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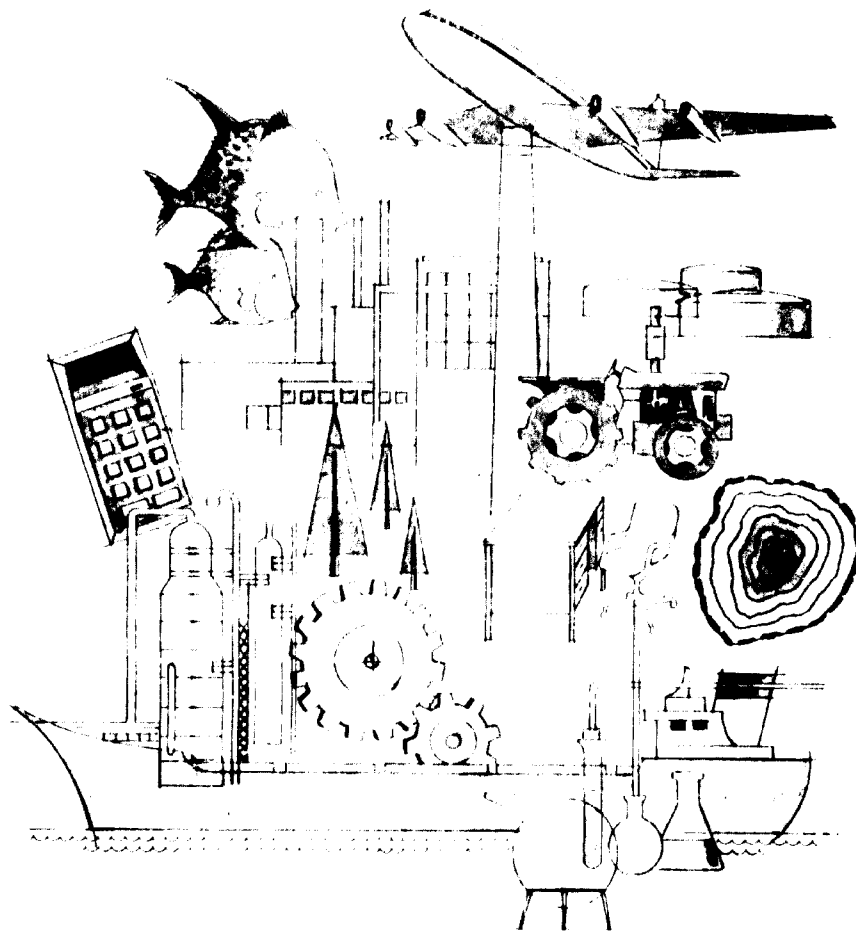
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# KINGSTON EXPORT TRADE ZONE

FS/455



**REDMA**

Private Limited

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C/F

JAMAICA

B/F

THE KINGSTON EXPORT TRADE ZONE (Free Zone) 158

A REPORT PREPARED BY  
REDMA CONSULTANTS LTD.,  
TORONTO...CANADA

FOR THE  
UNITED NATIONS INDUSTRIAL DEVELOPMENT  
ORGANIZATION.

AUGUST, 1975  
UNIDO CONTRACT  
-74/37  
PROJECT  
-IS/JAM/74/005

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1.0 EXECUTIVE SUMMARY

- 1.1. This Report summarizes the conclusions and findings of Redma Consultants Ltd in an assignment to provide technical assistance to the Kingston Export Trade Zone under a contract with the United Nations Industrial Development Organization identified as follows:-

UNIDO Contract No. 74/37  
 Project No. 15/JAM/74/005  
 Activity Code 14.

The provision of technical assistance took place between November, 1974 and May 1975. The team of specialists provided by the consultants were

Project Leader: K.O.Hillyer M.B.A. P. Eng.

Industrial Engineer : P.Frerotte. D. Sc.

Industrial Economist: B.Labadie B. Ec

Financial Consultant: P. Rigby B. Comm.

1.2. Role of the Kingston Export Trade Zone.

- 1.2.1. The financial success of the Zone remains the first priority in its development.
- 1.2.2. The consultants recommend that the Zone be identified with a dual role to insure its financial success;
- 1) commercial transshipment, distribution and limited warehousing centre
  - 2) export processing zone
- 1.2.3. The Kingston Export Trade Zone should be established with the primary function of providing employment opportunities for un-skilled and semi-skilled labour in the Kingston urban area.
- 1.2.4. To emphasize the duality of the role of the zone we recommend the adoption of the name Kingston Export Trade Zone.
- 1.2.5. The major resources of the Zone must be devoted to the establishment of labour intensive processing and manufacturing activities and not to commercial warehousing and in-bond operations. These latter facilities should be encouraged initially, but must be limited to the initial areas so as not to hold back opportunities for the first facilities.

1.2.6. The secondary function should be the generation of economic spin-offs through providing ancillary services to the transshipment port such as stuffing or de-stuffing of containers, warehousing and distribution, or by encouraging the incorporation of Jamaican raw materials and semi-manufacturers in manufacturing and processing activities in the Zone.

1.2.7. The Zone must be recognized as a non-renewable resource which must be dedicated over the long term, to manufacturers committed to and capable of penetration of export markets.

1.3. Economic Prospects for the Zone.

1.3.1. This report has identified previously two major functions for the Kingston Export Trade Zone as poles of development for this project:

- 1) commercial transshipment and distribution facilities.
- 2) manufacturing for export.

1.3.2. The following list (Table 1.1) identifies the preliminary enthusiasm for zone investment which has been generated. Of the total request for 130,000 sq.ft. of space already sought, 47,000 or 32% is devoted directly solely to commercial warehousing and distributing facilities. To this must be added the already identified but non-tabulated interest of the in-bond merchants to be located within the Zone. In our opinion, the Zone will be required to limit the participation of such enterprises if the major purpose of the area, export manufacturing, is to be promoted.

1.3.3. The potential for the attraction of foreign investment to manufacture in the zone for export, is related directly to two different strategies apparent in the development of inter-national production. The first is the development of multi-national concerns who install production facilities around the world to increase the potential for further penetration and expansion of markets. The second refers to the more recent development of major production facilities either wholly owned or sub-contracted where production is geared to employing labour available at lower costs, than in the entrepreneur's own market. Redma identifies the first trend as multi-national development and the second as international contracting for production.

1.3.4. Redma is of the opinion that current corporate strategy leading to multi-national development is directed towards the establishment of production facilities to serve national or regional markets. Since this type of development is more stable, it will be more beneficial to Jamaica's development, and should be emphasized in the expansion of the Zone. It must be emphasized that UNIDO holds the view strongly that manufacturers in the zone which are given any duty privileges or tax holidays must be limited to marketing outside of the Caricom market. (see Page 44.)

Table 1.1

FIRMS/PERSONS WHO HAVE INDICATED INTEREST  
IN THE FREE ZONE.

NAME	PRODUCT	SPACE REQUIREMENT SQ. FT	TYPE OF OPERATION IN ZONE	INTENDED MARKET
<u>A. Presently Operating in Jamaica.</u>				
1. The Factory	Garments	6,000	Manufacturing	25% Local Caricom 75% Countries eg. U.S.A. Canada
2. Plexi 2000	Furniture	6,000	Manufacturing	Local and U.S.A.
3. Associated Manufacturers Ltd	Stanley Home Products, Cosmetics & brushes mainly	20,000	Manufacturing & Warehousing	Caricom & Latin America
4. General Marketing Limited	Pharmaceutical	6,000	Warehousing	Caricom, Sirinam, Santo Domingo Aruba and Bermuda
5. Abbot Vest Indies Limited	Pharmaceutical	6,000	Manufacturing and Warehousing	Local and International
6. Lasocean Agencies	Freight Service	6,000	Warehousing	Local and International
7. Carimpex	Variety	6,000	Warehousing	Local and Caricom
8. Chandran-Carreras	In-Bond	6,000	Warehousing	Local and Caricom
9. Webb-Harris	Freight Forwarding	6,000	Warehousing	Local and Caricom
10. Mead-Johnson Jamaica Limited	Pharmaceuticals and food	20,000	Manufacturing	Local and Caricom U.K.

Table 1.1. (Cont)

B. <u>Presently Operating Outside Jamaica.</u>	Medical Equipment	12,000	Manufacturing	U.S.A., Europe, Japan.
1. Stanley Johnson (U.S.A.)	Medical Supplies	6,000	Manufacturing	20% local, 80% international
2. Pure Pharmaceuticals	Electronics	6,000	Warehousing	South America
3. Also De Venezuela	Pharmaceuticals	6,000	Warehousing	Caricom
4. Parke-Davis & Co	Zippers	12,000	Manufacturing	Local and Caricom
5. Y.K.K.				
12 TOTAL		<u>130,000</u>	Manufacturing -5 Warehousing - 5 Manufacturing/ Warehousing - 2	local only - Caricom only - 1 Local & Caricom only - 2 Local Caricom and International - 9



- 1.3.5. As has been identified in several discussions with both Jamaican and foreign manufacturers, their development whether in the Zone or not, depends upon their ability to have equitable access to the Caricom market. For this reason it is essential that Zone manufacturers have at least equivalent access to the entire Caricom market as do national manufacturers anywhere in the region. We do not recommend that they have any advantage except those apparent to investors in the Zone.
- 1.3.6. Two factors which infringe on the speed with which such manufacturers are likely to develop are obvious today. The first is the state of the world's economy which, as the recession continues or deepens will restrict new capital expenditures by multi-national or Jamaican industrial concerns. On the other hand, the promulgation of the Generalised System of Preferences for goods manufactured in developing countries in the markets of:-

U.S.A.  
European Common Market  
Japan  
Canada  
New Zealand

now further enhance the export opportunities open to manufacturers in these areas, whether of local or foreign ownership. Because of Jamaica's geographical position, its historical ties to the U.K. and Canada, and its growing productive capacity, the GSP system can be expected to have a major effect on export opportunities.

- 1.3.7. Of even more dramatic impact will be the Lomé Convention recently signed between the EEC and the ACP countries (including Jamaica) which offers duty-free access for most Jamaican manufactured products to the Common Market. Because of the opportunities this agreement offers manufacturers in the Zone, the consultants recommend concentration on the search for new investors first with these markets in view.
- 1.3.8. In the area of international contracting for production the prospects for the impact of such developments on the Kingston Export Trade Zone are somewhat more cloudy. International contracting for production have as the basic premise, the variance between production wage rates in the developing countries and those in the developed country where the product is marketed. Although there exists a major advantage for the manufacturer in using Jamaican labour over, for example, Canadian labour (Canadian hourly rates up to 6 times Jamaican wage rates), the comparison with other lower cost labour areas works to Jamaica's disadvantage. If labour rates are the primary reason for the establishment of production facilities, the Zone is at a major disadvantage.

- 1.3.9. The current world wide recession further clouds the prospects for International contracting of production. Major production facilities for the assembly of sub-components for the electronics industry, the sewing of garments and leather sporting goods, the assembly of Christmas decorations, costume jewellery and toys, and the batch processing for the entry of data to electronic data processing equipment have been the usual ones established to take advantage of international contracting. The market prospects for such products are related directly to the economies of the developed world, now subject to severe recession.
- 1.3.10 Redma Consultants Ltd remain confident that prospects for the attraction of Investors to the Zone remain good. For the short term, we would expect the first facilities to be constructed will be occupied by warehousing and distribution facilities. In the short to medium term, major Jamaican industrialists, and multi-national companies whose expansion is predicated on exports to the Caricom region and under GSP and Lomé Convention preferences to Europe, (including the U.K.) Japan, Canada and the U.S.A. will be attracted. In the medium to long term, the proximity of Jamaica to the U.S.A. may induce the establishment within the Zone of facilities for the contracting of production for developed markets.
- 1.3.11 As a result of this analysis, Redma recommends that in the primary development of the Zone, land be retained for the construction of specialized facilities for lease to manufacturers, or for lease directly of land for private development. We are proposing that 17 acres be identified for the construction of factory space for lease, and that 34 acres be retained for development of such specialized facilities.
- 1.3.12. Redma would recommend the following list of "target" industries for the promotional efforts of the Zone Agency. These have been identified, both to enhance the incorporation of Jamaican and Caricom content (for backward linkage into the economy and to benefit from "GSP" opportunities) and to encourage the consumption of Jamaican labour.
1. Medicinal and Pharmaceutical Products.
  2. Specialized Products for Hospital/Medical use.
  3. Soaps and Cosmetics.
  4. Food processing (canned tropical fruits.)
  5. Garment production
  6. Furniture
  7. Batch Data Processing
  8. Electronic sub-assemblies.
  9. Service functions -repair and overhauling of technical products.

