free zones are primarily developed and operated by the government which offers a diverse mix of incentives to attract occupants of the zones. While there are single entity free zones, free zones are generally located in industrial areas or near ports or airports. Other features that are typical of the traditional model include outdated labour practices and restricted interaction with the rest of the country.

The upgrading of the free zone regime to a modern SEZ regime therefore represents a significance step towards transforming the operations of these zones. Moreover, the upgrading of free zones to SEZs is a move towards conformance under the World Trade Organization (WTO) rules for middle-income countries such as Jamaica. The country is required to bring its free zone regimes into compliance with the WTO Agreement on [Export] Subsidies and Countervailing Measures by 2015.

The concept of a special economic zone is a generic term that has evolved over time and applies to a large variety of zones including recent variants of the traditional commercial zones (see note on SEZ in Appendix II).⁴ The new SEZ regime for

⁴ World Bank, 2008. "Special Economic Zones – Performance, Lessons Learned, and Implications for Zone Development." and World Bank 2009. "Clusters for Competitiveness: A Practical Guide and Policy Implications for Developing Cluster Initiatives." International Trade Department, PREM Network, Report, World Bank, Washington DC.

Jamaica will adopt international standards and growing trends for zone development. These include the following:

- Countrywide zone development that have no export volume preconditions
- Private sector zone development and management
- Complete two-way trade between zones and the rest of the economy (i.e. a removal of the current 15% cap on domestic sales)
- Labour practices that are consistent with International Labour Organization standards
- Incorporation of development policy priorities other than employment, FDI and value chain development to include innovation, human resource development, rural development and green growth⁵
- Economic, social and environmental sustainability

IV. SEZs and the Global Logistics Hub Initiative

International trade patterns are undergoing significant realignments as a result of the geographically dispersed networks that make up an integrated global production system. This is being driven by the changes that are occurring in the configuration of global value-chains including the central role of contract manufacturing, outsourcing, etc., in optimizing the business process. Other significant trends that are triggered by these developments include the rise of services, innovations in logistics and changes in trade

policies.⁶ As a result of these changes countries are increasingly becoming more open to and dependent on global trade which is impacting the location of transnational and multinational corporations that are eager to seek out locations that offer competitive transaction and transportation costs and quick turnaround.

An equally significant development is the enormous prospects from the increased trade and data flows throughout the region, as a result of increased South-South commerce, the expansion of the Panama Canal and changing air cargo patterns, scheduled to take place as early as 2015-2016. Trade among developing countries/regions, i.e. South-South trade, has grown tremendously. In 1990, South-South trade accounted for 8% of global trade. By 2012, South-South trade grew to 24% of global trade. South and Central America (including the Caribbean) has grown export sales by 11% annually between 2005 and 2012, which is 3 percentage points above the global growth rate. Notwithstanding the forecasts for increased intra-Asian trade, Jamaica will still remain relevant in future global value chains. Currently, the South America to Asia trade lane accounts for 2% of global trade. By 2020, South America's trade with Asia will capture 5% of global trade.

Jamaica's Value Proposition

The value proposition of the enormous prospects arising from changes in international production and trade and the

⁵ OECD (2009) "Towards Best Practice Guidelines for the Development of Economic Zones", A Contribution to the Ministerial Conference by Working Group 1 – Marrakech.

⁶ This is reflected in an increase in the ratio of trade to GDP for the world from 39% in 1990 to 59% in 2011 and the prominence of international supply networks and value chains in global commerce World Economic Forum (July 2013). "Outlook on the Logistics and Supply Chain Industry 2013", Geneva, Switzerland, 2013.

expansion of the Panama Canal is simply that as a logistics hub that is supported by SEZs in the middle of these trade routes, Jamaica will enhance synergies of sea-air connectivity and provide near shore opportunities for value-added industries. In other words, through the use of a logistics-centric model that is similar to what is used in global logistics centres in Dubai, Rotterdam and Singapore, Jamaica will be able to offer quick turnaround through 'near shore' value-added logistics services that will reduce the time to Latin American and other markets within the western hemisphere. The SEZs will also benefit from superior market access arrangements through a network of trade agreements that will minimise trade duties in the major trade lanes.

An even closer look reveals an open, diversified market economy and a world class financial services sector supported by a large pool of highly qualified professionals, globally connected by a robust ICT platform. With these endowments, Jamaica is well poised to become the financial and business logistical support centre of the Caribbean. This centre will be an important source of funding and will create the vehicles for the transnational corporations setting up in the SEZs. These transnational corporations can look to finance their aviation and maritime operations from financial entities which will also establish their operations in the SEZs.

Jamaica has devoted a significant amount of resources to the modernization of its suite of legislation to facilitate the establishment of a wide range of business entities that are required by businesses that are engaging global markets of all descriptions and which have a need to organize entities and provide logistical support to their international outreach. This is being spearheaded by the Jamaica International Financial Services Authority (JIFSA) which was established by statute in 2011 to market and promote Jamaica as an international

centre for the organization of business entities and the provision of business logical support services. In pursuit of these goals, Jamaica will be offering a wide range of services, designed to meet the needs of the global market. The updated legislation makes provision for:

- International Holding Companies
- General Partnerships
- Limited Partnerships
- Trust & Corporate Services Providers
- Segregated Accounts Companies
- Trusts (domestic & foreign)

Additionally, in order to provide the requisite regulatory oversight over the professionals who will support the establishment and maintenance of these vehicles, a Trust & Corporate Service Providers Bill has also been drafted.

The GLHI is multifaceted and involves several arms of the government. The Ministry is assigned a major role in providing the foundation necessary for the realization of the goals of the initiative and will employ several strategies to ensure its effective and timely implementation.

V. Exploring the SEZ Model for Jamaica

It is the mission and purpose of the government of Jamaica to set the right foundation for the successful development and long-term sustainability of the SEZs, through strategies that will help to shift Jamaica's economic paradigm to one that creates higher value goods and services and leads to higher growth and job creation, in accordance with international best practices.

The experiences of countries with successful SEZs make a strong case for their development. SEZs are:

- Highly effective for job generation, particularly for women entering the workforce and is a significant source of employment particularly for small countries like Jamaica.
- Stimulants for export growth and diversification in both the range of products and markets.
- Major foreign exchange earners
- Food and energy security enablers

- Attractive for foreign direct investment
- Sources for government revenue
- Enablers of technology transfer and skills upgrading
- Enhancers of trade efficiency of domestic firms
- Laboratories for wider economic reforms in the country

The main inputs, activities, outcomes and outputs that are related to the development of the SEZ regime are outlined in the logical framework (see Table 2).

Types of SEZs

Several SEZs will be promoted and facilitated as a strategy to attract and retain targeted investments in geographical, industry-specific clusters.

Table 1: Types of SEZs Being Contemplated for Jamaica

Example	Location	Eligible Activities (being contemplated)	Examples in other parts of the world
Commodity Port	St. Thomas, St. Catherine, and Clarendon	Petrochemical and other heavy industry; dry and wet bulk	Rotterdam
Dry Dock	Clarendon, Kingston	Maintenance and repair of ships, boats, and other watercraft	Dubai, Singapore, Malta, Bahamas
Airport-based	Vernamfield, Clarendon	Air cargo trade and transshipment, maintenance, repair and operations (MRO)	Morocco (MRO), Singapore, Dubai
	Norman Manley International	Air cargo trade and transshipment; passenger	Miami, Amsterdam, New York, London
	Sangster International	Air cargo trade and transshipment; passenger	Miami, Amsterdam, New York, London
Port-based	Kingston Container Terminal and Kingston Wharves	Merchandise trade, semi-finished products and transshipment	Mariel, Colon, Singapore,
	Portland Bight	Heavy industries and commodities	Singapore
Technology Park	Country-wide	High technology and science-based industries	Singapore
Caymanas SEZ	Caymanas, St. Catherine	Light manufacturing and assembly	Panama Pacifico
Garmex and others SEZs such as KFZ & MFZ	Kingston	Light manufacturing and assembly, BPO	Maquiladoras (Mexico), Costa Rica

Some of the principles and standards that are being contemplated for SEZ development are elucidated in the proceeding sections.

Zoning and Zone Development

Integrated, mixed-use, large-scale SEZs with purpose built on-site and off-site facilities will be constructed through public expenditures, public-private partnerships, joint ventures or private developments. The right public-private partnerships model and private development model will have to be determined and executed, with clear demarcation in the roles of the government and the private sector.

Zone Administration

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

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

1. Simplified and streamlined single window clearance procedure for the development of a SEZ;

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

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

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

of a SEZ. Therefore, a mechanism will be created to facilitate the backward linkages into the domestic economy and allow for the ease of monitoring from a Customs law enforcement and tax compliance perspective of both goods and persons coming in and out of the SEZs.