1.4. ORGANIZATION AND ADMINISTRATION

- 1.4.1. Redma recommends the establishment of a separate, semi-autonomous agency to administer the Kingston Export Trade Zone. The Agency should be separate so as to permit immediate and direct access by the senior executives of the agency to other Jamaican government institutions on behalf of Zone interests. It is defined as semi-autonomous because the major equity in the Zone is held by the Port Authority, and thus the Zone Agency must be subject to annual budgetary reviews by the Authority.
- 1.4.2. Redma recommends that a Board of Directors be established for policy direction and control of the Zone, and that it be composed of nine members. The Chairman and four other members would be appointed by the Minister of Public Utilities, Communications and Transport, two members by the Minister of Industry, Tourism and Foreign Trade, one by the Minister of Finance and one by the Jamaican Manufacturers Association. The General Manager of the Trade Zone Agency would sit as a non voting member of the Board.
- 1.4.3. Redma would recommend the appointment of three members of the Board, plus the General Manager of the Agency as an Executive Committee to provide more frequent policy direction to the activities within the Zone. The General Manager would chair this Committee whose major task should be the preparation of multi-year management and financial plans for the further development of the Zone.
- 1.4.4. Redma would recommend the position of General Manager of the Kingston Export Trade Zone be recognized as the level of responsibility of a Permanent Secretary, and that his relationship with other government agencies and ministries be at this level.
- 1.4.5. A basic organizational structure for the Export Trade Zone has been designed. It provides for a basic initial complement of four executives and seven office staff positions, but makes provision for the addition in 1976 of an additional executive and three additional maintenance and/or clerical staff positions.
- 1.4.6. The Planning and Marketing function identified in the organigram will be concerned with the general promotion of the Zone, and with the co-ordination of special analysis of the benefits of locating in the Zone to specific targetted industries and investors.
- 1.4.7. The Zone Maintenance function will be concerned with the general maintenance of the Zone buildings and properties and the supervision of further construction within the Zone.
- 1.4.8. The function of the Administrative and Financial Services section would be to provide such services for the Zone Agency and to assist Zone investors in the recruitment of financial and administrative staff for their own operations.

- 1.4.9. The Zone Certification and Audit function will undertake the auditing of the financial records of the Investors in the zone both to ensure the adherence to Zone and Customs regulations, as well to provide certification of Jamaican labour and material content added in the manufacture and processing of goods within the Zone.
- 1.4.10 Redma would recommend that the role of the Zone Promotion Council be confirmed to be only promotion and public relations.
- 1.4.11 Redma would recommend the establishment of a permanent investment review committee with the Jamaica Industrial Development Corporation, and if required with the Ministry of Industry, Tourism and Foreign Trade to examine each potential investment project so as to ensure that it fits within the national strategy of industrial development.

1.5. MARKETING AND PROMOTIONAL PLAN FOR THE ZONE.

- 1.5.1. Redma Consultants holds the view that there are 3 primary reasons for manufacturers to invest outside of their own country;

First - to seek a source of lower cost labour for production.

Second - to find a production centre for the service of a regional or hemispheric market.

Third - to identify a location offering access to specific resources and raw materials.

The marketing program for the Zone should reflect these reasons.

- 1.5.2. We recommend that the development of the marketing program for the Zone be defined in the following elements:-

1. Identification of Investment features
2. Promotion of these Features
3. Selection of Prospective Investors.
4. Negotiation with the Investors.

- 1.5.3. Redma Consultants have identified 12 features to be promoted in the marketing of the Zone.

- 1.5.4. With reference to the feature of fiscal incentives, Redma recommends that for manufacturers exporting only to Third Countries, a tax holiday of 10 years be given, followed by 50% income tax relief thereafter.

- 1.5.5. Since we believe that access of Zone manufacturers to the Caricom region on conditions as favourable as those offered national manufacturers is essential to its development, we would recommend that discussions be undertaken with other Caricom partners regarding the treatment of manufactured products from Free Zones located in the region.

- 1.5.6. In furtherance of this concept, we believe that incentives within the Zone, must conform to the basic Agreement on the Harmonization of Fiscal Incentives to Industry now in practice in the CARICOM region. Thus fiscal incentives would be offered to all Zone investors dependant on the degree of Caricom content employed, and the relationship which exports to Third Countries is to the total sales volume.
- 1.5.7. It is our opinion, that the degree of tax holiday offered to a prospective Investor in the Zone is less significant to multi-national concerns than the cost of labour, freedom from import/export control and access to the regional market.
- 1.5.8. We recommend the development of a promotional program using 2 methods;
- a) Advertising in Trade Journals.
  - b) Direct Mail to selected industrialists.

For this purpose we recommend the allocation of a promotional budget to the Zone of Jamaican \$35,000 per year.

- 1.5.9. Redma Consultants has prepared a list of criteria to be used by the Zone Agency to complete a detailed analysis of likely industries, in order to select those most appropriate for the Zone. This planning and selection process should be undertaken with the co-operation of the Jamaican Industrial Development Corporation.
- 1.5.10 Redma Consultants recommends that a specific proposal be developed for each target industry which reflects that industry's world orientation according to the EPRG framework.
- 1.5.11 The consultants would propose that the following steps should be undertaken in the selection process of specific industries.
- Step 1. Beginning with the recommended industries identified in Chapter 3, select major firms of a transnational character in each category for specific promotion. These should be drawn from the EEC, Japan and North America.
  - Step 2. Based on general economic research, and on specific analysis for that industry, apply to each of the firms chosen, the specific criteria recommended above, to identify a weight for each.
  - Step 3. As a result of the various weights, establish a priority for the direct sales program necessary to attract each firm to the Zone.
  - Step 4. Undertake an analysis of the current stage of international-development of each firm using the EPRG framework.

Step 5. Design a specific proposal for each firm, utilizing the criteria and the understanding gained of its international perspective, so as to demonstrate the validity of the Zone as an investment location for that firm. This proposal should include an identification of all the benefits and features of the Zone expressed in terms of the needs of the prospective investors.

Step 6 The Zone management should undertake to present this special docket of information to the prime decision maker of the company concerned, in person.

- 1.5.12 Redma Consultants Ltd would recommend that the Zone management seek UNIDO assistance in the initial phase of this program, through the retention of Consultants to undertake the specific analysis necessary to its completion.
- 1.5.13 Redma would propose the preparation of a specific application form (a sample is included) on which interested investors would be asked to give evidence of their intentions.
- 1.5.14 The final element in the marketing plan is the negotiation with the interested investor. This stage must insure that the investment will benefit the investor, the Zone and Jamaica.

1.6. LEGAL FRAMEWORK FOR THE ZONE.

- 1.6.1. Redma recommends the preparation of special separate legislation constituting the Kingston Export Trade Zone and its governing agency identifying the following elements;
  - a) role of the Zone.
  - b) identification of the legal rights of the Zone agency including the ownership of land and buildings, the ability to lease land or buildings, the ability to operate facilities and administer services and the ability to enter into legal agreements with lessees.
  - c) the establishment of a Board of Directors.
  - d) the identification of reporting linkages for statutory and fiscal purposes.
  - e) the creation of an extra-customs area for the purpose of fulfilling the functions of the Zone
  - f) the identification of incentives for investors.
  - g) the provision of statutory regulations for the administration of the act and the proper functioning of the zone.

- 1.6.2. Redma has identified within the report certain clauses it believes essential to the drafting of this Act.
- 1.6.3. The Consultants have listed those regulations which it believes should be drafted for the operation of the Zone concerning;
- administering the investing firms
  - regulating entry and exit from the Zone
  - banking and Foreign exchange
  - customs
  - work permits
  - incentives
- 1.6.4. Special articles for the proposed lease to be used by the Agency are included.

1.7. THE PHYSICAL PLAN OF THE ZONE.

- 1.7.1. Although the physical plan for the Zone is the responsibility of consulting engineers in Jamaica, Redma Consultants Ltd made a few specific recommendations regarding the proposed design.
- 1.7.2. We would recommend that the Zone plan be changed, to allocate all the projected spaces along First Street, now defined as reserved for commercial development, into projected space for the construction of leased factory units. The only exception to this would be the first space to the right of the entrance (as one enters the Zone) which would be reserved for temporary administration space, and the corner lot at First Street and the Causeway which should be retained as open space.
- 1.7.3. We would recommend that of the total initial development (Lots 452 and 453 or that portion illustrated in the accompanying plate) that the following allocations be made

	<u>Average</u>	<u>%</u>
Factories Pre-built for lease	12.1	24
Land for specialized development	23.6	46
Land for roads, administration commercial and other developments	15.10	30

- 1.7.4. So as to permit the entire flexibility of the development of future parcels we recommend the adoption of the super bloc system of preliminary design.
- 1.7.5. We recommend that interim parking be established along the railway easement but that as the development proceeds and if, the need for the railway spur continues, that parking be established at the new site for the commercial and administrative centre.

1.7.6. We recommend that, as the site develops and if the need is apparent for the incorporation of Gordon Cay land, the administration, gate and commercial facilities be established permanently as shown on the accompanying diagram.

1.8 ANCILLARY SERVICES REQUIRED BY THE ZONE.

Redma identifies the specific services and linkages which will be required of the Zone management for the proper administration of the Zone. These include:-

- fire-fighting
- telex, telephone & cable
- maintenance
- labour and training
- Investor related service
- recreation
- canteen
- customs
- security
- banking
- internal transportation

1.9 FINANCIAL PLAN FOR THE ZONE.

1.9.1 Redma Consultants Ltd has prepared two 10 year cash flow projections for the Zone, one using a 10% year to year escalation factor, and the other a 20% year to year factor.

1.9.2. To permit adequate and appropriate self financing Redma Consultants Ltd has made the following assumptions;

- the total area of the Zone indicated in Plate 1 (i.e. excluding Gordon Cay land) will be developed and leased by 1984.
- the Port Authority establishes and holds an equity position in the Zone of \$6,000,000 Jamaican. This investment is serviced but not repaid.
- In addition, the Port Authority lends to the Zone Agency, an amount up to \$8,000,000 Jamaican in debt financing which amount is serviced (10% annual interest) and repaid.
- both of these forms of funding from the Port Authority are represented mostly by land which is absorbed into the Zone's financial structure only as it is required for development.



- 1.9.4. Redma Consultants Ltd supports the view that all financial administration of the Zone, except as indicated above, should be separate from the Port Authority.
- 1.9.4. Redma would recommend that a graduated scale of lease rates be applied for the lease of pre-built factory space depending on its use.

Jamaican Dollars per sq.ft.

In-bond merchants	\$ 3.00
Warehousing & Distribution	\$ 2.75
Distribution with re-packaging	\$ 2.25
Manufacturing	\$ 2.00

These rates would be applied and modified depending on the employment generated and the term requested.

- 1.9.5. We also recommend the leasing of land for the construction of manufacturing facilities at the concessionary rate of Jamaican 50 cents per sq.ft. Escalation would be applied at year end depending on inflationary trends.
- 1.9.6. The Consultants would recommend the allocation of an operating budget as follows:-

<u>Staff Salaries.</u>	<u>Jamaican Dollars</u>
General Manager	20,000
Planning & Marketing Officer	13,000
Zone Maintenance Manager	10,000
Administrative Manager	12,000
Secretaries (3)	5,000 each
Clerks (3)	5,000 each
Office Attendant	<u>2,000</u>
Total salary budget	87,000
<u>Expense Budget</u>	
Promotion	35,000
Travel	5,000
Security (1975)	3,000
Office Equipment & Sup.	5,000
Building Maintenance (1975)	<u>3,000</u>
TOTAL BUDGET	\$ 138,000

Due to a start-up lag, the consultants have proposed an allocation of \$80,000 of this budget in 1975, but additional expenditures for 1976, and 1977 of \$20,000 each year.

1.10 OTHER IMPORTANT CONCLUSIONS.

Redma would recommend that the Jamaican government continue to seek the assistance of the United Nations Industrial Development Organization in the on-going administration and development of the Kingston Export Trade Zone.