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

Chart 1: Main Elements of a Typical SEZ

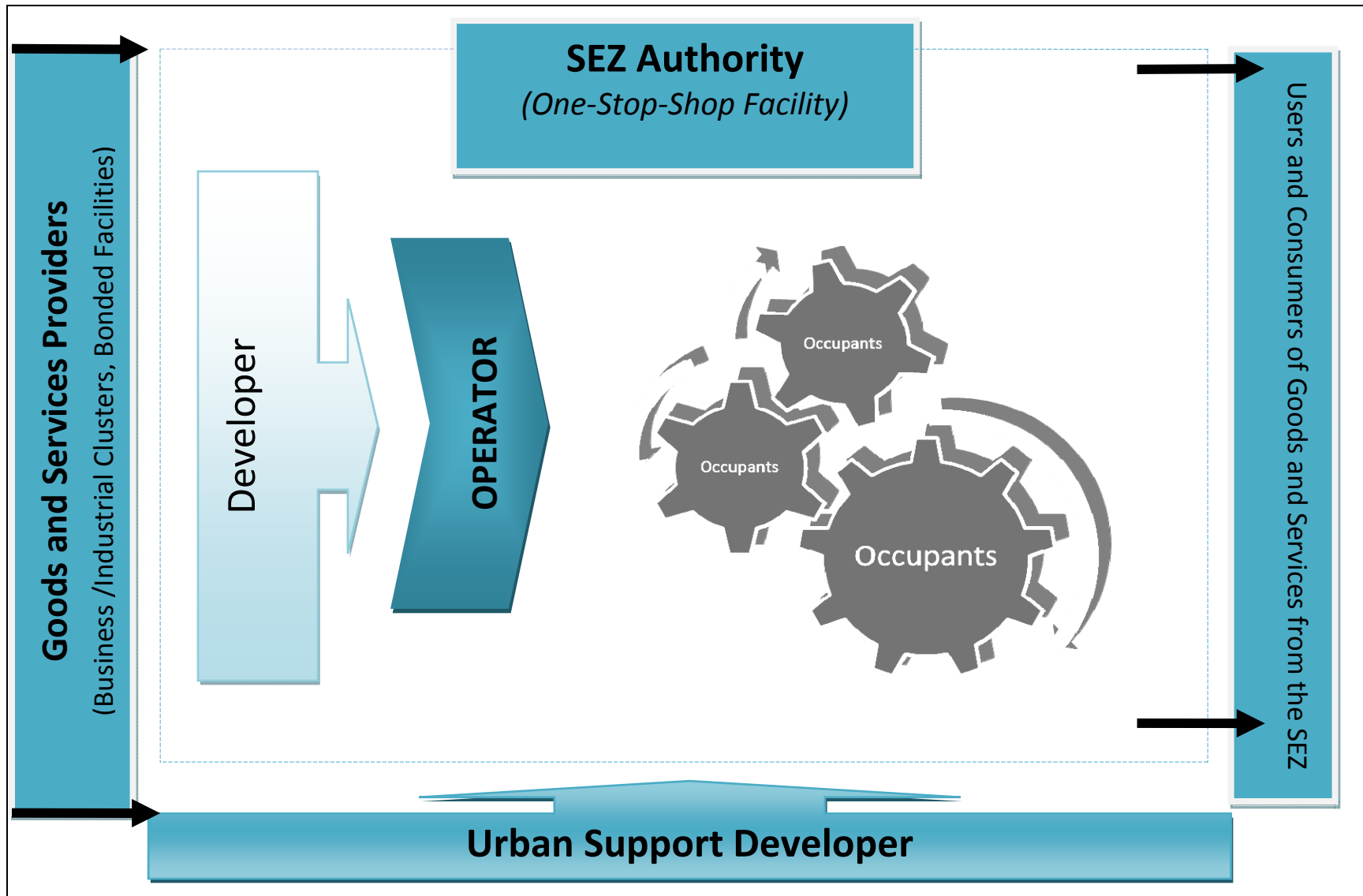


Table 2: Policy Framework for the Special Economic Zone Regime

The GOJ's mission is to establish a modern integrated policy framework for the operation of Special Economic Zones, which are:

- ✓ Efficient and cost-effective;
- ✓ Creating sustainable linkages with the domestic economy;
- ✓ Promoting public-private partnerships; technology transfer, business innovation, entrepreneurship and human capital formation;
- ✓ Bolstered by competitive incentives in keeping with international standards for SEZ development and the Vision 2030 - National Development Plan.

	Narrative Summary	Measurable Indicators	Means of Verification	Key Assumptions
Outcomes	Modern and integrated policy, financial, legal and institutional framework for SEZ development established	New SEZ legislation and regulations promulgated by September 2015 New SEZ Authority in place by November 2015	SEZ National Policy, New SEZ Legislation and Regulations, Master Plan for LHI including plans for SEZ Development, JIFSC laws passed	Available and suitable financial resources as needed
	Trade and business facilitation environment for SEZs improved	Jamaica ranks among top 20 countries in the Logistics Performance Index by 2020 Jamaica ranks among top 10 countries on the Doing Business Index by 2020	SEZ National Policy, New SEZ Legislation and Regulations, Master Plan for LHI including plans for SEZ Development, improved ranking in the LPI, Doing Business Report	Full support of all key stakeholders
	Sustainable linkages between SEZs and the rest of the economy created	At least 30% of goods and services produced in the domestic economy are exported to the SEZs and vice versa	STATIN data	Infrastructure meets user expectations
	Onsite and offsite infrastructure services, assets and facilities developed	Increase Gross Fixed Capital Formation as a fraction of GDP from 19.66% in 2012 to 25% in 2020	STATIN and World Bank data sources	Full support from Cabinet
	Productive capacity increased through human capital formation, technology transfer, business innovation and entrepreneurship	50% increase in the number of persons trained in skills and vocation-based areas by 2020 50% increase in number of business operators trained in entrepreneurship Move at least 10 places in Jamaica's ranking in the Global Information Technology Report along the various sub-indices by 2020	Global Entrepreneurship Monitor Report Jamaica Productivity Report Global Information Technology Report Reports from HEART/NTA, CMI, JBDC, UWI, UTECH etc.	Human resources are adequate
	Increased domestic employment	75% increase in domestic employment in SEZ relative to existing levels in Free Zones by 2020	STATIN data	Interest from local and foreign investors to develop and operate in SEZs
	Competitive incentives with net benefits to the Jamaican society	Established tax measures affecting businesses in SEZs that will make local and foreign companies better off with at least neutral effect on debt-GDP ratio, fiscal deficit-GDP ratio	MEFP, Reports from the Ministry of Finance and Planning	
	Increased exports	75% increase in exports from SEZs relative to existing levels in Free zones by 2020	STATIN data	
	International standards for SEZ development adopted	Adopt international standards for SEZ development in the areas of eligibility of benefits, foreign and local ownership, private zone development, linkages with the customs territory, labour policies etc.	Publications from the World Bank and the OECD highlighting Jamaica's experience with SEZ development	
	SEZ development initiatives are consistent with development goals under Vision 2030 NDP and existing Government priorities.	Alignment of SEZ policy strategies and the Medium-Term Economic Framework and the Sector Plans of the Vision 2030 - NDP	Vision 2030- NDP Sector Plans Medium-Term Economic Framework	

Table 2: Policy Framework for the Special Economic Zone Regime Cont'd

<p>The GOJ's mission is to establish a modern integrated policy framework for the operation of Special Economic Zones, which are:</p> <ul style="list-style-type: none"> ✓ Efficient and cost-effective; ✓ Creating sustainable linkages with the domestic economy; ✓ Promoting public-private partnerships; technology transfer, business innovation, entrepreneurship and human capital formation; ✓ Bolstered by competitive incentives in keeping with international standards for SEZ development and the Vision 2030 - National Development Plan. 				<p>Key Assumptions</p> <p>Research and Analysis completed on a timely manner</p> <p>Availability of data to support analysis</p>
Key Outputs	Narrative Summary	Measurable Indicators	Means of Verification	
	SEZ Policy, Legislative and Regulatory Framework	SEZ Policy, Legislation and Regulation in place by end of 2015	Official documents/announcements from the MIIC	
	Master Plan for LHI to include SEZ plans for SEZ development	Master Plan to be completed by December 2015	Official documents/announcements from the MIIC	
	Modern SEZs in strategic locations	Caymanas SEZ will be established by 2015 Existing Free Zones upgrade to SEZs by 2015 Several others to be developed by 2020	Official documents/announcements from the MIIC	
	SEZ Authority	Authority to be instituted by March 2016	Official documents/announcements from the MIIC	
	Industrial Clusters in strategic locations	First Industrial Cluster (Garmex Free Zone) will be established by December 2015 Several others to be developed by 2020	Official documents/announcements from the MIIC	
	International Financial Services Centre	International Financial Services Centre established by 2020	Official documents/announcements from the MIIC	
Key Activities	Business Development Support	Increase funding and capacity development support to Business Development Support Organizations	Official documents/announcements from the MIIC	
	Linkages Programmes	Existing linkages programme at JAMPRO enhanced through increased support by 2015 Supplier-training programmes launched through collaboration with various agencies	Official documents/announcements from the MIIC	
	Skills/Vocational Training Programmes	Supplier-training programmes launched All educational institutions at the secondary to tertiary level will offer skills/vocational training	Official documents/announcements from the MIIC	
	Investment promotion	Increased investment promotional efforts by 2020	Official documents/announcements from the MIIC	
	Research and Analysis	Feasibility studies for low hanging projects and Industry Analysis completed by March 2015	Official documents/announcements from the MIIC	
Inputs	Qualified and competent Human Resource	Full complement of human resource, including consultants needed up to that point for the LH Secretariat by December 2014	Official documents/announcements from the MIIC	
	Equipment and office space	Purchase of all necessary equipment and office supplies to support SEZ development through the LH Secretariat by March 2015	Procurement documents	
	Financial support	Adequate funding identified or provided by March 2015	Agreed fund amount posted to MIIC's accounts	
	Policy guidance and technical support from SEZ Policy Steering Committee, CSEZ Enterprise Team and other key stakeholders	Timely feedback from key stakeholders	Meeting notes, written recommendations	
	Support from Cabinet Office	Timely approval of all policies, legislation, regulations etc.	Reports, official documents from Cabinet Office	

VI. Major Policy Considerations and Recommendations

This section explores some of the major policy considerations that will directly affect the timely implementation of the new SEZ regime. It does not attempt to offer the most comprehensive picture of the range of issues that will impact SEZ development however the discussions on issues identified, are ongoing and are being guided by research and the technical expertise of the members of the SEZ Policy Steering Committee as well as the wider public, including regional and international development partners. Consultations undertaken involve an evaluation of a wide spectrum of strengths, weaknesses, threats and opportunities that will impact SEZ development, specifically along the lines of market access, business regulation & facilitation, linkages, sustainable development, incentives and taxation, among other areas. These are explored below.