- 1.10.1. The Consultants would recommend that UNIDO assistance be requested to finance the employment of consultants to prepare the defined docketts (See Chapter 5) required for specific targetted industries. This is a crucial element in the promotional program and its early accomplishment will accelerate Zone development
- 1.10.2. The consultants would recommend that the Jamaican Government request the services of a UNIDO adviser to work with the General Manager of the Zone for a 6 month period, and provide day-to-day assistance on the organization and management of the Zone.
- 1.10.3. Redma would recommend that immediate consideration should be given to the request of the Zone senior management for a 6 week study tour of major industrial estates and export processing zones, including Mirabel Industrial Park, Canada, Masan In Korea, Jurong Industrial Estate, Singapore, Bataan EPZ in the Philippines and Kaohsiung EPZ in Taiwan. It is possible that financing for such a program could be arranged from UNIDO sources.
- 1.10.4. The consultants would recommend that the Zone senior management take early advantage of the fellowships for training which exist for a 4 week program twice yearly in Shannon, Ireland. These are arranged jointly by UNIDO and the Shannon Free Airport Development Co. ( Similar executive development programs are being established in Canada , with the support of the Quebec Ministry of Commerce and Industry).

2.0 THE ROLE OF THE KINGSTON EXPORT TRADE ZONE.

2.1 A Free Zone - What is It?

Since the Second World War, there has developed around the world a growing proliferation of "free zones". The phenomenon has developed to such an extent, and the number of areas so designated have become so numerous, that a sense of confusion exists in many peoples minds as to what a "Free Zone" actually means.

The United Nations Conference on Trade and Development has defined a free zone as follows:-

- (1) " A free zone is an enclave within a national customs territory, usually situated near an international port and/or airport, into which foreign products may be brought without being subject to formal customs requirements. These imported products can usually be stored, mixed, blended, packed etc., in zone operations; and in a growing number of cases there is also assembly and manufacture without interference from the customs authorities. The payment of customs duties is not required unless and until these goods or the final product in which they are incorporated enter the national customs territory."

Unfortunately this definition can be applied equally to other designated industrial and/or trading areas which are not called free zones. For example, Free Ports have been developed in many parts of the world as encouragement either for the development of entrepot trade (as in Aden or Singapore) or as encouragement to the marketing and sales of goods usually subject to high rates of import duty (as in Montego Bay.)

On the following pages (Tables 2.1 and 2.2.) are listed some of the major "free areas" currently operating in developing countries around the world. These are only a few of the more than 100 similar facilities established in all parts of the globe. (Listing supplied by UNCTAD/GENEVA)

Two important criteria can be used to classify the free zones according to their functions. The application of such criteria to any one zone varies of course, according to the development stage of the zone examined since many are begun with one purpose in mind and during their development are altered to fit other objectives.

The first criterion concerns the importance of manufacturing operations relative to purely commercial operations. There exists a range of cases, from zones that are purely concentrated with warehousing a distribution and re-exporting to zones where most of the normal industrial and commercial activities are undertaken. In developed countries, the majority of free Zones have essentially a commercial role, the processing of goods being limited to simple operations such as grading, re-packing and labelling. On the other hand, in developing countries there is an increasing tendency to establish full-scale industries in these zones. In such cases they are usually called "processing free zones" or "manufacturing free zones".

The second criterion is whether the products of the zone are intended for the internal market of the country or whether they are for export. Many of the free zones in the developed countries are primarily "import-oriented". They serve a useful purpose by speeding up the handling, processing and eventual customs clearance of merchandise for import. A certain number of free processing zones in developing countries are also mainly oriented towards the local market, but there has in recent years been a widespread development of the free zone concept in developing countries to promote the manufacturing for export in such zones of imported semi-manufacture of raw materials. These are usually referred to as export processing zones.

The following is a list of "operating free zones" provided by UNIDO/Vienna:

Dominican Republic	La Romana	EPZ
India	Bombay	export processing zones
Ireland	Shannon	EPZ
Korea	Masan and Iri	EPZ
Malaysia	Penang, Kuala Lumpur	EPZ
Mauritius		bonded factory system
Philippines	Bataan	EPZ

Table 2.1. FREE AREAS IN DEVELOPING COUNTRIES  
AND TERRITORIES.

A. Free areas in operation.

<u>Country of territory</u>	<u>Place</u>	<u>Type of facility provided</u>
Argentina	Territory of Tierra del Fuego	Free Perimeter
Bahama Island	Freeport, Grand Bahama Island	Free Zone
Bahrain	Mina Sulman	Free Zone
Bermuda	Freeport, Ireland Island	Free Zone
Brazil	Manaus	Free Port
Chile	1. Province of Tarapaca 2. Provinces of Chiloé, Aysen & Magellanes	Free Perimeters
Colombia	1. Barranquilla 2. Ports of San Andres & Providencia Islands 3. Amazon Region	Free Zone  International free perimeters (joint agreement Colombia-Peru)
Dahomey	Cotonou	Free Zone
Dominican Republic	La Romana	Processing Free Zone
Egypt	1. Alexandria 2. Port Said 3. Suez	Free Zone
Hong Kong	Hong Kong	Free Port
India	Kandla	Export-processing free zone
Lebanon	1. Beirut 2. Beirut Inter.Airport 3. Tripoli	Processing free zone Free Zone Free Zone

Table 2.1 Cont.

A. Free areas in operation (continued)

Liberia	Monrovia	Free Zone
Libyan Arab Republic	Tripoli	Free Zone
Malaysia	Bayan Lepas Airport (Penang)	Export-processing Free Zone
Mauritius	Plaine Lausun (Port Louis)	Export-processing Free Zone
Mexico	1. Coatzacoalcos 2. Salina Cruz 3. Baja California, Sonara & Quintana Roo 4. Strip along the U.S.Border	Free Zone Free Zone Free Perimeters.
Morocco	Tangier	Free Zone
Netherlands Antilles	1. Aruba 2. Curacao	Free Zones
Panama	Colon	Free Zone
Peru	Amazon Region	International Free Perimeter (Joint agreement Colombia Peru )

Table 2.2

B. New Free Areas In Development.

<u>Country</u>	<u>Place</u>	<u>Type of facility provided</u>
Colombia	1. Palmaseca Airport 2. Port of Buenaventura	Processing Free Zone
Cyprus	Famagusta	Export-processing Free Zone
Haiti	Port-au-Prince Airport	Export-processing Free Zone
India	Santa Cruz Airport	Export-processing Free Zone (for electronics)
Indonesia	Various locations	Free processing for export and domestic market
Mauritius	1. La Cure et les Salines 2. Curepipe 3. near Plaisance Airport	Export-processing free zones
Malaysia	1. Sungai Way 2. Ula Kiang	Export processing zone (for electronics) Export processing zone
Panama	Tocumen International Airport	Export-processing Free Zone
Sri Lanka	Trincomalee	Export-processing Free Zone
Thailand	Port of Patthya	Trade and processing Free Zone (for the domestic market and exports)
Trinidad & Tobago	Piarco International Airport	Export-processing Free Zone
Philippines	Mariveles(Bataan)	Export-processing Free Zone
Republic of Korea	1. Masan 2. Various locations	Export-processing Free Zone Bonded warehouse areas.

Table 2.2. (Cont.)

B. New Free Areas In Development (continued)

Singapore	Singapore	Free trade zone c.
Syrian Arab Republic	1. Damascus 2. Tartous port 3. Latakia port 4. Aleppo	Free Zones
Togo	Lome	Free Zone
Uruguay	1. Colonia 2. Nueva Palmira	Free Zones
Venezuela	Estado Nueva Esparta Margarita Island	Free Zone
Yemen	Aden	Free Port
Yugoslavia	1. Belgrade 2. Koper 3. Novi Sad 4. Rijeka 5. Split	Free Zones

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SOURCE: UNCTAD Paper TD/B/C. 2/125



At a recent UNIDO Working Group on Industrial Free Zones held in Barranquilla, Colombia in October, 1974, attention was given to the determination of appropriate definitions for the various terms in use such as free zone, export estates, export processing zones, etc. No consensus was achieved, except that the word export seemed to be common to all. In our understanding and for the benefit of the reader, we would define the following 3 significant types of zones as distinct from each other.

- 2.1.1. Commercial Free Zone. A zone established primarily to permit trans-shipment, de-stuffing and re-packaging of containers, bulk breaking, storage and warehousing operations outside of any customs or import barriers.
- 2.1.2. Export Processing Zone. A zone established primarily to permit the manufacture of products for export based on imported raw materials and semi-manufacturers outside of any customs or import barriers.
- 2.1.3. Free Ports. A Zone designated as a commercial area in which goods can be imported, warehoused, sold and re-exported without the application of any customs or import duties.

## 2.2. Major Examples of Free Zones.

Having identified the above basic definitions it is appropriate to examine some other zones in the world especially those in the Caribbean region to provide an understanding of the services they offer, and the competition which they impose on the Kingston Export Trade Zone.

### 2.2.1. The Shannon Free Airport, Ireland.

The Shannon Free Airport Development Co. was the first organization to establish, in 1958, a free processing zone almost entirely for exports. From a very small start, it has grown to the present industrial complex of some 50 firms employing 8,000 persons and representing an estimated total investment of \$66 million. 60 per cent of the firms are foreign investors and 40 percent domestic. Total exports from Shannon amounted in 1974 to \$103 million and represented 13% percent of Ireland's total exports of manufactured goods. 98% of all goods manufactured in the zone are intended for export markets.

In the development of the export processing zone at Shannon, the Irish Government provided new legislation not only to provide for customs free operation of the zone, but to offer to manufacturers freedom from tax

on export profits for a period of 25 years from 1958. This has now been extended to the year 1990 with a termination of such tax relief proposed for April, 1990. It must also be noted that such legislation applies now not only to manufacturing activities, but also to Commercial and trading activities. The following is quoted from the Company's promotional brochure entitled Ireland Mid-West:

" At Shannon Airport, special legislation provides that profits arising from export business are completely exempt from income Tax and Corporations Profits Tax until 1990. Apart from the manufacture or handling of physical products, commercial and trading companies undertaking work at Shannon for overseas markets may also qualify for this tax concession. For example, the Free Trade Zone may be used as a location for international headquarter-type operations.

It also applies to the profits of a company undertaking design and planning services in Ireland in connection with specified engineering work executed abroad. "

In a paper given by the Chairman of the Shannon Free Airport Development Co.Ltd. to a UNIDO Working Group in Panama City in September, 1974, the following figures were identified as economic benefits of the Zone in 1973.

Table 2.3

1973 ECONOMIC BENEFITS - SHANNON

	<u>\$ Million</u>
Total Exports	103
Total Imports	<u>51</u>
Net value added at Shannon	52
Made up of	
Salaries/Wages	22
Services & Local Purchases	13
Profits/Stock appreciation	17
	*****

UNIDO Ref. ID/WG. 185/1      June 24, 1974

2.2.2. Colon Free Trade Zone, Panama

The Colon Free Zone, which began operations, in 1953, is situated at the Caribbean entrance to the Panama Canal. It has an exceptional strategic position at the junction of major shipping and air routes. In addition, it has access to short-range coastal shipping serving the Caribbean, Central America and the northern countries of South America. The zone is served by deep water facilities about one-half mile away in the port of Cristobal. The Colon Free Zone also is served by Tocumen International Airport at about 50 miles from Colon, with which it is linked by highway. Tocumen Airport is authorized to serve as a duty free depot for air cargo to and from the Colon Free Zone. (Tocumen is also developing an entirely new export oriented industrial free zone). The zone is located currently on 50 hectares of land and contains installations for the warehousing and processing of almost every kind of goods. Firms may enter into contracts for the lease of "typical" buildings for periods of 1 to 20 years, or may have buildings constructed to meet their own specifications, after entering into a contract with the administration authority. They may also construct their own warehouses or plants on land leased from the free trade zone.

Goods of any origin, including machinery and raw materials, may enter the zone without payment of customs duties or taxes of any kind. Generally, merchandise leaving the zone may be consumed in the Canal Zone, trans-shipped, or exported to a foreign country free of duties or taxes. The only exceptions are products of Panama subject to export duties, or products manufactured within the free zone which contain Panamanian raw materials usually subject to export duties. Goods passing into the customs territory of Panama from the Free Zone are subject to the same customs regulations duties and fees, as products coming from a foreign country.

With the exception of income and social security taxes, commercial operations carried on in the Free Zone are exempt from national, municipal or local community taxes, fees or dues. Firms in the zone engaged in re-exporting goods to another country are exempt from 90 percent of the regular Panamanian income tax with respect to income derived from sales of merchandise re-exported from the Free Zone to countries other than Panama. Manufacturing operations established within the Colon Free Zone, may also qualify for income tax exemption and other fiscal incentives under Panamanian investment law.