Policy Element: Efficient and Cost-effective Trade and Business Facilitation Services

The country's progress in undertaking business environment reforms that will guarantee competitive transaction costs, speed and predictability in its logistics system lies at the centre of the establishment of SEZs. The move to place greater reliance on business and trade facilitation reflects not only international best practice but also follows a growing global trend by governments that use their regulatory functions as services to investors. Countries often use zones as demonstration areas to test the impact of new regulatory policies and approaches. Examples include Aqaba Freeport (Jordan) which used automated business registration and

customs systems in the zone before applying more broadly in Jordan.

a. Trade Facilitation

Policy Issues

According to a report produced by the International Trade Centre (2013)⁷, the most frequent non-tariff measures (NTM) encountered by Jamaican firms were export inspections and these were predominately encountered through interaction with the Jamaica Customs Agency, Ministry of Health, Ministry of Agriculture, Bureau of Standards among other government bodies. Export inspections are particularly burdensome due to the large number of procedural obstacles (POs) that include lengthy delays associated with the inspection process, associated costs and the arbitrary behaviour of officials regarding inspections.

Exporters encounter these challenges in meeting international quality standards, conformity assessments and pre-shipment inspections especially for agro-based exports to main markets such as the United States, Canada and the United Kingdom. There are product-specific legally binding requirements in these markets which subject products (mainly fresh produce) to regulations that are difficult to implement and are associated with a large number of POs including delays, high fees and associated costs. The ITC report notes that the relevant legislative and institutional framework for quality, standards, and other requirements are in place however, service delivery is inefficient and is significantly hampered by: *high cost of implementation of international standards; high costs*

⁷ International Trade Centre 2013, "Jamaica: Company Perspectives – An ITC Series on Non-Tariff Measures" Geneva.

and variable quality of basic services such as product testing and certification; and the burden of having to deal with multiple testing and laboratory services provided by several government agencies, among other things.

Importers are also affected by problems associated with licensing, inspections and certification imposed by local authorities. POs encountered in the implementation of domestic regulations include burdensome charges and fees and other para-tariff measures and delays. Charges and fees associated with obtaining permits and licenses, and fees from valuations are problematic for local companies that import inputs for products. This is further compounded by inefficiencies resulting from ill-equipped government officers within the regulating agencies.

It is widely accepted that poor zone performance has been linked to cumbersome procedures and controls. Therefore, streamlining business processes should be a core part of zone benefits and it is for this reason, systems such Authorized System of Customs Data (ASYCUDA), the Port Community System and the Single Electronic Window will be incorporated to ensure integrated business processes.⁸

Policy Recommendations

1. Continuously improve the one-stop-shop (OSS)⁹ facility with all export documentation and inspection officers

⁸ In an effort to expedite efficiency gains in the operations of the Jamaica Customs Department, Cabinet approved the amendment of the Customs Act in June 2014 which gives the Commissioner of Customs more power to forego the security requirements on temporary importation of goods.

⁹ Efforts are being made to further enhance the OSS arrangements which involve all trade departments and agencies. One such effort is the training of hybrid officers to reduce the need for numerous staff members in the

2. Review existing Authorized Economic Operator programme¹⁰ in keeping with the guidelines of the World Customs Organization SAFE Framework of Standards. All SEZ businesses should be AEOs¹¹.
3. Improve domestic laboratory and testing facilities for particular products
4. Implement risk management systems earlier in the clearance process and establish clearing times
5. Expedite the implementation of Food Safety/HACCP Management Systems to reduce hassle associated with testing and certification
6. Expedite implementation of Port Community System, Single Electronic Window and the Authorized System of Customs Data (ASYCUDA)¹²

facilities. The implementation of the Single Window which provides the virtual platform for all border agencies is recognized as crucial to enhancing the OSS.

¹⁰ The AEO programme was re-launched in April 2014 and staff is in place to support it. The AEO programme is intended to enhance trade facilitation and the general modernizing of customs. The AEOs would be accredited based on their adherence to high quality internal processes that are consistent with international process and quality standards. Example of AEO programmes include the EU AEO which permits businesses involved in manufacturing, exporting, freight forwarding, warehousing, clearance, importing etc. AEO programmes also exist in the USA, Singapore and Taiwan.

¹¹ It is recognised among the matters to be considered with implementing these measures, there will be need for additional human resources human and other support in order to strengthen the response of post clearance audit. The Jamaica Customs Agency has also pointed out that qualifying standards would have to be met.

¹² The prototype for ASYCUDA was completed by UNCTAD and the official launch of ASYCUDA World Implementation Project took place in August 2014. The total system is expected to be implemented by April 2015.

7. Making the necessary amendments to the Customs Act aiming at guaranteeing the legality of paperless, simplified procedures that would facilitate trade enormously.
8. Execute regular training and sensitization especially among inspections, licensing and permit dispensing officers across various agencies with emphasis on cost and time minimization. Training should also be geared towards a mind-set change toward customer service and customer satisfaction and higher levels of collaboration and coordination with MDAs and the private sector.
9. Execute ongoing sensitization and information-sharing among all border and non-border entities that influence business and trade facilitation. As part of this effort, the MIIC should continue to engage in regular scenario planning exercises in order to increase awareness and buy-in among all key players.¹³
10. All MDAs and private sector organizations (including insurance companies, banks and other non-border entities) should become more sensitized about their role in business and trade facilitation, in order to enhance the level of predictability and efficiency and general business climate reforms, across the board.
11. Streamline all mechanisms, protocols and procedures that facilitate the sharing of information among MDAs. These mechanisms, protocols etc., must be re-organized in a way that helps to enhance the level of overall integration among MDAs involved in trade and business facilitation.
12. Encourage private sector to undertake capacity building exercises among staff and engage in frequent communication with business support organizations to enhance service delivery.

¹³ The MIIC has started scenario planning exercises with the Jamaica Customs Department

13. Encourage immediate implementation of the WTO Bali Trade Facilitation Provisions, some of which Jamaica have previously begun and were also committed to in the EPA such as single administrative documents (SADs).¹⁴
14. To maximize the outcomes of the SEZ regime, SEZ operators should be required to be familiar with all the business and trade facilitation requirements outlined by the SEZ laws and regulations.

b. Market Access through Trade Agreements

Policy Issues

Jamaica does not currently provide effective market access to SEZ occupants seeking to trade in the main logistics routes “trade lanes”. There are 73 logistics services operators operating on the Far East to North America route, which represented the largest amount of logistics service providers globally for a trade route. SEZ operations in Jamaica would be mainly ‘efficiency seeking’ investments (i.e. investors who locate in a host country to access export markets, more so than the domestic market of the host). Hence, investors will require market access to the existing trade lanes and the future trade lanes which will emerge in the medium-term.

¹⁴ It was agreed that within the next three years inter alia the following provisions of the TFA will be implemented:

- Prior consultations by customs and border agencies;
- Provisions for efficient processing of perishable goods;
- Non introduction of mandatory use of Customs brokers;
- Free inland transit of goods in Free Zones (currently goods have to be ferried between national freezones).

Currently, the major trade lanes are:

- Asia to Europe- 8.8% of global trade in 2013
- Asia to North America- 7.8% of global trade
- North America to The EU with 4.8% of global trade in 2013

While Jamaica currently provides market access to Europe and North America, the current non-reciprocal market access agreements with the USA and Canada require a waiver in the WTO. Where necessary, preference granting countries must be willing to seek the legal cover of a WTO waiver for the non-reciprocal trade arrangement.

By 2020, the major trade lanes are predicted to be:

1. **Intra- Asia:** Forecasted to cover 25% of world trade by 2020. This will be influenced by growth mainly in trade between emerging economies in Asia
2. **Middle-East, Africa- Asia:** Forecasted to cover 18% of world trade by 2020. Driven by increased consumer spending in Africa and Chinese investment in African natural resources
3. **South America- Asia:** Forecasted to cover 5% of world trade by 2020. Driven by increased consumer spending in South America

Jamaica does not currently provide any meaningful market access to these emerging trade lanes.

A brief analysis of the treatment of goods produced/processed in free zones in CARICOM's various trade agreements, and unilateral arrangements shows the following:

- **CARICOM:** goods produced in or shipped through free zones would not be eligible for preferential treatment under the community arrangement, pending the development of a protocol on free zones as provided for in article 239 of the revised treaty.
- **Costa Rica: FTZ goods do not qualify except a list provided in the agreement.** Annex 3.04.6 specifies the list of goods produced by companies operating under FTZs which are eligible for tariff elimination benefits.
- **Dominican Republic: FTZ goods do not qualify under the agreement**
- **Cuba: FTZ goods do not qualify under the agreement.**
- **EPA: indirectly allows the certificate of origin (Eur 1 form) to be accorded to originating goods which undergo further processing in FTZs.**
- **Venezuela: FTZ goods can qualify under this agreement for duty preferences.** This is a non-reciprocal arrangement which only provides for duty relief for a select list of CARICOM exports to Venezuela and not vice versa.
- **CBERA (for USA trade) and the CARIBCAN are silent on FTZ goods** benefiting from the arrangements.

For success, the Free Trade Agreement (FTA) network that Jamaica is party to must provide for duty relief for goods originating in the major existing and future trade lanes, namely Asia to North America and Asia to North Europe as failure to do this could significantly hamper operations within SEZs, which by definition are usually outside the customs territory. This will require coordination with our regional

trading partners in CARICOM as the RTC requires that bilateral agreements with third party states be subject to review and approval at the regional level.¹⁵

Policy Recommendations

Jamaica can strengthen the duty relief in the major existing and future trade lanes by enacting a four (4) point plan namely:

1. **Engaging in a Partial Scope Agreement¹⁶ (PSA) with the People's Republic of China (also exploring possibilities for a one way PSA)** as well as joining existing PSAs negotiated by CARICOM countries.¹⁷
2. **Negotiating for an amendment of the FTAs with the Dominican Republic, Cuba and Costa Rica to facilitate a list of goods produced in SEZs.** Jamaica could argue for an immediate relaxation of provisions which prohibit SEZ goods receiving the benefits of the Cuba and DR FTAs, at minimum for 15 years for a list of products starting with medical equipment; generic pharmaceuticals; and auto parts. This could be done by importing

provisions similar to the Costa Rica Annex 3.04.6.¹⁸ For this to be possible there needs to be a common position in CARICOM on the treatment of Free Zone exports and regional policy discussions on this issue are already underway. It should further be noted that amendments to CARICOM negotiated bilateral agreements will have to be done as CARICOM.