Because of its geographic position at the junction of major shipping and air routes, the Colon Free Zone functions primarily as a transfer, warehousing, packing and regional sales center for Central America and the Caribbean. Because of the many ships passing Colon, it is easy to ship goods in bulk by sea from most places in the world. At the free zone, these goods are stored, orders are taken from the various markets and are made up into smaller shipments, which are then sent on short notice, essentially by regular air freight services from Panama, and also by coastal

shipping services. Companies using these facilities include many multinational concerns such as Coca-Cola, Pfizer, Goodyear, Kodak, Parker Pen, Ronson, Singer, Gillette, Crown (Japan) and Ericsson (Sweden).

The main advantages of operating at Colon to such companies are:-

- the total Inventory needed to serve the various different national markets is far less than if each had its own local store. The freight costs are less than if firms used the alternative approach of air freighting from a central warehouse in their home country. The total cost using Colon is less than either of these alternative methods, while still providing fast delivery to all their Central American customers.
- labour rates for packing, labelling and manufacturing are lower in Colon than in their home base factories in U.S.A., Europe or Japan
- profits on the operation attract very low rates of tax.

Manufacturing activities as such, are limited at Colon. Of the 187 firms established, there are only a few companies which are operating as manufacturers including a textile factory, a printing and binding plant and a pharmaceutical factory. It can therefore be said that the Colon Free Zone is essentially of a commercial nature. The total value of imports and exports handled by the Zone in 1971 was of the order of B/473 million, out of which exports accounted for B/256 millions and imports for B/217 million. The Colon Free Zone employs some 5,000 persons offering direct employment mostly to unskilled and semi-skilled labour.

### 2.2.3. La Romana Industrial Free Zone, Dominican Republic.

This Zone is located in La Romana, a small city on the Southern coast of the Republic with both port and airport facilities, although directly contiguous to neither. The port, located a few kilometres from the zone, has a 700 foot wharf capable of serving ships of up to 15,000 tons dead-weight and a draft of about 32 feet. The airport has a 6000 feet, asphalt paved runway suitable for piston-engine commercial aircrafts and small jets.

Firms located in the La Romana Zone can import free of duty and excise taxes, from all sources, the great majority of materials that may be necessary for the installation of their facilities and the production of goods.

Companies chartered outside the Dominican Republic receive complete exemption on all taxes, including corporate, profit dividend, production, sales, patent and municipal. Customs service is available at the zone. Material consigned to the zone is inspected at the plant, meaning that a shipment arriving in another port of entry in the Dominican Republic may go in bond to the zone without being opened for inspection until it reaches its destination. All goods and products exported or re-shipped to foreign countries are free of duties or excise taxes. Goods shipped into the Dominican Republic, which are not manufactured elsewhere in the country, receive special customs treatment, paying only 90 percent of the normal duty. The Romana Industrial Free Zone is mainly oriented towards exports.

The industries in the zone which produce electrical appliances, sports footwear, and which melt metals or process diamonds only do intermediate operations in the total production process exporting semi-manufactured goods. But the remaining industries (textiles, tobacco and brushes) finish their products in the Free Zone. Companies settling within the Zone are granted a 10 year tax free status. Currently, close to 2,500 people are employed in the Zone. It is interesting to note that the Romana Free Zone was established in 1969 by a 30 year contract between the Dominican Government and Gulf & Western American Corp., empowering the latter to manage and operate the Zone. Operadora Zona Franca, a subsidiary of Gulf and Western, operates and administers the Zone. Gulf and Western owns and operates the Central Romana Sugar Mill, one of the largest in the world, and of course the predominant factor in the city's economy. Table 2.4 lists the firms now installed in La Romana Industrial Free Zone.

Table 2.4. INDUSTRIES INSTALLED IN LA ROMANA INDUSTRIAL FREE ZONE.

<u>Company</u>	<u>Products</u>	<u>Inst. Date.</u>
Delta Brush Mfg.Co.	Brushes for Cosmetics and Artists.	March 1 - 70
Textiles International	Men Slacks	Nov 15 - 70
Consolidated Domingo Corporation	Cigars	Aug 6 - 71
Tenna Dominicana	Radio Antennas	Sept 6 - 71
Products Electronicos del Caribe	Cables & Modules for Computers	Nov 4 - 71
Fundicion International	Metal boxes for water containers	July 1 - 72
Berkerley International Hair Goods, Inc.	Mens wigs	Dec 1 - 72
Makress, Inc.	Womens underwear	July 1 - 72
Coral Quisqueyana	Mini Transformers for T.V. Cables	Feb 16 - 73
Romana Industries	Men & Childrens Pyjamas	Apr 27 - 73
Warmana Ltd.	Womens Underwear	August - 73
Romana Athletics Ind.	Athletic Footwear	1974
National Components	Electric components	1974
Integrated Electronics International	Electric components	1974
Elizabeth Needle Craft	Womens underwear	1974
Gogi Textiles Inc.	Womens underwear	1974
Century Twenty First, Inc.	Womens underwear	1974
S.M.B.Corporations	Diamond Cutting	1974
Glasgow Industries	Electric Cables for vehicles	In process
Fabritek La Romana Inc.	Gauze, Disposable Surgical Garments	In process

2.2.4 Free Industrial and Trade Zone, Barranquilla, Colombia.

This free zone is located in the port of Barranquilla, on the Magdalena River, Colombia's principal inland waterway, at a point approximately 13 miles from the Caribbean. Barranquilla is one of the country's three leading ports, receiving both ocean traffic from abroad and river traffic from the interior, as well as a major industrial and distribution centre. It has a population close to that of Kingston.

Although the Magdalena river connects the port with the economic heartland of the country, Barranquilla also is linked by overland transportation via trunk highways to most important inland cities such as Bogota, Medellin, and Cali, and beyond to link with the road systems of Ecuador and Venezuela. Airlines also serve the city.

The free zone has a total area of about 100 hectares, of which more than one-half has been designated for the use of major industry. The remainder is reserved for warehousing and small industry. The initial area of operations is considerable smaller. Buildings for offices, warehouses or factories may be rented from the administering authority, or may be constructed by private persons or legal entities, on land leased from the administering authority.

Actual operations at Barranquilla began in 1964. With the exception of prohibited goods, all kinds of merchandise products, raw materials, etc., whether of foreign or Colombian origin, may be brought into the zone, stored there or processed without payment of customs duties, export duties or other taxes. Goods of foreign origin, if subsequently re-exported, remain free of all such duties, while goods of Colombian origin become subject to payment of export duties (if applicable), upon exportation. Goods of foreign origin may be withdrawn from the zone for consumption or use in Colombia upon procurement of an import licence and payment of customs duties and other applicable taxes. In the case of goods manufactured in the zone for use in Colombia, duties and taxes are paid only upon the imported components used. In general, any type of processing may be undertaken on goods entered into the zone. Firms operating within the zone are subject to Colombian income taxes and laws regulating industrial activity.

2.2.5. Export Processing Zones in Asia.

Any listing of major export processing zones would be incomplete without reference to several major export processing zones in Asia which have had great impact on the rapid development of industrial economies in several nations. The following listing identifies only the most significant, and eliminates all reference to industrial estates in free ports or free trade centres (such as the Jurong Industrial Estate in Singapore.)

Table 2.5. Major Asian Export Processing Zones.

<u>Country</u>		<u>Employment</u>	<u>No. of Firms</u>	<u>Investment \$ Million</u>	<u>Foreign Owned %</u>
Korea:	Masan Export Processing Zone	n/a	36	15	75
Malaysia:	Bayan Lepas Airport	3,000	14	n/a	70
Taiwan:	Kaohsiung Export Processing Zone	n/a	n/a	n/a	n/a
Phillipines:	Bataan Export Processing Zone	8,400	18	15	n/a

It is in Asia that the development of export processing zones has proceeded with the greatest effectiveness in the past 10 years. This has been due largely to the availability of low cost labour in what came to be the major producing region for electrical and electronic products, toys and other labour intensive products. As is seen from a review of Table 2.5 the percentage of foreign investment in each of the major zones is very large, and it is this foreign investment, mainly from trans national corporations, that has brought with it at the time of investment access to world markets for the products manufactured.

Probably the most significant development in the Asian export processing zones has been growth of the electronics industry and in particular, the manufacture of semi-conductors. It is estimated that in the years from 1971 to 1974 90,000 new jobs were created in Asia alone in the industry. There were in 1974, 45 firms producing semi-conductors in Asia of which 32 were American and 19 were Japanese. If it is true that the electronic industry has provided the greatest stimulus for Asian export processing zones, it is also subject to volatile market fluctuations.

Recent economic conditions have caused a severe readjustment of the immediate outlook for the semiconductor industry. Current projections for 1975 sales of the industry are that sales will be 2% only above 1974 sales, rather than the 50% sales increases experienced in 1974 and 1973. In November 1974, Motorola Semiconductor laid off 10% of its world wide production force. This will mean that the interest in new assembly locations, using low cost labour will likely be dimmed by the limited sales forecasted, although in the long run the world-wide demand will be very large. In the November 16, 1974 issue of Business Week, a forecast of world wide demand made by the industry, was reported as follows:-



Table 2.6

World Demand (Billions of dollars)

	<u>Actual Sales</u>		<u>Forecast Sales</u>	
	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Transistors/diodes	2.3	2.5	2.5	2.8
Integrated circuits	<u>1.8</u>	<u>2.3</u>	<u>2.3</u>	<u>2.7</u>
TOTAL:	4.1	4.8	4.8	5.5

To clarify more directly the role of some of these zones, it is appropriate to review the official descriptions used in the legislation or official statements that make reference to the zones.

In Kaohsiung, Taiwan the Laws and Regulations concerning Export Processing Zones defines export processing zones as "specific plots of land " demarcated for the promotion of investment, expansion of export sales and the increase of the export of products and labour, within which certain "export enterprises" are given special privileges. Export enterprises are defined in the legislation as:-

"enterprises enfranchised to engage in the manufacture, processing or assembling of export products within the export processing zones and the enterprises engaging in such activities as storage, transport, loading, unloading, packing, and repair essential to the course of production or sales operations of the enterprises engaged in the manufacture, processing, or assembling of export products within the zones."

It is significant to note that the above definition is limited by special conditions as follows:-

- " 1. That the enterprises are established with new investments;
2. That the establishment and operation of such enterprises will not adversely affect the operation of existing domestic industries also engaged in export;
3. That the raw materials, semi-finished products, or finished products of such enterprises can be easily inspected or regulated; and
4. That the operation of such enterprises during the course of manufacture or production will not endanger public safety or public health inside the export processing zones. "

The export processing zones in Taiwan are designed exclusively to maximize the economic potential to the nation apparent from exports. For this reason, the products manufactured in the zone are prohibited from being imported or sold on the Taiwan market unless they are of special need to that market, and for some specific reason cannot be manufactured within the customs territory of the country itself.

The Bataan Export Processing Zone has articulated, within the Presidential Decree (No. 66) which defined the new Export Processing Zone Authority, the following set of objectives;

- to stimulate and promote foreign commerce
- to strengthen the foreign exchange position of the economy
- to accelerate industrialization
- to overcome domestic unemployment
- to accelerate the development of the economy

Within these broad objectives, the Bataan Export Processing Zone was developed as zone for industrial processing of goods for the export market. However, as in Taiwan, in special cases sales of Zone products are permitted on the Philippine market. The following is quoted from a report to the UNIDO Regional Expert Working Group Meeting on Industrial Free Zones held in Barranquilla, Colombia in October, 1974, made by T.Q.Peña, Chairman-Administrator of the Export Processing Zone Authority of the Philippines.

It is not desirable to allow an unlimited privilege to bring goods produced in the Zone into the customs territory upon mere payment of taxes and duties thereon because

- new avenues for smuggling would be opened
- domestic industries producing similar goods would be adversely affected.
- complex administrative problems would result from the random distribution of the product of a factory into both domestic and foreign markets.

However, consistent with the objectives of the Act, Zone export enterprises shall export their entire output or production. The Authority may allow a portion of the production or output of a Zone export enterprise to enter the customs territory, subject to payment of the corresponding taxes and duties, where there is a shortage of the product in the domestic market, and where such entry will not adversely affect any domestic industry in the customs territory, subject to existing rules and regulations. This is consistent with the intent and objectives of the law.

As a matter of administrative expediency, the EPZA Board has also allowed sales in the domestic market of seconds, rejects and products of trainees."

It should be noted that customs duties and taxes are imposed on products from the Zone entering the Philippine market, but only on the original imported materials or components and only on the export of the products from the zone into the domestic market.