3. **Strengthening duty relief in the major trade lanes by engaging the ASEAN Group, China, MERCOSUR, SADC and the USA in comprehensive FTAs.** The current draft foreign trade policy recommends that sustainability impact assessments be used to evaluate the possible effect of this proposal. These assessments would include the impact on the domestic industry as well implications with regards to existing trading arrangements (e.g the CARIFORUM/EC Economic Partnership Agreement)
4. **Evaluate Air Services Agreements (ASAs) with countries in the major trade lanes.** Jamaica, as at 2014, has ASAs with Singapore, Spain, Chile, Brazil, Mexico, The UAE and Switzerland whilst at various stages of the process with other major players such as China, India and Qatar.

¹⁵Article 79 and 80, Revised Treaty of Chaguaramas (RTC).

¹⁶ Trade agreements limited to a specified list of goods of interest of the Parties. There could be some WTO challenges regarding any unilateral PSA benefits which a sustainability assessment could evaluate.

¹⁷ This can be actioned through section 1.4 of the draft June 30 Foreign Trade Policy (FTP) action plan specifically the item "support the development of new and niche markets (see June 30 FTP Action Plan page 7). Additionally, section 1.6 of the FTP Action Plan proposes to identify potential markets for trade and to conduct sustainability impact assessments for entering into trade negotiations (see page 9 of the FTP action plan). These elements of the FTP action plan should be expedited to begin in 2014.

¹⁸ The FTP can action this through sections 1.5 and 2.2 of the FTP action plan which proposes "periodically reviewing trade agreements for relevance and impact" as well as "negotiation of flexible rules of origin¹⁸". This element of the FTP should be fast tracked to begin in 2015.

Policy Element: Sustainable Linkages between the SEZ and the rest of the economy

The integration of the local economy into SEZs is critical for the sustainability of these zones and increases their potential to contribute to the economic development of the host country. The creation of linkages with medical facilities, local & international financial institutions, training and education facilities, and telecommunications services (high speed internet etc.), and business consulting services et al., are critical to ensuring that the benefits obtained from SEZs translate into real opportunities for the local economy.

There is recognition that while the creation of linkages is critical, (border) tax measures that will be applied should not erode the existing tax base. Therefore, activities that are permitted within SEZs have to be properly evaluated, selected and controlled so that existing businesses that supply the domestic economy are not incentivized to close down and migrate to the SEZs. The aim of the SEZ regime is to encourage new business operations and help existing businesses to expand, with overall benefits to the economy. Hence, a key policy objective is to ensure that the SEZ regime is not actively competing with the general tax regime in terms of the supply of goods and services to local consumers.

a. SEZ Integration in the Goods Producing Sector

Policy Issues

In order to not create enclaves characteristic of traditional free zones, future SEZs should act as a catalyst for the rest of the economy through programmes that create backward and forward linkages with the rest of the economy. Taiwan (China) and the Republic of Korea for example, provide local producers with duty-free access to inputs supplied to the

zones. Tax credits and rebates on duties paid are also provided on imported materials used in products sold to the zones.

Sub-contracting by zone-based firms to local producers is encouraged in countries like Taiwan, Republic of Korea, and Ireland which promote personnel exchanges, support training efforts, and provide technical assistance to potential suppliers. This involves significant utilization of local universities or research institutions and the expertise of export-oriented firms to work with local suppliers.

Currently, GCT is applied to goods/services that are sold to companies in the free zones, from the domestic economy. These firms have been absorbing these payments on their zero-rated exports, as they are unable to pass these on to the consumers in the export market. Usually, a GCT refund is provided by the Tax Administration of Jamaica (TAJ), however, this process has become protracted and negatively impacts the cash flow of companies that purchase from domestic services and goods suppliers. There is therefore a clear disincentive to create sustainable linkages between the SEZ and the domestic economy.

Policy Recommendations

1. Integrate zones into the rest of the economy by extending “Equal Footing” policies to domestic suppliers of capital and intermediate goods.
2. Goods produced in the SEZ should be treated in a like manner as imported goods in the event that they enter the customs territory.
3. Create a platform which supports linkages with the local industries. This should include programmes to support the upgrade of local service suppliers through transfer of knowledge and technology in areas that will enhance suppliers of local input and services to meet international standards and

technological efficiency that increases their overall productivity.

4. Develop bonded facilities to support value-added activities between operators within the zone and businesses outside the zone.
5. Zero-rate goods and services provided to the SEZs and ensure clarity in all laws related to the application of GCT on goods and services provided to SEZs.
6. Consideration will be given to women-owned businesses in the procurement of goods and general business development.

b. SEZ Integration in the Services Sector

Policy Issues

The proper incorporation of the services sector in the development of Special Economic Zones (SEZs) is extremely critical given the growing importance of the services sector to international trade and the high service content represented in goods exports. In countries such as China, Singapore, and India, where SEZs have contributed significantly to economic growth¹⁹, the services sector has been noted as the most crucial facilitator for such success. The symbiotic relationship between the SEZs and the services sector must also be highlighted, as while sophisticated services are required for the optimal operations of SEZs, the FDI attracted through these special zones produces large multiplier effects for the development of the local services sector in general.

¹⁹ In 2008, it was estimated that nearly 3000 zones produced 70 million jobs and contributed USD 500 billion in direct trade related value.

Given that trade in services is a relatively new concept in international trade when compared to trade in goods, the requirements for services integration into SEZs may be slightly different. Firstly, there is less need for access to duty-free inputs. By contrast, firms in the services sector require better access to local markets for supplies and labour, which may in fact be hindered in the current export orientation of SEZs (Free Zones). Secondly, firms require access to high quality, low cost ICT infrastructure and facilities that are conducive and attractive for high-skilled workers.

The proper streamlining of legal, management and administrative processes, flexible labour laws allowing for temporary appointments of service providers, and the proper integration of IT and transportation services in the processes of the SEZs, have been outlined, among other things, as enablers for the successful operation of SEZs, and positively affect their ability to contribute to the economic development of host countries. The specific trends garnered from a preliminary research on countries that have had successful SEZ regimes include:

- Increasing the number of privately owned versus publicly owned SEZs. Research shows that privately-owned zones attract higher investment, as investors are willing to pay for higher quality services and infrastructure facilities. Private zones in the Dominican Republic, for example, boast quality telecommunications and business support services, which work to the benefit of both the export sectors and the local economy.
- Previously, special economic zones were developed as remote enclaves in specified geographical areas; however, modern trends show SEZs integrating with other areas of the local economy. There are several examples of SEZs

that are proximate to key areas of the local economy that can serve as feeder industries or providers of key support services.²⁰

Policy Recommendations

1. Create a platform which supports linkages with the local industry. This should include programmes to support the upgrade of local service suppliers through transfer of knowledge and technology in areas that will enhance suppliers of local input and services to meet international standards and technological efficiency that increases their overall productivity.
2. Implement supplier-training programmes in collaboration with foreign investors to help local producers upgrade their technological capabilities – directly through sharing production techniques and product design and assisting with technology acquisition, or indirectly through the expectation of high standards and feedback on suppliers' output.
3. Formulate strategies to enable the education sector to respond to the ever-changing needs of the SEZs, through collaboration with the education sector and industry players.²¹

²⁰ The Dubai Internet City for example is an example of specialized SEZs that is located in IT and Technology zone adjacent to a University. This creates the important direct linkages with curriculum development at the university to match the emerging needs of that particular SEZ, and can in turn, provide the transfer of industry specific knowledge to students in that particular field. Another example is the petrochemical zones in Leom Chabang Industrial Estate in Thailand that is located in petrochemical hubs and other sources that provide efficient energy.

²¹ In Poland, companies from the BPO sector together with the Spot University of Applied Science and public institutions established the BPO Education Center, which is the only school in Poland fully dedicated to

4. Ensure that SEZ incentives apply equally to services activities prescribed in the policy.
5. Mechanisms that help to control the kinds of services activities permitted within SEZs must be clearly defined.
6. Consideration will be given to women-owned businesses in the procurement of services and general business development.

c. MSMEs Integration

Policy Issues

The development of SEZs is fully in line with the Ministry's policy of inclusiveness, ensuring that the appropriate linkages are provided for our private sector, especially the MSME sector. In this regard, the Ministry tabled a MSME and Entrepreneurship Policy in 2013 which provides an integrated policy framework that will boost the levels of innovativeness and competitiveness of the sector, through programmes that will help MSMEs satisfy supply and service opportunities generated by large corporations. The implementation of the policy also seeks to create market access, expand and promote business support services, access to finance & technology, boost the level of service, goods & process standards and ensure the protection of intellectual property. In so doing, MSMEs will be able to meet certain requirements that will enable them to be integrated into global supply and value chains through non-equity mode (NEM) of international production, to include contract manufacturing, services

education of service centre employees. This is a form of non-financial incentive to attract FDI, as companies will be motivated by the constant supply of skilled personnel, offering quality services to their firms.

outsourcing, franchising, licensing, management contracts and other contractual arrangements through which multinationals and transnational corporations can coordinate their activities with local businesses.

Policy Recommendations

1. Develop an Industrial Cluster Development Programme to support the formation of clusters of MSMEs in and alongside SEZs
2. Expand the business-to-business linkages programme through the use of web-based portals to support marketing and e-commerce
3. Launch supplier-development training programmes for MSME goods and service suppliers to the SEZs
4. Implement an integrated and targeted business development programmes to help fledgling and prospective MSMEs that are linked to SEZ operations
5. Encourage large enterprises in SEZs to develop procurement policies that will support commerce with MSMEs
6. Consideration will be given to women-owned businesses in the procurement of goods and services and general business development.

Policy Element: Competitive Tax and Incentives Regime for the SEZs

Based on preliminary research and ongoing consultations with industry experts, there are several key principles upon which the treatment of fiscal incentives should be established.

The first principle is that Jamaica's SEZ regime will focus less on fiscal incentives and more on providing a platform to deliver the business and trade efficiencies, reliable physical & social infrastructure, human resource capacity etc., that are

demanded by the global marketplace. Hence in this policy regime, incentives will be predominantly non-fiscal and will help to create a simpler, cost-effective and predictable environment for all businesses to grow. Some of the major areas for business and trade environment reform were previously discussed. It should also be noted that efforts to address the business environment are being made through the National Competitiveness Council which is driving overall business climate reform.

The second principle is that fiscal incentives will not erode the domestic tax base and should not compete with the general tax regime. It is for this reason that the approach to creating the incentive framework for the SEZs will be compliant with the medium-term programme of tax reform and there will be a ring-fencing of incentives to prevent SEZ entities from benefiting from incentives allocated to businesses in the domestic economy. Similarly, anti-avoidance provisions will be included to ensure that there is limited migration of locally established firms. Hence, the approach to creating fiscal incentives for SEZs will seek to ensure alignment with provisions of key pieces of legislation, including the Fiscal Incentives (Miscellaneous Provisions) Act, 2013 and the Income Tax Relief (Large-Scale Projects and Pioneer Industries) Act, 2013. A key outcome of the SEZ regime, therefore is the harmonization of the existing incentives framework in order to increase transparency, reduce discretion, and establish a more competitive and predictable playing field for all firms.

The third principle is that taxes and incentives will be 'fit for purpose' and will not cause the country to 'give-up' more than it needs to in terms of lost revenue for the government. This means taxes and incentives will reflect what the international market requires while providing sustained benefits to the

Jamaican economy. Hence, activities permitted within the zones and to which certain incentives will be applicable, will be properly evaluated and prioritized in order to ensure that the specific success factors for zone development are in place and there are benefits for the economy.

Finally, in support of the government's overall thrust toward fiscal consolidation, there will be a deliberate shift from the government-led zone development to a model that is private-sector led or involves minimal government involvement through public-private-partnerships. Private development, ownership and operation of the zones will lessen the burden that SEZs can place on the government through the avoidance of operational and commercial risks.

With due consideration given to the above principles, industry experts have deliberated some specific taxes and incentives to support the SEZ regime. The specific tax and incentives for SEZs are elaborated in the following section. It must be reiterated that these measures are intended to satisfy the above principles.

a. Fiscal Incentives

Policy Issues

The research shows that fiscal incentives are offered by jurisdictions in and outside the region. Countries such as The Bahamas, Dominican Republic, Trinidad and Tobago and the United Arab Emirates offer a diverse mix of attractive incentives including tax holidays, exemptions from stamp duty and import/export duties for qualifying transactions and exemptions from other national taxes and contributions. In Panama there are various investment incentives that provide lower tax rates or exemptions particularly for business operations in the Petroleum Free Trade Zones and the Colon

Free Trade Zone. (See Table 3 for summary of incentives). It stands to reason therefore, that the tax and incentives framework for SEZs will be important factor in creating a competitive space for the country.

At the heart of the discussions among policymakers is recognition of the need to develop fiscal incentives for SEZs that are attractive to investors that will be targeted for the SEZs. It is understood that incentives should be consistent with the Memorandum of Economic and Financial Policies (MEFP) which sets out the government's commitment to its international development partners. With respect to incentives, the MEFP emphasises a shift from a reliance on specific tax holidays/exemptions and more toward performance and rules-based incentives that are broadly applicable across sectors and will typically take the form of credits and allowances. In light of this, the key features will include:

- (1) A simple, transparent tax regime for internationally mobile investors supported by performance-based eligibility criteria;
- (2) Non-discrimination against domestic investors and producers; and
- (3) "Indirect exporter"²² status for domestic suppliers into the SEZ and "extra-territorial" status for SEZ sales into the domestic market

²² The indirect exporter status is applicable to those in the domestic market who supply to the SEZ. There goods and/or services would be treated as exports since the recipient is extra-territorial and not part of the domestic customs territory. Hence, indirect exporters would receive the same treatment as for a domestic entity directly exporting to a foreign territory. These indirect exporters would have to be certified to receive

The rationale for providing incentives for SEZs in Jamaica is premised on three main arguments. The first is that the competitor countries either offer no tax or relatively low tax regimes for enterprises operating in SEZs. At the very least consideration should be given to adopting a low tax regime that will make Jamaica a competitive location for investors.

Secondly, the strategy of developing SEZs is an opportunity to create an investor-friendly economic space necessary for attracting and retaining local and foreign investments, boosting foreign exchange earnings, and expanding the growth and diversification of the country's export base. The SEZs will be a prominent feature in attracting foreign direct investments to Jamaica, over the medium to long-term. A number of projects have already been singled out for strategic and premier investments, including the Caymanas Special Economic Zone, Dry Dock SEZs, Airport SEZs and many others. Likewise, SEZs will enhance and stimulate export growth and diversification in both the range of products and markets. As the economy becomes more integrated in the global value chain, the export of secondary products and services is expected to also expand. The economic impact of SEZ is quite significant. According to the World Bank exports from Zones, contribute USD\$851.032 Billion in global exports (40.8% of global exports). In the Americas Zones accounted for 39% of exports and were respectively 79%, 77% and 67% of Nicaragua's, the Dominican Republic's and Panama's exports.

this benefit and would be given the same treatment as a domestic entity directly exporting to a foreign territory.

Thirdly, there are direct benefits not only for investors but to the country on a whole. These include large scale employment in the SEZs, increased government revenue and opportunities for technology transfer and skills upgrading. Some of the more elusive 'indirect' economic benefits that are anticipated include enhanced trade efficiency of domestic firms and the creation of a laboratory for wider economic reforms in the country.

Policy Recommendations

1. Single uniform low/positive rate of tax applied to corporate source income. This should include:
 - Low headline CIT rate (10% – 12.5%) on profits
 - Exemption from dividend tax for shareholders resident abroad
2. SEZs targeting high-technology/innovative activities may also be considered for an exemption of taxes deriving from the use of a licence or patent (intellectual property)
3. The SEZ Developer will benefit from a developer's tax credit on capital expenditures directly incurred in the carrying out of construction or improvement works in the SEZ, which may be set-off against other income tax liabilities of the SEZ developer from any other source, but limited to 50% of that liability in any one year of assessment.²³

²³To access this concession, SEZ developers must be accredited with the "Approved SEZ Developer" at the time of filing tax returns. Tax credit may be carried forward to the subsequent tax assessment period, but may not be applied to prior assessment periods.

b. Personal Income Tax

Policy Issues

The accumulation of the most talented human capital needed to transform the economic base of the country is a critical success factor for SEZ development. The skills base has to include the appropriate mix of talent and competencies required for logistics and logistics-related industries. This brings the management of human capital from local and foreign sources into sharp focus and highlights the need for labour policies that will ensure attraction and retention of labour at competitive labour costs.

It is the practice of some countries to offer reduced personal income taxes paid by expatriate staff. In Tunisia, foreign staff pay a flat individual income tax rate of 20%; in Yemen, non-Yemeni workers are exempt from taxation on their income and in Jordan, non-Jordanian employees get a 12 year tax holiday.

Policy Recommendation

The proposed policy measure is to have no special relief on personal income

c. Withholding Taxes

Policy Issues

The withholding taxes should be comparable to other jurisdictions and should have limited impact on the overall effective tax rate on income for corporations linked to SEZs.

Policy Recommendation

- Withholding tax on dividends will be applied at the rate of 10% however withholding taxes will not be applicable on any other form of passive incomes (e.g.

royalties, interest, management/technical service fees etc.) for operators of SEZs. These incomes will be allowed as deductions in computing taxable profits.

d. Indirect Taxes

Policy Issues

The literature shows several strategies that are used to encourage business linkages between the businesses in the zones and the wider economy. One is 'equal-footing policies' which includes duty-free access to inputs that are supplied to the zones and tax credits and rebates on duties paid on imported materials used in products sold to the zones (examples include Taiwan & Republic of Korea). In the Howard (Panama-Pacific) Special Economic Area in Panama, in-bond manufacturing companies may import equipment and raw materials on a duty-free basis and subsequently export 100% of production, receiving a tax-free benefit. Such companies do not have to pay VAT on imports. In the Bahamas, the free zones incentives include exemptions from stamp duty and import/export duties for qualifying transactions.

Policy Recommendations

i. GCT (Inland)

- Domestic supplies into the SEZ are zero-rated
- SEZ supplies into the domestic market are rateable at the prevailing standard rate or the applicable rate for the particular supply (if a special rate exists)

ii. Property Taxes

- The SEZ Developer is liable for the payment of property tax. However, there shall be an exemption

from property tax in the case where the SEZ is located on lands vested in the SEZ Authority.