Table 2.7. shows the projected variety of Industries, and the employment they will generate by June 30, 1978. At that time, there are expected to be 84 firms in industrial production within the zone. It is estimated that when all these plants are fully operational, they will generate annual exports of \$250 million, fully 10% of the total exports of the Philippines.

Table 2.7                      Projected Employment in the Bataan Export Processing Zone by June 30th, 1978.

<u>Phase</u>	<u>Industry Category</u>	<u>Average No. of Employees per Company.</u>	<u>Employment.</u>
I	1. Wearing Apparel	450	13,120
	2. Handicraft	365	3,650
	3. Electronics and Electrical Products	390	2,890
	4. Chemical Products	280	1,680
	5. Light Metal Products	350	2,450
	6. Plastic Products	300	900
	7. Leather Products	425	2,047
	8. Optical Products	415	1,245
	9. Food Products	430	1,290
	Sub-Total		<u>29,272</u>
II	1. Automotive	700	2,100
	2. Metal Works	500	1,500
	3. Woodcraft	284	568
	Sub-Total		<u>4,168</u>
III	1. Textile Mills (Integrated)	1,000	3,000
	2. Machinery	1,000	3,000
	3. Shipyard	1,500	1,500
	Sub-Total		<u>7,500</u>
	TOTAL FACTORY WORKERS		<u>40,940</u>

2.2.6. Other Free Zone Facilities

The above paragraphs have described major facilities which can have a direct impact on the development of the Kingston Zone. There are however several other developments which are of special significance since they draw foreign investment seeking to manufacture for the major American market. Mention has already been made of the "Free perimeters" in Mexico, which permit the location of foreign owned manufacturers in zones 15 kilometers or less from the borders, and which absorb Mexican labour producing solely for the export market. It is generally regarded by most observers that the enterprises which have been attracted by this opportunity have been "foot loose" industries, with a minimal economic impact on the local economy and quick to move if other low labour rate areas appear.

Powerful competition for investment from American manufacturers will exist for the Kingston Zone in the proximity of Puerto Rico. The opportunity that Puerto Rico has of exporting manufactured or assembled products into the U.S.A. free of any customs duty, when coupled with the extensive tax benefits offered to new industries, gives the island a significant edge in seeking American investment capital. Puerto Rico's disadvantages lie in high construction costs and quickly rising labour rates. It also does not qualify as an ACP country under the Lomé Convention with the European Economic Community. For this reason, the products of Puerto Rican industries will not receive the favourable treatment afforded ACP country production in Europe.

Reference should also be made to recently established or developing free zones which are in the planning stage all around the Caribbean and Central America. A listing, not necessarily complete, would include;

Port-au-Prince	Haiti	( airport )
Santo Tomas	Guatemala	( port )
San Salvador	El Salvador	
Managua	Nicaragua	( airport )
Piarco	Trinidad	( airport )

It is against this background of growing competition for international investment, that a role for the Kingston Export Trade Zone must be chosen carefully.

2.3. The Development of the Zone at the Port of Kingston.

The industrial zone identified for the Free Zone at Kingston can have several economic purposes, dependent on its relationship with agencies, organizations or sectors of the Nation's economy. Because of the differing opinions held by representatives of each of these agencies or sectors, the actual definition of the purpose or function of the Zone has been difficult to identify.

2.3.1. Relationships of the Zone to the Port of Kingston.

The development of the Zone has occurred at the instigation and with the strong support of the Kingston Port Authority. It grew out of the determination of the Government to create a transshipment port in Kingston. This plan was based on the belief that Jamaica possesses a unique natural advantage by reason of its location to identify itself as a major transshipment port in the Caribbean.

The Kingston Free Zone since its conception has been a vital element in the development program of the port. The lands on which it is located are reclaimed areas necessary, primarily as the basic infrastructure of the wharf expansion undertaken for the establishment of a transshipment port. In fact, the development of the Free Zone is clearly seen by the Port Authority as an integral element in the development strategy of the port- especially the transshipment facilities.

In the Ministry paper, supporting and documenting the case for the investment in land and construction of the new container facilities, as is seen in Table 2.8 the tonnage of shipments handled by the Port of Kingston has increased over the past 10 years at an estimated average amount of 9½% per annum. If such rates of growth were to continue, tonnage in 1982 would exceed 2,500,000 tons. This projected growth when matched to the volume of freight currently passing through the Caribbean but destined for other ports in the area, suggested that major impact would be had by the creation of a transshipment port especially fitted for containerized traffic. In this regard the initial feasibility study supporting the development of the transshipment port identified as an indication of potential traffic that would be subject to attraction to a major transshipment facility, the figures identified in Table 2.9 as tonnages passing through the Panama Canal in 1972 and originated or destined for Caribbean Ports. The study estimated that the total Caribbean tonnage subject to transshipment to be annually, excluding oil, approximately 40,000,000 tons, and targets a potential 1,200,000 tons as transshipment cargo for the Kingston Port.

Table 2.8

Tonnages Passing Through the Port  
of Kingston

<u>Year</u>	<u>Tonnages</u>	<u>Percentage Increases</u>
1962	614,114	
1963	659,615	+ 7.41
1964	864,330	+ 31.03
1965	887,000	+ 2.62
1966	932,827	+ 5.17
1967	878,928	+ 6.13
1968	983,931	+ 6.26
1969	1,044,416	+ 11.82
1970	1,178,535	+ 12.84
1971	1,212,691	+ 2.90
1972	1,271,951	+ 4.89

Table 2.9.

Tonnages Passing through Panama Canal  
in 1972. Originating in, or Destined  
for Caribbean Ports.

Jamaica	726,000
Venezuela	8,166,000
Cuba	2,132,000
Colombia (E.Coast)	1,512,000
Aruba/Curacao	2,185,000
Trinidad	742,000
Puerto Rico	622,000
Haiti-Dominican Rep.	422,000
Other	<u>1,230,000</u>
	<u>17,031,000</u>
	=====

SOURCE: Ministry of Public Utilities, Communications & Transport.  
Paper 22. - April, 1973.

To provide for this projected growth in tonnage, as well as to construct within the port container handling facilities a major expansion of the port has been undertaken. This consists of the reclamation of an area of land called Gordon Cay, the deepening of the necessary channels and berths to accommodate container ships, the erection of two container cranes. Figure 2.1 on the following page shows the layout of the port of Kingston including the identification of Phase IA and IB of the transshipment port.

The transshipment port is being constructed in 2 phases. The first phase which involved the development of 4 deepwater berths of 600 ft. lengths each, the construction of 2 container cranes on an extension of the current wharfage, and the deepening of the channel in the wharf area to 40 ft. is now virtually complete. The second phase, will concern the development of similar facilities on the other side of Gordon Cay, the land for which has been recovered from the dredging of the Channel and other reclaiming activities. Having completed Phase I of this development, Kingston now offers a modern, fully capable container port. With this capability it is intended that Kingston should become a major transshipment port.

It is important to recognize that the Port Authority has envisaged the creation of a container terminal as the most central and necessary feature for the promotion of a transshipment port. In 1972, 20% of domestic cargo passing through the port was already containerized, and it was estimated by members of the shipping lines with whom the consultants met that 30% was containerized in 1974. By 1976, such specialists estimate that 60 to 65% will be containerized.

Although containers are currently handled by shipboard equipment, the erection of two diesel powered cranes in Phase IA, each with a capacity of 40 long tons is proceeding quickly. With both cranes operating the port will have an average capacity of 60 containers per hour. At the current moment 60% of all export shipments from the Port of Kingston are containerized, with virtually 100% of cargo destined for North America moving in containers, and about 50% to Europe.

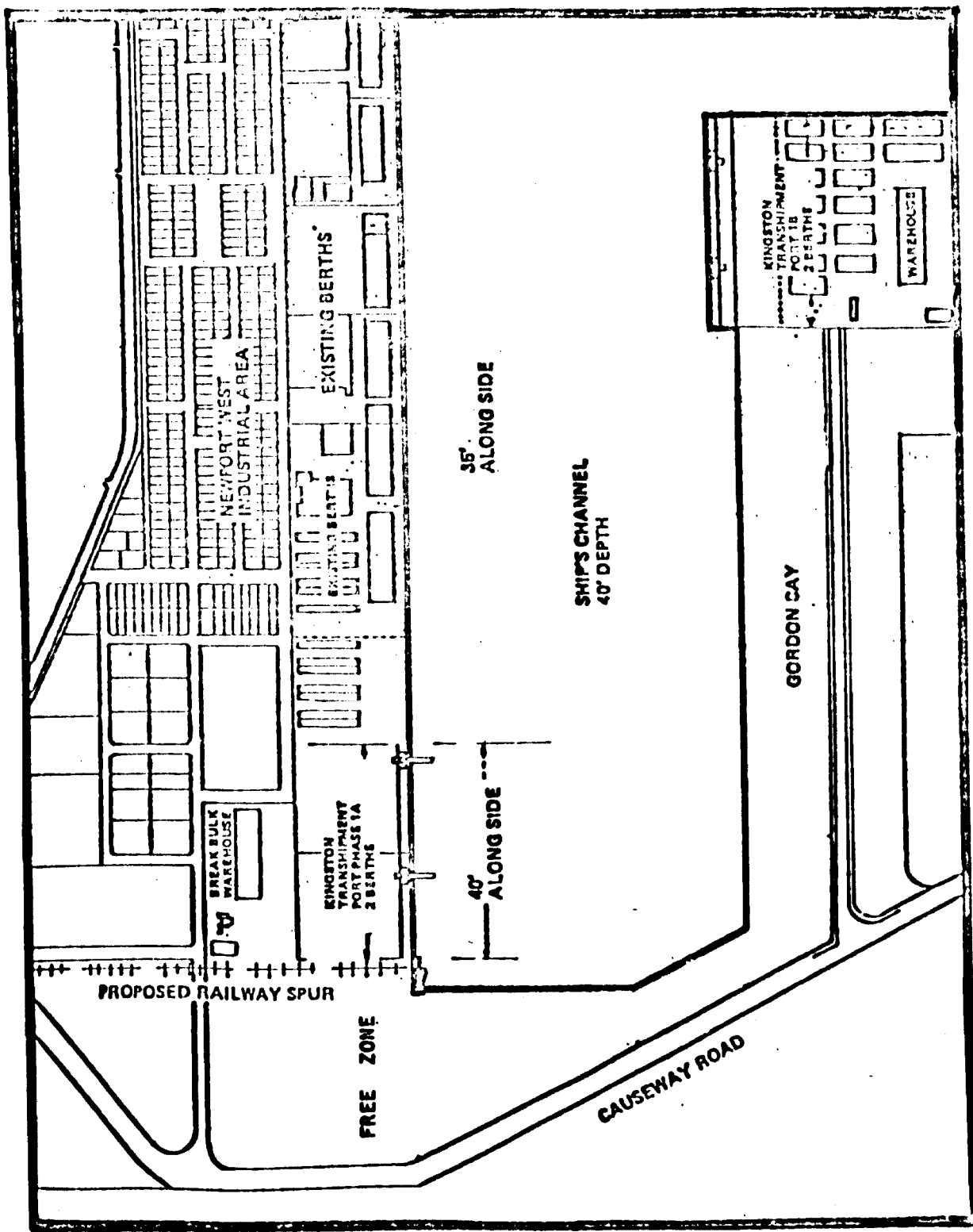


FIGURE 2.1 LAYOUT OF KINGSTON PORT & FREE ZONE



To accommodate this growing volume of containerized cargo, and also to enhance the attractiveness of the Port of Kingston as a transshipment port, additional space for break-bulk shipments and container storage was required. Also for reasons of geographical location, it was necessary to split the container facilities into two areas, one on each side of the ship's channel. (See Figure 2.1). These two needs led to the conclusion that the land between to two-berth areas, could be usefully devoted to;

- a) Container stuffing and de-stuffing
- b) Bulk Storage and warehousing
- c) Custom free manufacturing.

In the project for the Transshipment and container terminal, the entire relationship between all 3 of these purposes and the container facility itself have become intimately linked. Indeed the financial planning for the expansion of the port assumes the revenue derived in industrial and warehouse leases. The project of the Free Zone was conceived by the Port Authority, as best suited to the fulfilment of all of the above 3 purposes, and has therefore linked its development into the growth of the port itself. The Zone was not conceived as an industrial estate dedicated to export processing, but rather an ancillary function offered by the Port Authority to enhance the development of Kingston as a containerized transshipment port.