- SEZ Authority will be exempted from the payment of property tax.
- There will be an exemption from taxes on property transfer (transfer tax and stamp duty) exclusively in relation to acquisition of lands for the development of SEZs i.e. between and among approved SEZ developers. However, all vendors with the exception of approved developers would be liable for the applicable transfer tax and stamp duty.

iii. **Border Taxes**

- Full relief from customs duty (CET), customs fees, levies, stamp duty, additional stamp duty and GCT on transhipped supplies into the SEZ²⁴.
- Goods sold into the domestic market would be subject to the prevailing customs duties. All other fees/levies are payable on imports into the customs territory

iv. **Other Considerations for Treatment of Indirect Taxes**

- Relief from income tax on rental income (unless the landlord and tenant are connected persons within the meaning of the Income Tax Act)

²⁴ Given that SEZ sales are designated as “exports”, which would therefore be zero-rated for GCT purposes, the application of GCT on imports into the SEZ would create a significant refund liability for the Government

Table 3: Summary of Incentives Regimes for Selected Economies

China	India	Singapore	UAE	Brazil	Dominican Republic	Panama	Cuba	Nicaragua	Netherlands	Bahamas	Jamaica (Free Zone Regime)
There is a geographically based incentive focused on new/high-technology enterprises. This incentive (in addition to the 1.5% rate that applies to all new high technology enterprises is a two-year tax holiday followed by three years at a 12.5% rate	Undertakings set up in SEZs are exempt from tax on their export profits subject to compliance with other conditions. Other tax holidays are available based on industry and region.	Various incentives are available for pioneer and expanding companies, headquarter activities, financial services, asset securitization, fund managers, international maritime activities, international trading and R&D.	Free trade zones are offered renewable 50-year tax holidays and exemption from import duty on goods brought into that free zone.	Firms that earn at least 50% of their revenue from exports are exempt from federal social contributions on gross income (PIS and COFINS)	Various tax incentives are available and include regimes (e.g. those for free trade zones, tourism and renewable energy) that, in many cases, provide a 100% exemption from national taxes and contributions.	Various investment incentives provide lower tax rates or exemptions. Incentives are available in the Petroleum Free Trade Zones, Colon Free Trade Zone, etc.	Licenses and operators in free zones are fully exempt from tax on profits for 5–12 years, depending on activities carried out and exempt from 50% of the tax on the use of the workforce for 3 or 5 years, depending on the activities. They are also exempt from payment of customs tariffs and duties. Additionally, the Foreign Investment Act provides for various incentives, including partial and full tax exemptions.	Companies operating under certain special incentive regimes, such as Free Trade Zone companies, are exempt from income tax. After the third year of operations, companies are subject to tax on their Nicaraguan-source income, which equals the higher of the following: 30% of net taxable income • 1% of immovable and movable. Gross taxable income (income subject to withholding at source is not included in the tax base)	Various investment deductions and reliefs are available. Assuming a marginal tax rate of 25%, the net benefit will be 15%.	While there are no company taxes, the Bahamas offers free zone incentives, including exemptions from stamp duty and import/export duties for qualifying transactions.	1. Companies registered under the Jamaica Export Free Zones Act are relieved from tax on income derived from the manufacturing and international trading of products. This regime is retained under the current tax reform process pending migration of same to a WTO-compliant SEZ regime by December 31, 2015. 2. Duty-free importation of capital goods, consumer goods, raw materials or articles for use in connection with the approved product; 3. Duty-free treatment of articles for the construction, alteration, and repair of equipment of premises in the Free Zones; 4. Repatriation of profits (since liberalization of the foreign exchange market in 1991 there are no restrictions on the repatriation of profits); 5. Exemption from the normal fees payable with respect to work permits.

Policy Element: Zone Development and Administration

Over the past 15 years, there have been noticeable increases in privately-owned, developed and operated zones worldwide. Privately owned enterprises account for 62 per cent of zones in developing and transition countries, a significant jump from 25 per cent in the 1980s. In the Americas out of the 540 total zones 394 are private and 146 are public. The USA has 20 public zones and 246 private zones; Panama has two public and eight private zones; Colombia has one public and 14 private zone; and the Dominican Republic has 20 public and 38 private. Singapore and the United Emirates are the exceptions, with 42 and 26 public zones respectively but no private zone.

a. From Free Zone Council to SEZ Authority

Policy Issue

The regulatory framework for SEZs must facilitate business in an expeditious manner. A notable practice is to separate the regulatory role as much as practically possible from the roles of owner, developer and operator. The authority of the Ghana Free Zones Board (GFZB) makes a clear separation of these roles. The Board is concerned with the planning, promotion and regulation of the Zone and has been restricted from the outset from involvement in zone development. In Costa Rica, Jordan and Thailand some government agencies that regulate zones have now become corporate entities primarily to enable them to operate efficiently without civil service restrictions.

Leaving zone development to private sector however does not mean the zone authority has no role in the development process. Its role as a regulator is critical and it must ensure that development processes are transparent and effective. Hence, the zone authority will act as a one-stop-shop which

facilitates the granting of all necessary licences and certification and oversee regulatory compliance through the relevant planning and environmental authorities which will be housed in one central facility.²⁵ In so doing, the authority minimizes the time-consuming regulatory compliance often faced by businesses. This is a practice in the Philippines where a One-Stop-Shop facility for businesses is established in each Ecozone to facilitate registration of new enterprises, licensing and the issuance of permits.

The absence of a robust Free Zone Council is a glaring policy and regulatory gap for the country, even as the country prepares to transition to the SEZ regime. Fortunately, the Jamaica Free Zone Act can be drawn on to reactivate the Council and fill the pressing need for regulatory support during the transitional period.

Policy Recommendations

1. Facilitate the establishment of a SEZ Authority with the relevant authorization to interface with all government bodies to facilitate transaction between developers and SEZ occupants in a timely manner.
2. Develop Comprehensive Implementation Plan for housing relevant regulatory agencies under one roof to facilitate seamless approvals and inspection and to accelerate business processes. This process will be managed by the SEZ Authority.
3. To ensure policy coherence, every effort will be made to ensure that the development of SEZs is fully consistent

²⁵ It must be emphasize that the one-stop-shop power of the SEZ Authority will not include the power to grant development approvals.

with the current reform of the development applications review process (DARP)

4. The approved structure of the SEZ Authority will be self-reliant with its own budgeted revenue streams sufficient to meet the expected operating expenditures.

b. From Free Zones to SEZs

Policy Issues

The Free Zone Act while useful, as currently constituted lacks the level of detail and policy coherence needed in a Special Economic Zone regime. It is therefore not a very good tool for the establishment of the modern SEZ regime but can be used as a transitional tool for the SEZ regime. Moreover, the Act provides a framework through which investors (foreign and domestic) can operate and helps to send a clear signal to the market that Jamaica is committed to implementing SEZs.

It is the government's intention to ensure that existing Free Zones will be transitioned from the Free Zone regime to the SEZ regime. This includes standalone/single-entity Free Zones that will become standalone/single-entity SEZs. These standalone/single-entity SEZs will further enhance the economic landscape through their flexibility in locating close to skills, production inputs, infrastructure etc., thereby offering potential investors more options to choose from.

Policy Recommendation

1. Set up Enterprise Teams to deliberate and resolve matters related to business case for the zones and engagements with investors
2. Develop transitional strategy for Free Zone operations in collaboration with developers and occupants

c. Public-Private Zone Development

Policy Issues

Private development, ownership and operation of the zones will lessen the burden that SEZs can place on the government. One approach that is being considered is for the government to take on certain stages of zone development and subsequently transfer its interest in the zone to a private operator which has a proven track record and experience in SEZ development and operations.

Growing trend towards private zone development can be observed in Asia and the Pacific where zones have been traditionally run by government. In Aqaba Freeport (Jordan), PPP opportunities are tendered out through the authority. Government pricing of land sales, lease rates, and public services and fees are regulated by the authority; in the Philippines, zones are run on a commercial basis (41 privately owned, 4 public owned zones); and in India, authorities allow private developers to make their own proposals for zone development. The regime allows for hiring of separate operators to manage zone facilities.

Policy Recommendations

1. To help prevent cost overruns and encourage greater efficiency in both the development and operations, private sector involvement should be encouraged in development and operation of zones on a market-oriented, commercial basis (cost-recovery).
2. Critical success factors must include systematic criteria for private zone evaluation or designation and a formal development agreement between private developers and the government.
3. Enhance the PPP framework through better planning that will guide development agreements, particularly with Master developers. One consideration is that PPPs will be

limited and finite (e.g. one-off support such as the provision of land), in order to limit the government's exposure to future fiscal risks.

d. Eligibility Requirements

Policy Issues

The eligibility requirements must be linked to the scope of the SEZ framework of the country. For Jamaica, the plan is to allow for a variety of SEZs that will target multiple markets and attract a range of industrial activities (see Types of SEZs in table 1). By allowing for a wide range of activities within the zones or a variety of zones, the country offers investors more options and the government can exercise greater flexibility with developing all future zones that may be suited for innovative industries that are slowly emerging.

Performance eligibility requirements may warrant a high degree of flexibility however, monitoring mechanisms will be instituted both ex-ante and ex-post – to ensure that firms that initially comply indeed follow-through and meet their performance eligibility requirements during business operation.

Many countries²⁶ are reducing or totally eliminating their export requirements as a performance requirement and are instead placing more emphasis on improving their investment climate that include good infrastructure, access to markets,

²⁶ This practice is followed in the Middle East, the Aqaba Jordan Free Port and JAFZA Free Zone. These zones do not have export requirements but instead rely on improving the business and investment climate to attract both export-oriented and domestic investors.

transparent business environment, skilled labour force, and cost-effective production.

Export requirements have the disadvantage of excluding certain businesses that may be deemed as ineligible. According to the World Bank, the best approach is to remove minimum export requirements in line with WTO rules. In so doing, the country could broaden the range of eligible activities while stating clearly the prohibitive activities enumerated on a 'negative list'. In addition, the World Bank highlighted that maximizing flexibility could also entail:

- equal treatment of foreign and domestic investments;
- removal of ownership restrictions; and
- extension of indirect exporter benefits and privileges to domestic suppliers to zone-based enterprises.²⁷

Policy Recommendations

1. As a matter of policy, there should be a high degree of flexibility in the types of SEZs that will be permitted
2. To ensure high occupancy rates the SEZ regime should allow a wide range of activities (multi-sectoral) while listing only a small set of prohibited activities (negative list).
3. The performance eligibility requirements for the development and occupancy of the SEZ should take account of WTO rules, the country's obligations under existing trade agreements and Bilateral Investment Treaties (BITs) and the country's broader development goals.

²⁷ World Bank 2008. Special Economic Zones- Performance, Lessons Learned and Implications for Zone Development". FIAS, Report, World Bank, Washington DC.

e. Urban Support Area Designation and Development

Policy Issues

The purpose of the Urban Support Area is to provide the proper housing, utilities, transportation, social (e.g. schools, hospitals) and recreational infrastructure in adjacent areas to the workers in the SEZs. This is part of creating the backward linkages into the domestic economy and will help to avoid past mistakes of not adequately providing for the needs of the workers.