#### 2.3.2. Relationship of the Zone in the Industrial Development Objectives of Jamaica.

The concept of an export processing zone located contiguous to the Port of Kingston has found wide support amongst other agencies and government ministries concerned with the industrial development of the Jamaican economy. There has been substantial disagreement, however, with the development of the facility as a commercial free zone providing for the warehousing and distribution of imported goods ( as is predominantly the case in the Colon Free Zone.) Indeed, in some quarters the view is held that the development of a Commercial free zone is inimical to the industrial development of the nation.

The primary objectives expressed by the Jamaican National Plan for 1975 to 1980 for the development of the industrial sector can be defined as follows;

- a) to achieve a significant increase in industrial employment
- b) to increase the contribution to the national income generated by the sector
- c) to encourage the sector to contribute substantially to the nation's import capacity by
  - 1) expansion of industrial exports
  - 2) replacement of imports
  - 3) reduction of import content in goods produced.

(Further reference is made to the specific strategies proposed in the Plan in Chapter 3.) The implications of these objectives strongly support the development of an export processing zone, emphasizing labour intensive manufacturing, with maximum Jamaican content employed in the production processes.

Two other factors impinge on the development of the Zone as an export processing facility. The first is the determination of the Jamaican government to prevent the centralization of industry in the Kingston area, and to promote its location in other parts of the island thus offering employment prospects in areas other than the capital city. Obviously the provision of generous inducements for investment in the Zone would encourage industries to develop there, rather than in other parts of the nation. (Evidence of one such case arose while the consultants were in Jamaica).

The second factor lies in the relationship of Jamaica within the Caribbean Common Market. In an effort to eliminate competition among the various members of the common market for new investment, an agreement on the Harmonization of Fiscal Incentives has been reached. This provides for standard incentives to be applied by all countries at the same degree of development. For example, the following table (table 2.10) identifies the maximum number of years relief from income tax and customs duties which can be offered.

Table 2.10                      Maximum Relief from Income Tax.

Classification of an Approved Enterprise	Maximum Number of Years Relief from Income Tax and Customs Duties In respect of an approved Enterprise located in:-		
	More Developed Countries (other than Barbados)	Barbados	Less Developed Countries
Group I Enterprise	9	10	15
Group II Enterprise	7	8	12
Group III Enterprise	5	6	10
Enclave Enterprise	10	10	15

Definitions:

"Group I Enterprise" means an enterprise in respect of which the local value added is 50 per centum or more of the amount realized from the sales of an approved product;

"Group II Enterprise" means an enterprise in respect of which the local value added is 25 per centum or more but less than 50 per centum of the amount realized from the sales of an approved product;

"Group III Enterprise" means an enterprise in respect of which local value added is 10 per centum or more but less than 25 per centum of the amount realised from the sales of an approved product;

"Enclave Enterprise" means an enterprise producing exclusively for export to countries outside the Common Market;

SOURCE: Agreement of the Harmonization of Fiscal Incentives to Industry

Table 2.11.                    Income tax credits offered for export of manufactured goods.

<u>Percentage of Export Profits</u>	<u>Maximum Percentage of Income Tax Relief</u>
10% or more but less than 21%	25%
21% or more but less than 41%	35%
41% or more but less than 61%	45%
61% or more	50%

Definition Export formula:-

$$\text{Percentage factor} = \frac{E \times P}{S}$$

where: E is the proceeds from export sales for the year;

P is the profits of the enterprise from all sales of the product for the year;

and S is the proceeds of all sales for the year.

In addition, the Agreement provides for the standardization of relief from income tax liability for those established firms now being encouraged to pursue export markets actively. These are shown in Table 2.11. Exports have been carefully defined as to exclude shipments to other Caricom states, with the exception of exports from less developed to more developed member states for the first 5 years of the agreement.

The concern exists that if the Zone is bound by the Harmonization agreement it will be at a substantial disadvantage to other industrial locations outside Caricom especially in Haiti, the Dominican Republic and Puerto Rico. The opportunity of seeking to have the zone identified as outside the Caricom market completely and thus able to offer the most advantageous incentives possible has been discussed. The difficulty with this solution is that manufacturers in the Zone would not benefit on exports to the Caricom markets from the Jamaican content both in labour and raw material which they would employ.

Thus, in summary, if the Zone were to be identified as an export processing zone only it would support the 3 major objectives of Jamaica's plan for industrial development, but would run counter to the government's efforts to decentralize industry. Its focus on export processing raises the difficulty that if it is to promote backward linkages into the Jamaican economy by expanding Caribbean markets for its production, it must abide by the Caricom Harmonization Agreement on Fiscal Incentives, a factor which may place it at a disadvantage when compared to non-Caricom export processing zones.

### 2.3.3. Relationship of the Zone to Other Agencies and Organizations.

Only a brief mention will be made in this introductory chapter to the many agencies and organizations in the Jamaican economic scene which have direct interests in the development of the Zone.

#### Jamaica Industrial Development Corporation.

This corporation is charged with the promotion of industrial development on the island. As such it operates industrial estates in several locations, and is the major program delivery arm for the effort to decentralize industry. It is obvious that close and continuing relationships between the Zone and J.I.D.C. are essential. There is already evidence of Jamaican firms identifying interest in moving from Jamaica into the Zone, and on the part of one firm, building a new facility within the Zone rather than expanding his existing plant.

#### Jamaica National Export Corporation.

This organization is charged with the promotion and encouragement of the export of non-traditional products of the Jamaican economy. As such it is vitally concerned with the establishment of an export processing facility, both as a tool to promote Jamaican exports, and as a demonstration

of skills inherent in the manufacture of products for export. The tax and incentive treatment of industry located in the Zone is of major significance to J.N.E.C. since it wishes to encourage the development of an active and successful export processing zone, while not placing the existing Jamaican manufacturers now exporting at a major disadvantage.

The Collector-General of Customs, and the Director-General of Exchange Control also have significant concerns in the method of operation of the Zone, as defined by its purpose and function. The Jamaican Manufacturers Association is concerned with both the economic advantages given industry locating in the Zone, as well as with the potential competition which may result from such industries. In fact in one of the submissions made by J.M.A. regarding the planning of the Zone, the dilemma is phrased rather succinctly,

" The establishment and operation of the Free Zone area in Kingston will be in competition with similar Free Zone areas in the Hemisphere, notably Panama, and to ensure its success, bearing in mind the vast investment involved, it is necessary to make the terms and conditions as attractive as possible to operators in the Zone. Whilst we appreciate the need to attract and encourage manufacturing enterprises in the Free Zone, every precaution must be taken to ensure that existing manufacturers within the Caricom area are not placed at a disadvantage."

Another significant element in the situation in Jamaica is the existence of a substantial "in-bond" and "duty free" market for the tourist in the nation. Tourists can purchase a wide variety of consumer items, usually subject to substantial import duties, at duty-free prices. This is done at shops all over the island, and delivery is made of the merchandise to the tourist on his exit from the country. Agreement has just been reached between the Jamaican Government and the in-bond merchants involved, whereby delivery of the goods will soon be made directly to the tourist at the time of purchase. The customs authorities will undertake to confirm that the product sold duty-free, is in fact exported by undertaking examination of the tourists effects on departure.

Obviously the existence of this in-bond system depends on the maintenance of bonded warehouses in which the merchandise can be kept without payment of import duty. There will be a strong attraction for such in-bond importers to locate these warehoused goods with the Zone, particularly since the Zone will be outside of Jamaican exchange control. (This will permit these goods to be held at the expense of supplier credits thus limiting the demand on the in-bond merchants line of credit.)

In summary, although the Zone has been defined by and is the responsibility of the Port Authority, (reporting to the Minister of Public Utilities, Communications and Transport) its development is affected by and affects many other agencies both public and private. Its role must result in the best amalgam of benefits for all such organizations at the minimum cost. If a priority in functions exists, it must be the successful development of the zone itself over the long term, since only if it is successful, will the economic benefits of the Zone flow into the Jamaican economy.

### 2.3. The Recommended Role of the Kingston Export Trade Zone.

The consultants consider that the financial success of the Zone must remain the pre-eminent priority of the Port Authority, and the administering authority it establishes to operate the Zone. This priority, if accepted has implications on the financing of the Zone, as well as on the promotional program developed by the Authority to attract investment. These are identified in later portions of this report.

Of significance, however, in the implementation of this priority, is the acceptance of the role of the Zone as a mixed commercial/export processing zone. We are identifying this mixed role since we believe that the integration of the zone, within the container port now under construction, as well as the existence of a significant in-bond marketing network offer the Zone the prospect of immediate investment sufficient to accelerate the proposed pace of its development.

Significant disadvantages go with the acceptance of a mixed commercial and export processing zone. These lie mainly in area of more complicated administration within the Zone. In discussing this recommendation with Mr. P.F. Ryan, of the Export Industries Section of the Industrial Policies and Programming Division of UNIDO, he emphasized strongly that the zone not have such a dual role. In his notes on our discussion of March 12, 1975, appears the following recommendation:-

" The "Free Zone" area should be reserved where possible for manufacturing plant and associated services only. Attempts to include warehousing operations will lead to confusion especially with Customs and Excise, vehicle queues at gates, security, etc. "

In our opinion, with the establishment of defined procedures, and with a determined intent to limit the proportion of the Zone devoted to in-bond warehousing, and containers stuffing and de-stuffing, the financial and employment benefits of the commercial free zone can be reaped. Although the ideal solution would be to have the Zone occupied 100% by manufacturers, the proximity of the Zone to the Port, provides its primary advantage over other Free Zones in the Caribbean. As the Kingston Container Terminal develops and attracts more Container service from different areas

It is probable that the Free Zone will attract more companies interested in break bulk and container de-stuffing activities. Although these activities are not as labour intensive as manufacturing, they use more labour than simple warehousing operations and should be encouraged more for this reason. To the extent that Container traffic, possibly using smaller containers, can be developed between Jamaica and the other islands in the Caribbean, it will be possible to use the Free Zone as a facility for transshipment from bulk containers to smaller containers for specialized destinations. This would also involve consolidation of shipments for areas that would not normally be served by the large container shippers. Free Zone operators could put together consolidated container loads for Antigua or the Turks and Caicos Islands using cargo shipped into the zone in a number of different containers from different suppliers and possibly different parts of the world. Thus a major emphasis of the Zone will be warehousing, distribution and repackaging.

Accepting that the first priority of the Zone is to be financially sound, its most important function must be to generate employment opportunities for un-skilled and semi-skilled labour in the Kingston urban area. Thus the Zone must seek to devote the major portion of its facilities and resources to the establishment of labour intensive processing and manufacturing facilities. The location of in-bond warehousing and container distribution services should be limited to the initial areas of the zone, and should be carefully restrained so as to permit rapid development of manufacturing industries dedicated to the export market. It is in such manufacturing facilities that major employment opportunities will be created as well as significant foreign exchange earnings be obtained.

Redma thus recommends that the role of the Zone be a mixed commercial export processing zone, with emphasis and priority being identified for those industries manufacturing for export. For this reason we are recommending the adoption of the name of the Zone as the

KINGSTON EXPORT TRADE ZONE

rather than the Kingston Free Zone. In this regard, the following note reflects the opinion of Mr. Ryan of UNIDO.

" UNIDO recommends the use of the nomenclature "Export Processing Zone" and not "Free Trade Zone".

The key to this operation is export of manufactures and not import/export, warehousing, storage, transit trade, which does not generate much employment or foreign exchange."

The secondary function of the Export Trade Zone must be to encourage and develop linkages between Zone manufacturers and the Jamaican economy. One of the most significant of these will be the use of the Kingston Port and ancillary shipping, trading, financial and administrative services which exist in Kingston or will be created either in the Zone or in the surrounding area (a normal multiplier of 2.5 to 2.8 for every direct employee of an industrial estate is used by most industrial development plan). However if major emphasis can be placed on the employment of Jamaican raw materials, and semi-manufacturers in the manufacturing processes within the zone, the multiplier effects can be dramatically increased. This is accomplished both by seeking appropriate manufacturers capable of incorporating Jamaican products within their production process, and by offering special incentives for increases in the local value added. Further reference to both of these issues will be made later in the report.

The Zone must be recognized as an important component of the nation's strategy for its industrial development. Since its physical space is limited, it must be recognized as a non-renewable resource which must be carefully husbanded to insure the maximum economic benefit to the country. Care must be exercised to limit the Zone to those manufacturers and processors committed to exports from Jamaica of labour intensive manufacturers, preferably directed to the metropolitan markets of North America, Europe and Japan. Unless prospective investors in the Kingston Export Trade Zone can demonstrate a commitment to serving export markets and access to such markets they should be directed to other industrial areas on the island.