Policy Recommendations

1. Designate Urban Support Areas.
2. Where necessary, grant special developmental status to entitle developers to the streamlined construction regulatory process.²⁸

Policy Element: Employment

There are over 3,500 SEZs globally that employ over 68 million people. In the Americas there are over 3 million SEZs-related jobs. In Honduras SEZs account for 4.6% of national employment, in the Dominican Republic it is 6.2%, in Mauritius it is 24% and in the UAE it is 25% of total employment. These zones can be highly effective for job generation, particularly for women entering the workforce. Furthermore, evidence suggests that for small countries like Jamaica with population of less than 5 million, SEZs are a significant source of employment.

²⁸ The reform of the development application review process (DARP) will apply to all developers but while this is being done provisions should be made to ensure developers benefit from any special provisions as may be required.

Policy Issues

The country's skills base has to include the appropriate mix of talent and competencies consistent with global standards of logistics and logistics-related industries. The World Bank reports that most enterprises in SEZs worldwide are labour-intensive, assembly-oriented activities such as textiles, apparel and electrical and electronic goods. Hence, the prospects for increased employment in SEZs are positive. This is why organizations such as HEART/Trust NTA have already begun to expand training in an attempt to meet the employment requirements of the SEZs.

In addition to efforts to improve the skills base, areas such as employment creation, skills upgrading, improved working conditions and increased productivity will require an appropriate mix of labour policies and practices including specialized dispute settlement mechanism and full consistency with International Labour Organization labour standards.²⁹ Where there are legal restrictions on trade union rights, lack of enforcement of labour legislation and workers' organization representation the dynamism and competitiveness of the zones will be undermined.³⁰ International standard dictates that there should be some flexibility in labour regulations in terms of duration of employment contracts and recruitment. In addition, excessive dependence on foreign labour at the

²⁹ World Bank 2008. "Special Economic Zones- Performance, Lessons Learned and Implications for Zone Development". FIAS, Report, World Bank, Washington DC.

³⁰ International Labour Force Office, 2003. "Employment and social policy in respect of export processing zones (EPZs). Committee on Employment and Social Policy, Geneva

expense of the domestic labour market should be discouraged.³¹

Jamaica's past experience with matters related to low wages and poor working conditions within the Free Zones was highlighted as missteps of the past that should not be repeated under the new SEZ regime. While these challenges have been highlighted, there appears to be no restrictions to union representation in Jamaica, provided all the necessary requirements are met and there are mechanisms through the Ministry of Labour and Social Security for worker redress/ industrial disputes etc., whether employees are unionised or not.

Notwithstanding the foregoing concerns, there have been improvements in the labour market in recent times. In an attempt to enhance Jamaica's locational advantage to potential investors, there is comprehensive labour market reform initiative underway and Cabinet has approved the establishment of a Labour Market Reform Commission that will help to spearhead this initiative. The labour market reform process can create the level of dynamism in the labour market which will foster productivity & flexibility, enhance social safety net, attract investment and increase real incomes. Some of the areas that the reform will focus on are: Education & Training; Social Protection; Productivity, Innovation & Technology; Industrial Relations; and, Labour Policies and Legislation. The reform will also be aligned with the goals of Vision 2030 Jamaica and the ILO Decent Work Agenda.

³¹ Research shows that among the principle obstacles to success of the programme in the Dakar EPZ was a rigid and constraining labour regulation i.e. employment contracts were permanent and employers did not have complete freedom in recruitment.

Already there are improvements in the legislative framework for the labour market. The Employment (Flexible Work Arrangements) (Miscellaneous Provisions) Act was passed in October 2014 and several pieces of legislation have been amended or are in the process of being amended, for example, the Occupational Safety and Health Legislation and the Holidays with Pay Order and the Employment (Equal Pay for Men and Women) Act. These steps help to enhance the attractiveness of Jamaica as the location of choice for investors and will lessen the likelihood of a repeat of the past challenges under the Free Zone regime.

Policy Recommendations

1. Adopt labour practices that are in full consistence with stipulations of the International Labour Organization, including core rights of assembly, organization and collective bargaining
2. The regulatory framework for the labour market should be flexible, liberal and transparent for both domestic and foreign workers
3. To ensure policy coherence, all policies related to the human resource development will be aligned to existing national policy framework for training and employment and for access to employment opportunities for women and persons with disabilities
4. Greater collaboration between training institutions and industry to ensure constant supply of skilled personnel for firms in the SEZ
5. Promote a culture of voluntary compliance through awareness-raising/information-sharing programmes and initiatives geared towards investors, managers of enterprises, workers and their organizations.

Policy Element: Sustainable Development

Adopting the definition for sustainable development that is used by the United Nations World Commission on Environment and Development, the policy framework for SEZ considers sustainable development to encompass economic and social development and environmental protection. Hence, the SEZs will be developed in keeping with government's policies on sustainable development which incorporate economic, environmental and social considerations.

a. Social Inclusion

Policy Issues

The development of SEZs will stimulate interest and create opportunities for many but for the most vulnerable groups³² (poor, women, persons with disabilities and the youth) in the Jamaican society, there has to be a deliberate effort to ensure that their interests are equally protected and supported and that they have equal access to opportunities afforded under the SEZ regime.

Policy Recommendation

Develop integrated socio-economic development approach that restricts social dislocation and increases participation of the most vulnerable in the Jamaican society. The policy will encompass a gamut of strategies that will support

³² The emphasis on the vulnerable groups becomes necessary in light of the experiences of SEZ developments in countries such as India. Research shows that in the case of one SEZ in Polepally commercial pressures on land and forced evictions resulted in various forms of socio-economic challenges especially for women and the poor. Source: Rawat, Bhushan and Surepally (2011). The Impact of Special Economic Zones in India: A Case Study of Polepally SEZ. International Land Coalition.

sustainability of the Jamaican society. As indicated in previous sections, the policy framework is being formulated with strategies to create backward linkages with individuals through employment and training, and among businesses through efforts to stimulate business-to-business linkages. Additionally, the build out of Urban Support Areas will encompass the provision of proper housing, utilities, transportation, social (e.g. schools, hospitals) and recreational infrastructure in adjacent areas to the SEZs. This will also ensure economic development with social inclusion.

b. Environmental Sustainability and Climate Change Mitigation

Policy Issues

It is well accepted that industrial growth and increased urbanization have implications for natural resource consumption and environmental protection. Countries such as China which have been experiencing rapid urbanization and industrial development are currently grappling with ecological disasters that result in low quality air, soil and water. When it comes to SEZs there are two important dimensions to their impact on environmental sustainability. On the one hand, while SEZs have been proven to effectively drive industrial development and growth, if there are no proactive approaches to develop environment-friendly practices within the zones, the outcome on the environment can be less than desired. On the other hand, SEZs can be developed as laboratories in the implementation of sustainable development practices, even if only on a small scale. These practices can then be expanded to the country on a whole in the same manner that simplified business regulations within SEZs are being promoted in the wider economy.

As part of the effort to mitigate climate change, corporations within SEZs will be required to incorporate low carbon policies and strengthen their commitment to corporate responsibility. Moreover, environmental sustainability or regulation is not being viewed as an impediment to businesses but rather as critical part of doing business through the GVC model.

Policy Recommendations

1. Through the application of appropriate regulations, the developers and operators of SEZs will be required to pursue and adopt low-carbon, green strategy with a clear goal and commitment to Greenhouse Gas mitigation.
2. Every effort will be pursued to ensure a strategy of greening the economy and related industries and safeguarding human health and environmental sustainability..
3. Policy measures will seek to ensure coherence with the Ministry of Water, Land, Environment and Climate Change comprehensive environmental policy (being developed). Some strategies that will be emphasized include:
 - i. Adopting environmental practices in line with regulatory requirements overseen by NEPA. These include the adopting of practices to reduce ozone depleting substances, hazardous spills etc.
 - ii. Including a representative of NEPA at the proposed one stop shop which will facilitate a smooth transition into the zone.
 - iii. Stipulating that the SEZ Authority implements regular Environmental Impact Assessments (EIAs), Environmental Audits to ensure compliance within the SEZs.
 - iv. Providing housing and other social infrastructure in consultation with all key government bodies in order

to eliminate conflicts such as the duplication of expenditure on the same structure.

c. Energy and Food Security

Policy Issues

It is anticipated that food and energy security will be enhanced with specialized commodity SEZ by giving Jamaica access to more competitively priced food and energy commodities being stored in the SEZ. Additionally, provisions will be put in place, with the appropriate trigger mechanisms (e.g. natural disaster or global price volatility), that will allow for temporary duty and/or sales tax free access into the domestic economy. This would in effect create a strategic reserve for Jamaica.

The country is in need of an energy solution. Consideration has been given to various options for the fuel mix, including waste to energy, but while that is important, there is need for focus on the demand-side aspects to ensure that there is conservation.

Policy Recommendations

1. Permit the setting up of specialized food and energy commodity SEZs
2. Pursue national policies on energy and food that will further enhance security and increase access to competitively priced commodities.

VII. Implementation, Monitoring and Evaluation

The Ministry of Industry, Investment and Commerce will see to the proper development, execution, monitoring and evaluation of the policy in collaboration with the relevant

MDAs, civil groups, academic community and the private sector. The SEZ White Paper is expected to be in effect by February 2015 after which the SEZ legislation will be prepared and promulgated. See *Timetable for Development of Policy and Legislative Framework* in Table 4.

Implementation Approach

The full implementation of the SEZ framework will involve several private companies, associations, interest groups, MDAs, international development partners and local and foreign investors. The Ministry has already begun to explore the kinds of considerations that will have to be given to the effective roll-out of the policy strategies, through ongoing engagements with entities such as the Bureau of Standards, Jamaica Customs Agency, JAMPRO, Ministry of Finance & Planning, Trade Board, Ministry of Foreign Affairs & Foreign Trade, among others.

Table 4: Schedule of Major Milestones, Activities and Events – Last Updated December 2014

Task Name	Start	Finish
Completion of Concept Paper	April 2014	May 2014
Completion of Interim Policy	May 2014	October 2014
Completion and acceptance of Green Paper	October 2014	December 2014
Make necessary changes based on comments and re-submit to the Cabinet Committee	November 2014	November 2014
Conduct Peer Review	October 2014	October 2014
Present final interim policy for acceptance as Green Paper	October 2014	November 2014
Engage in further policy dialogue with MOF&P, Trade Unions etc.	December 2014	December 2014
Revise policy and re-submit to Cabinet	December 2014	December 2014
Completion and acceptance of White Paper	January 2015	February 2015
Public Consultation on SEZ Green Paper	January 2015	January 2015
Coordinate Policy Validation Workshops	January 2015	January 2015
Prepare report on submissions from the public and include in draft White Paper	January 2015	February 2015
Present draft White Paper to PSC for review	January 2015	January 2015
Submit draft White Paper to HM for review and approval	January 2015	January 2015
Present draft White Paper to Cabinet Committee	January 2015	January 2015
Submit draft White Paper to Cabinet for ratification	February 2015	February 2015
Preparation and Presentation of Legislation	March 2015	December 2015
<i>Approval of SEZ Policy by Cabinet</i>	<i>March 2015</i>	<i>March 2015</i>
Engage Legal Consultant to provide technical support in the development of a legislative and regulatory framework	March 2015	March 2015
Review of policy (White Paper) and int'l and local legislative landscape	March 2015	March 2015
Prepare Cabinet Submission seeking approval for drafting of relevant SEZ bill and regulations (CPC and Legal Reform Dept to be consulted)	March 2015	March 2015
Incorporate comments from stakeholders and finalize submission	March 2015	March 2015
Receive Cabinet Decision for preparation of legislation	March 2015	March 2015
<i>Drafting Instructions</i>	<i>March 2015</i>	<i>May 2015</i>
Prepare drafting instructions for SEZ Bill and regulations	March 2015	April 2015
Review by MIIC Legal Dept and revise as necessary	April 2015	April 2015
Submit drafting instructions to CPC for preparation of SEZ Bill and regulations	April 2015	April 2015
Revision of drafting instructions, if required	April 2015	May 2015
<i>Preparation of SEZ Bill & Regulations for Circulation</i>	<i>May 2015</i>	<i>September 2015</i>
Prepare and submit draft bill and regulations to MIIC	May 2015	June 2015
Circulate bill and regulations to all relevant MDAs including the AGC for comments	July 2015	July 2015

Table 4: Schedule of Major Milestones, Activities and Events – Last Updated December 2014

Review comments and submit further drafting instructions to CPC	July 2015	August 2015
Incorporate comments and finalize bill and regulations	August 2015	August 2015
Prepare clause by clause analysis and brief of the bill and regulations	August 2015	September 2015
<i>Submission of the SEZ Bill and Regulations to Legislation Committee</i>	<i>September 2015</i>	<i>October 2015</i>
Prepare Cabinet Submission to Legislation Committee to recommend approval of Bill by Cabinet for introduction in Houses of Parliament)	September 2015	September 2015
Attend meeting of Legislation Committee	September 2015	September 2015
Make necessary amendments, as required and resubmit	October 2015	October 2015
Decision of the Legislation Committee	October 2015	October 2015
<i>Approval of SEZ Bill and Legs and Regs by Cabinet</i>	<i>October 2015</i>	<i>October 2015</i>
Prepare Cabinet Submission to Cabinet for approval of the Bill and introduction in Parliament	October 2015	October 2015
<i>Introduction in Parliament</i>	<i>October 2015</i>	<i>December 2015</i>
Notice to the Clerk of the House of intention to Table Bill and Regulations	October 2015	October 2015
Bill and regulations tabled and debated in the House of Representatives/Senate (a decision may be taken by the Ministers whether the bill should be referred to the Joint Select Committee of Parliament	October 2015	November 2015
Enactment of bill	November 2015	December 2015

VIII. Legal Implications

Current Legal and Regulatory Framework – Jamaica Free Zones Act (1982)

The Act as currently constituted lacks the level of detail and policy coherence needed in a Special Economic Zone regime.

The lack of policy coherence includes:

1. The responsibilities and functions of the Port Authority of Jamaica under s. 6-18 vs those of other Promoters (s. 7) is greatly disproportional, and could be viewed as prejudicial and discouraging to private investment. Additionally, the presence of the Port Authority as a Promoter and regulator makes the Act very untidy and counter to international best practice where business and regulatory functions are separated.
2. There is a heavy restriction on retail trade under s 25. This limits the policy space for creative investment opportunities for Free Zone shopping malls or for free ports.
3. There is severe prohibition on the storage of petroleum products under section s32. This would have a chilling effect on a commodity port and on bunkering activities with tank farms.
4. All goods coming into the Free Zone have to be consigned to Promoter or approved enterprise under s23 (3). This could have a chilling effect on the 3PL business and efficiency of moving goods generally.
5. There are no labour standards expressly mentioned in the Act or its Regulations.
6. There are no environmental standards expressly mentioned in the Act or its regulations.

7. It is unclear if the JPS All Island Licence applies to Free Zones. The Act grants a Promoter the right under S.4(2)(b): *A Promoter may set the price for services offered by him such as garbage removal, customs processing, security and any other services related to the Free Zone under his control.* This could be read to include the generation and distribution of energy. Additionally, the Port Authority is granted the power under S.6(3)(f): *In the exercise of its functions under this Act, the Authority may provide water, light and power, telecommunications and any other public utilities or service and enter into contracts for the supplying of said utilities and services.*

Other sections of the Act that contribute to the lack of policy coherence may include:

1. Section 23(5), (6), (7) – Movement of goods out of the Free Zone into Jamaica. The monitoring of this could become a potential bottleneck and create an unnecessary burden on the resources of Customs. Hence, as much as it is possible Customs will have to explore creative approaches to administering its protocols that will minimize the burden of bureaucracy while maintaining the integrity of a robust monitoring mechanism. Additionally, this section makes no provision or clear guidelines for goods that may leave a Free Zone into the customs territory for value addition purposes and to be returned to the Free Zone for export.
2. Section 29 – Manufacturing in the Free Zone record keeping. This is another area of unnecessary bureaucracy which should be avoided.
3. Section 32 – Goods not to be taken into the Free Zone. Such restrictions are necessary for national security reasons, however, they should not be so restrictive as to stifle lawful activities we wish to attract to Jamaica.
4. Section 33(3) – Movement of goods from Free Zone to Free Zone. The Act lacks clarity on the generally prescribed terms and conditions that should be met for this activity.

In light of the policy gaps identified in the current Free Zone Act, a Special Economic Zone Act and the attendant Regulations will be developed in line with the necessary policy framework, in order to give effect to the proposed Special Economic Zone regime. The draft SEZ legislation would need to be harmonized with modern Port Authority of Jamaica and Maritime Authority of Jamaica legislation in order to ensure coherence with all pieces of legislation that will impact the SEZ regime. By harmonizing these pieces of legislation, possible duplication of the functions among the Ministry, the Port Authority of Jamaica and the Maritime Authority of Jamaica will be avoided.

Appendices

Appendix I

Composition of SEZ Policy Steering Committee

- | | |
|--|--|
| 1. Mrs. Patricia Francis | Chair, PSC |
| 2. Professor Gordon Shirley | Port Authority of Jamaica |
| Mrs. Beverley Williamson* | |
| Mr. Edmond Marsh* | |
| 3. Mr. Oneil Grant | Jamaica Confederation of Trade Unions |
| 4. Mr. Donovan Wignal | MSME Alliance |
| 5. Mr. Norman Horne | Jamaica Manufacturers' Association |
| 6. Mr. Yoni Epstein | Business Processing Industry Association of Ja |
| 7. Dr. Eric Deans | MIIC's Task Force/Logistics Hub Secretariat/MIIC |
| 8. Mrs. Beverley Rose-Forbes | Ministry of Industry, Investment and Commerce |
| 9. Mr. Reginald Nugent | Ministry of Industry, Investment and Commerce |
| 10. Mr. Stephen Wedderburn | Ministry of Industry, Investment and Commerce |
| 11. Mrs. Shullette Cox | JAMPRO |
| Mrs. Cheronne Allen* | |
| 12. Mr. Dennis Morrison | Omnibus Incentives Committee |
| 13. Mrs Pamela Folkes | Ministry of Finance and Planning |
| Mr. Ian Scarlett* | |
| 14. Mr. Eric Crawford | Jamaica International Financial Services Authority |
| 15. Dr. Kathy-Ann Brown | Attorney General's Chambers |
| 16. Mr. Warren McDonald | Jamaica Chamber of Commerce |
| Mr. Oliver Chen* | |
| 17. Mr. Charles Johnston | Shipping Association of Jamaica |
| Mr. Grantley Stephenson* | |
| 18. Ms. Alicia Morris | Ministry of Foreign Affairs and Foreign Trade |
| 19. Mr. Albert Edwards | Office of the Parliamentary Counsel |
| 20. Major (Ret'd) Richard Reese | Jamaica Customs Agency |
| Ms. Shandilayne Davis* | |
| Mrs. Karlene Henry* | |
| Mr. Clive Thompson* | |
| *Alternates | |

Appendix II

SEZs versus Free Zones	
Special Economic Zones	Free Zones
SEZs are characterized by geographically delimited area, usually physically secured (fenced-in), single management/administration, eligibility for benefits based upon physical location within the zone, separate customs area (duty-free benefits) and streamlined procedures.	The core definition of a free zone, as well as proposed guidelines and standards for them, are contained in the Revised Kyoto Convention of the World Customs Organization (WCO). Specifically, Annex D and the accompanying guidelines provide standards and recommendations on the treatment of imports to and exports from free zones including territorial limits (free zones are defined as “outside the customs territory” for purposes of the assessment of import duties and taxes); minimal documentation requirements; and issues to be covered by national legislation. Free zones typically allow for duty- and tax-free imports of raw and intermediate goods.
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