UNIDO holds the view that manufactures in Zone given any duty privileges and tax holidays must be required to export outside Caricom. In the UNIDO comments on the draft report the following statements were included. "It must be strongly emphasized that manufacturers given duty privileges and tax holidays must be required to export outside Caricom. If this is not done, it will allow any manufacturer, Jamaican or foreign, to enter the zone and sell goods both in Jamaica and Caricom.

This will result in creating both unfair competition within Jamaica, and resentment among Caricom members.

Also it will cause the zone to fill rapidly with local manufacturers in self defence, leaving no room for new foreign investments.

Put another way, there is no need whatsoever to give subsidiaries of large multinational companies (Abbot Laboratories is one case) duty and tax privileges to sell pharmaceuticals to the Jamaican market."

Redma would propose that fiscal incentives offered to manufacturers in the Zone would conform to the accepted Caricom Harmonization agreement, dependant on Caricom content, which position will enhance backward linkages in the Caricom economies. (See Pages 99 to 103)



### 3.0 THE ECONOMIC PROSPECTS FOR THE ZONE.

#### 3.1 The Jamaican Economy

The Jamaican economy depends on 3 key areas of economic activity.

- 1) the bauxite industry
- 2) the export of agricultural commodities especially sugar bananas and citrus.
- 3) the tourism industry.

Since each of these areas depends heavily on external market opportunities and world wide commodity pricing levels, and since fuel and foodstuffs remain major elements of the import ledger of the country, worldwide economic events in 1973 and 1974 had a profound impact on the Jamaican economy. The 1973 Economic and Social Survey of Jamaica issued by the National Planning Agency describes 1973 as one of "severe crisis for the Jamaican economy".

The survey continues;

" At the outset the economy seemed poised for recovery from the situation of sluggish growth and deteriorating balance of payments of the previous year, as policies designed to stimulate production while curtailing imports began to take effect. Soon, however, the economy came under the influence of greatly intensified international inflationary pressures due to major crop failures and continued monetary instability. Later in the year a second wave of inflationary shock was generated by massive escalations in the price of crude oil and petroleum products. With Jamaica's dependence on imports of food and fuel, the effects were seen in unprecedented increases in the cost of living index and in further deterioration in foreign exchange reserves."

Throughout 1973 trends in the Jamaican balance of payments were unfavourable, although exports experienced their largest growth rate since 1966. In effect, the 18% growth in the value of exports did not help a widening deficit in the balance of visible trade. The unprecedented growth in the value of imports which amounted to \$604.1 million in 1973, a 22.8% increase over the \$493.2 million inputs of 1972, led to a deficit of \$249.4 million (see Table 3.1)

Despite a lower physical volume of production from 1972 for most of the nation's major agricultural products, Jamaica's G.N.P. rose by 19.7% compared with 10.9% in 1972. There was a substantial increase in the Government's net expenditure allocations for the fiscal year 1973-74 which rose to \$471.1 million, an increase of 30% or \$108.2 million over the 1972-73 expenditure of \$362.9 million. Consumer subsidies amounting to \$4.1 million, were provided by Government in order to protect consumers from unprecedented price increases. The impact of these increases is best demonstrated by figures obtained for the consumer price indexes

In the Kingston area. The mean annual index was 171.6 for 1973, a 19.2% increase over the 1972 index of 144.0, which in turn was only a 5.9% increase over the 1971 index of 136.0, the year 1967 being 100. Associated with the sharp rise in consumer prices was the devaluation of the Jamaican dollar by 6.5% in January 1973. This decision made just prior to the U.S. dollar devaluation which followed in February 1973, resulted in an increase in the price of imports.

A study of the external trade in Jamaica for 1973 shows that price increases due to internal as well as external inflationary forces led to a paradoxical situation where the substantial increase in the value of total trade was not matched by a corresponding increase in the actual quantity of goods traded. Table 3.2 provides information on major export items like Bananas and Sugar, where a decline in quantity exported still led to an increase in value as a result of price increases. This has been further accentuated in 1974. The January 1975 price of sugar was \$712 Jamaican a ton.

However, price increases were a worldwide phenomenon and consequently the value of imports rose at a faster pace than the value of domestic exports, resulting in a greater deficit incurred in the balance of visible trade (see Table 3.1)

Jamaica's imports for 1973 were \$604.1 million, a 22.8% increase over 1972. The rise consisted mostly of a \$66.1 million increase in raw materials. This was created by the application of import restrictions imposed on consumer goods by the Government, as a necessary step to counter-balance world-wide price increases. Tables 3.3/4 further highlight the magnitude of the increases which occurred in the value of imports. Table 3.3 which expresses percentage increases in the ten basic SITC sections for imports, shows that the most outstanding relative increase took place in the commodity "Animal and vegetable oils and fats", in effect, however, the largest absolute increase was obtained in section 6 "Manufactured goods", where the 24.2% increase corresponds to an actual value of \$27.3 million.

Table 3.1.

JAMAICAN TRADE

\$ Jamaican (million )

YEAR	IMPORTS	% INCREASE	EXPORTS (F.O.B.) TOTAL	% INCREASE	BALANCE ON VISIBLE TRADE	% INCREASE
1971	459.7		283.9		-175.8	
1972	493.2	7.3	300.3	6.4	-192.9	8.7
1973	604.1	22.5	354.7	17.9	-249.4	29.6
1974	851.0	40.9	584.7	64.8	-266.3	67.7

Table 3.2.      MAJOR EXPORTS DEMONSTRATING PRICE INCREASES.

ITEM	PRICE INCREASE (per ton)		VOLUME EXPORTED (thousands of tons)		EXPORTED VALUE ( Jamaican \$ ) ( Million )	
	<u>1972</u>	<u>1973</u>	<u>1972</u>	<u>1973</u>	<u>1972</u>	<u>1973</u>
BANANAS	\$93.95	\$151.92	127.0	107.7	\$11.8	\$16.4
SUGAR	\$122.5	\$135.5	275.6	261.0	\$33.8	\$35.4

SOURCE: Jamaican Department of Statistics. (All currency is in Jamaican dollars)

Table 3.3. PERCENTAGE INCREASES IN SELECTED IMPORTS IN VALUE.

	1972/73 % Increase	1971/72 % Increase
Food	27.8	18.1
Beverages & Tobacco	4.9	10.8
Crude Materials	67.1	15.0
Mineral fuel etc	46.2	1.4
Mineral & Vegetable Oils and Fats	72.2	50.0
Chemicals	25.1	24.7
Manufactured Goods	24.2	4.1
Machinery & Transport Equipment	7.6	-3.9
Miscellaneous Manufactured Articles.	3.8	19.0
Other Goods	14.3	1333.3

Table 3.4. TOTAL VALUE OF IMPORTS OF MAJOR ITEMS.

CATEGORY	Value (\$J million)		Percentage of Total Imports.	
	1972	1973	1972	1973
Consumer Goods	165.4	171.0	33.5	28.3
Raw Materials	179.0	245.1	36.3	40.6
Capital Goods	148.2	186.5	30.1	30.8
Other	0.6	1.5	0.1	0.3
TOTAL	493.2	604.1	100	100

The cost involved in procuring sufficient raw materials for Jamaican industry affects the manufacturing sector of the economy directly. Thus a dilemma faces the Jamaican authorities. If foreign currency earnings cannot be raised significantly through exports of domestic products, much of the new investments now going forward will not be adequately used because of the prohibitive costs of raw materials and other necessary imports. Export of manufactured goods, for example, as a percentage by value of total exports declined from 16.2 per cent in 1972 to 13.9 percent in 1973.

The main reason behind the 18% growth in the value of exports during 1973 was that " Primary Products " such as bauxite and alumina rose dramatically in value. Increased earnings were more a consequence of price adjustment brought about by inflation and by the Jamaican dollar devaluation rather than increases in volume. ( Table 3.5 provides figures for export of 1971, 1972, and 1973.)

Alumina ( See Table 3.6) and Bauxite.

According to the Jamaican Department of Statistics, alumina production increased by \$29.9 million or 23.3% during 1973. The increase in world wide market demand for aluminum, associated with increased local production of alumina led to such an increase inspite of the price increases. Posted prices of aluminum on the American Metal Market listing moved from 25¢ per pound to 30¢ in December. Export earnings for 1974 from bauxite and alumina were \$401.1 million (almost a 77% increase from 1973) which resulted from a four fold increase in the price of alumina which occurred in 1974 and offset declining demand.

The value of bauxite exported in 1973 increased by \$11.0 million or 16.2%. Nevertheless, domestic production only increased by just over a million tons or 8.43% during 1973, which is below the average annual increase of 1.6 million tons during the 1968-71 period. Here again, the price increases consequent to the devaluation were responsible for the increase in the value of exports, which volume amounted to 54.33% of total production.

Bananas and Sugar ( See Table 3.2)

Because of price increases in Bananas, the value of banana exports in 1973 increased to \$16.4 million increase over 1972. The 1973 price was \$246.66 per ton, a \$69.78 above the 1972 price of \$176.88, and in January 1975 had reached \$314 per ton. The 1973 sugar crop experienced an 11% reduction in production. There were only 337,000 tons of commercial sugar produced compared with the 378,000 tons output of 1972. The value of exports still rose from \$33,737 million in 1972 to \$35,369 million in 1973.

Price increases in this commodity continued throughout 1974 and reached \$712 per ton in January, 1975. Export earnings from sugar in 1974 were \$67.1 million dollars. Now that agreement has been reached with the

Table 3.5. Total Domestic Exports from Jamaica.  
( Jamaican dollars )

	<u>1971</u>	<u>1972</u>	<u>1973</u>
Food Beverages & Tobacco	\$57,397,368	\$62,479,748	\$72,313,866
Crude materials (inedible except fuel)	180,179,553	190,842,768	229,678,335
Mineral fuels, lubricants and related materials	7,699,696	7,878,946	8,260,602
Animal & vegetable oils and fats	31.859	60.255	87.638
Chemicals	5,510,388	6,435,715	7,500.497
Manufactured Goods	4,912,466	4,988,114	6.713,173
Machinery & trans- portation equipment	746,946	1,112,400	1,658,309
Miscellaneous manu- factured articles.	10,824,804	10,225,100	9,350,408
Miscellaneous transactions	2,665	13,143	57,962
Re-exports	<u>7,501,288</u>	<u>7,681,227</u>	<u>6,978,168</u>
Total Domestic Exports	275,202,982	293,077,290	347,744,170

SOURCE: Department of Statistics, Jamaica.

Table 3.6 Production and Exports of  
Bauxite and Alumina in 1973

	Total Production ( 1000 tons )	Quantity Exported ( 1000 tons)	Value (J dollars)
Bauxite	13,386	7.273	79,500,000
Alumina	2,466	2,378	147,800,000

ACP producers, with the establishment of a base price there appears every evidence that export earnings from this commodity will return to 1973 levels. There is already evidence of a 22% reduction in rate of earnings over previous years early in 1975.

Although domestic exports increased by 18% in 1973, and by 65% (in value) in 1974, the performance is inadequate and stands out as the major threat to the future development of the Jamaican economy. The growth was the result of price increases and devaluation of the domestic currency. Unless a growth of exports in real terms can be secured, the country will face difficulties in financing the volume of imports it requires for current needs and for investment. The record export level in 1974 was the result of exceptional circumstances affecting a few traditional exports. In the field of manufactured exports for example, the country has made little progress to date toward export diversification. The domestic exports of manufactured goods although up 5.6% in value over 1972, in fact only represented 13.9% of total exports in 1973, while they amounted to 16.2% of total exports for 1972. This includes sugar which as has been the case for the past four years, accounts for more than half the total export value of the manufactured goods. Even more significant was a 31.9% decrease in the export value of "clothing". Such a decline was largely a reflection of increases in local demand. Meanwhile demand for imports has run further and further ahead of exports.

The 1973 deficit in the balance of payments (see Table 3.1) occurred entirely in the second half of the year and reflected, on the domestic side, an acceleration of credit expansion by the financial system in the second half of 1973 and, on the external side, a sluggish performance in the export and import-competing sectors and a severe deterioration in the terms of trade. There was especially a very rapid rise in import prices, particularly for food and fuel. Reflecting these developments and although imports may have declined in volume terms, the deficit on current account deteriorated. This deterioration was more than covered by a substantial improvement in the capital inflow, particularly in private capital, which, in spite of a further decline in direct investment, rose considerably because of a large increase in government-guaranteed external borrowing and the conversion of short-term commercial bank foreign liabilities into longer term debt. With this improvement in the private capital account and an increase in official foreign borrowing, the overall deficit was reduced somewhat.

As a result of this deterioration occurring at the same time and as a result of widespread rise in oil prices, in 1974 the Jamaican government introduced a group of measures, particularly relating to import, export and exchange controls.

Firstly in January 1974, exchange measures were introduced including the required repatriation of foreign assets held by Jamaicans abroad within six months from January 23, 1974; a reduction of the period for the surrender of export proceeds from six to three months from the date of shipment; a

reduction of cash gifts to nonresidents from J\$200 to J\$100 per calendar year per adult resident; and restrictions on the disposal of proceeds from sale of land, condominiums, and residential houses of foreign nonresidents.

Secondly, also in January a new revolving export credit facility was created at the Bank of Jamaica, amounting to J\$2 million with interest at 7 per cent per year and with a low minimum application of J\$5,000 (later revised to J\$1,000).

With reference to import controls, the following restrictions were introduced; specific licensing for all imports except those from CARICOM countries; a limitation on the value of total imports (c.i.f.) in 1974 to J\$645 million, with the following subceilings J\$145 million for consumer goods (including J\$5 million for private motorcars); J\$182 million for raw materials; J\$143 million for fuel, and J\$175 million for capital goods (including J\$10 million for commercial motor vehicles); a ban on imports of a number of items with a total import value of J\$7 million in 1972; and a reduction of the ratio of imported textiles to locally or CARICOM produced textiles from 2:1 to 1:1.

The import limitations as they applied to the calendar year of 1974, were revised in 1974 and in late February, 1975 they were set at a level of 6% above 1974 final restrictions. Thus for 1975, the following ceilings apply:-

Food	J\$135 million
Other Consumer Goods	J\$ 85 million (including \$10 million for motorcars)
Raw Materials	J\$ 260 million
Petroleum Products	J\$ 190 million
Capital Goods	J\$ 230 million (including \$20 million for commercial vehicles)

Finally, efforts were made to obtain higher receipts from sugar and mineral exports. Sugar exports to the U.K. market were temporarily suspended in January, and it was decided to sell more sugar to the more lucrative U.S. market. Subsequently, the price for exports under the Commonwealth Sugar Agreement for 1974 was raised in February by 36 percent to \$187 per ton. In the case of mineral exports, Jamaica met with other producing countries in March to discuss price and marketing policies, as a result of which an International Bauxite Association was established. In the same month, negotiations were started with the foreign bauxite and alumina companies operating in Jamaica regarding taxation. After no agreement was reached between the Government and the bauxite/alumina companies, the Government announced in May 1974 the introduction of a levy (retroactive to January 1, 1974) on the production of bauxite in Jamaica. This levy yielded



substantial revenue for Jamaica in 1974, but the main difficulties in the maintenance of sufficient external reserves to permit the financing of rapid development of the economy remained.

3.2. The Direction of Trade.

In 1973 and 1974, the U.S.A. remained the main trading partner of Jamaica followed respectively by the European Economic Community (including the United Kingdom) and Canada, Table 3.7 identifies the changing role of these partners in trade.

Table 3.7. Direction of Jamaican Trade.

	Imports (J\$ 1000)		Exports (J\$ 1000)		Re-Exports. (J\$ 1000)	
	1972	1973	1972	1973	1972	1973
Caricom	26,019	32,097	14,474	21,973	325	327
U.S.A.	182,045	233,263	128,078	143,015	3,494	3,124
E.E.C. (excluding U.K.)	42,573	57,891	2,485	3,623	56	39
U.K.	93,799	100,939	64,677	80,485	338	404
Canada	35,188	41,144	14,173	17,639	1,951	2,012
Japan	11,882	17,408	1,321	1,943	26	84

In order to clarify the changing relationship of these partners with Jamaica, Table 3.8 identifies the importance of these countries in percentage terms both as suppliers and as markets. It is interesting to note that the combined role of the U.K. and the E.E.C., especially when both imports and exports are considered, has changed significantly over the 5 years. The enlarged European Community has already become a major market for Jamaican exports. This fact will be further enhanced by the signature of the Lomé Convention, described in more detail further in this report.

The Caribbean Common Market is becoming a significant market for Jamaican manufacturers every year, with exports rising substantially on a year to year basis. However, the Jamaican markets consumption of imported Caricom products is rising even more quickly. In 1971, Jamaica enjoyed a trading

surplus with its Caricom partners, whereas in 1974 it appears likely that the deficit on visible trade with that area will approach J\$20 million.

Table 3.8            Directions of Jamaican Trade  
(as percentage of total)

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
<b>Exports</b>					
United States	44.8	51.5	45.0	42.1	40.9
United Kingdom	17.0	15.5	19.3	21.5	22.6
Canada	14.7	8.2	8.2	7.1	5.5
EEC (excluding U.K.)	1.9	1.3	0.7	0.8	1.1
Japan	0.2	0.3	0.5	0.4	0.5
Caricom	5.7	5.8	6.9	7.9	7.7
<b>Imports</b>					
United States	41.8	43.3	39.6	36.9	38.6
United Kingdom	20.9	19.2	19.7	19.0	16.7
Canada	9.5	9.1	7.5	7.1	6.9
EEC	7.8	8.2	9.0	8.6	10.0
Japan	2.2	2.6	2.5	2.4	2.9
Commonwealth Caribbean	1.5	1.9	2.4	5.4	5.4

SOURCE: Bank of Jamaica; and Department of Statistics.

### 3.3. Industrial Development Strategy for 1975-1980

The consultants had the opportunity to review the proposed strategy for the development of the industrial sector of the Jamaican economy for the next 3 to 5 years then in preparation under the aegis of the National Planning Agency. (The Plan places major emphasis on the years 1975-77.) The basic objectives to be pursued in the industrial sector are as follows:-

1. To seek to expand significantly industrial employment opportunities. (This is required since it is expected that agricultural employment will continue to decline, and since the mineral industry is highly capital intensive, in a time of restricted international financing and uncertain market conditions, it can not be expected to provide the quantum number of jobs imposed by the increases in population.)

2. To seek to increase the contribution to the national income made by the industrial sector. (It is proposed that major emphasis be placed on the increase of local value in the product manufactured)
3. To require the industry sector to contribute substantially to the national import capacity. (This would involve the promotion both of exports of domestic manufacturers, and of the creation of local production in replacement of imports.)
4. To seek to create complementarities within the economy. (Reference is made here to the example of seeking improvements in agricultural production which would be linked to the further development of manufacturing or processing activities.)

For each of these objectives, careful strategies are being proposed. For example, in order to achieve a dramatic impact on the supply of jobs, (Objective 1) specific attention will be directed toward the food processing, leather and footwear, textiles and garment industries in a major effort to lower the capital to labour ratio currently applied in these sectors by

- a) encouraging multi-shift operation.
- b) seeking labour intensive technology appropriate to the situation.

With reference to the second objective, one of the most important strategies will be to emphasize and promote the development of local industry, and a conscious attempt will be made to transfer capital and human resources from the distribution sector of the economy to manufacturing. The achievement of the 3rd objective is expected by the concentration of efforts in the promotion of Jamaican manufactured exports, the development of local replacements for imported products and the reduction of import content in Jamaican manufactured goods. In the effort to seek import replacements special emphasis will be placed on food, clothing textiles, consumer durables and automobiles. The 4th objective demands special application by the Government authorities, with a specific role for the Jamaica Industrial Development Corporation, to establish or to encourage the establishment of new productive units for such industries which use local raw materials, or manufacture intermediate goods for local manufacture but based on imported raw materials. Mention is made of leather products, tourist goods, decorative ceramics, wooden toys, metal casings, and fibreglass products.

The National Plan identifies a role for the Government in both existing and new industries under 3 general conditions.

- 1) In those sectors where a national need for industrialization occurs, such as the better use of agricultural resources.

- 2) In those existing sectors of the economy which play a central and crucial role in its development because of their contribution to employment, their economic impact, or their ability to generate foreign exchange.
- 3) In those areas where for reasons of market monopoly, the policy of Government is directly affected.

The Plan identifies a determination to restrain the rural to urban drift which has so affected the nation. This will be undertaken primarily by a major effort to direct both land and labour intensive industries to rural areas of the island. Specific urban growth centres outside of the Kingston urban area in Ocho Rios, Spanish Town, May Pen and Montego Bay, will be developed and industry will be directed to such areas.

A specific institutional role is described in the National Plan for the Jamaican Industrial Development Corporation. It will continue to undertake feasibility studies of likely industrial projects, encouraging both local and foreign participation in such ventures. However, it will also be expected to build, operate and where appropriate sell off to private investors plants engaged in the manufacturing sectors of;

- textiles, fabrics and garments
- leather and footwear, food processing,
- metal and metal products,
- furniture and fixtures
- paper products.

The Plan presents details on the prospects for specific sectors of Jamaican industry. For the purposes of this report only those with special reference to the Kingston Export Trade Zone are identified.

Metal Sector: Special emphasis is placed on the metal products industry, since it is proposed that this offers good opportunities for major growth. This ranges from the proposal to create a new steel mill based on imported pig or scrap, down to the development of local manufacture of;

- hand tools
- builders hardware
- metal sanitaryware
- valves, pipes and fittings.
- metal doors
- bicycles

These have been identified as industries worthy of attention since the raw material component is usually less than 70% of the ex factory cost, and where the wages of the production workers account for more than 50% of the value added in the production.

Electrical Apparatus Sector.

The Plan specifies the interest in developing local assembly of the following electrical apparatus.

- telephone, radio television and recording equipment
- electrical fixtures
- measuring, and testing instruments.

Unfortunately, there is little direct reasoning given in the Plan to support the potential for such local manufacture. In view of the rapid evolution of the product life cycle of the consumer-counter electrical products, and the relatively high cost of Jamaican labour when compared to other areas in the region, widespread local assembly appears unlikely. The prospects for the other two areas appear excellent, however.

Non-Metallic Mineral Sector.

Jamaica has considerable resources of marble, clay, talc, gypsum and limestone which although they are being exploited, are almost all being exported. For example, in 1972, 373,000 tons of gypsum were mined entirely for export. Here it is proposed that industries be encouraged to produce custom designed articles, and tourist souvenirs from local mineral resources.

Motor Vehicle Sector.

Although no assembly plant for motor vehicles is now in production on the island, the Plan projects one in operation during the 5 year period producing 2000 units per annum. One third of these vehicles will be distributed in the Caribbean region and it is expected that they will qualify for treatment in the Caribbean Common Market as products of Caribbean origin. However, to do so, the Plan envisages the creation of a major auto parts industry, expanding on the existing base, manufacturing mostly batteries. The auto parts industry both for original equipment (if the assembly plant begins) but also for the replacement market offers an excellent prospect for the Export TradeZone, over the longer term.

Chemical Sector.

The plan outlines several specific major projects for development in the petroleum, petro chemical and fertilizer areas. Of special interest to the Zone, is the emphasis to be directed to the pharmaceutical industry. Six plants are currently active in this industry, with production in 1972 in excess of J\$ 6.7 million. However, many are simple repackaging products imported in bulk, and the Plan intends to direct emphasis to the establishment of the manufacture of basic materials.

Paper Sector.

The Plan emphasizes the importance of this sector by projecting that the Jamaican market in 1980 will be consuming 409 million pounds of paper per annum. Currently only 42 million pounds of paper board or paper, and 36 million pounds of cartons are produced locally, all from imported pulp or paper board. Major emphasis is placed on a bagasse mill.

Furniture Sector.

The Plan describes this sector as offering a major opportunity for expansion, especially in export markets. The export earnings projected for the nation from this sector in 1977 is greater than J\$20 million.

Footwear, Leather and Sporting Goods.

This is another sector which the Plan proposes to emphasize because of its current size and what are considered to be excellent export prospects. The plan proposes the expansion of production toward a target of 5.9 million pairs in 1977, up 48% above 1973 production levels. Exports will be expected to reach 800,000 pairs in 1977 up a factor of 5 times over 1973 levels.

Textile and Garment Sector.

Textile production in Jamaica in 1973, was over, 7.5 million square yards, yet it supplied only 12% of the total market. The Plan envisages a major increase in the demand for textiles in Jamaica with demand in 1980 reaching

for Cotton textiles    56.5 million sq. yds  
  (almost 3 times 1972 levels)

for Synthetic textiles 45.8 million sq.yds  
  (almost 1.6 times 1972 levels)

Thus, in step with the objectives, the Plan will place a major emphasis on the addition of productive capacity for cotton textiles.

The garment industry is one of the most dynamic in the Jamaican economy, and is having good success on export markets. Over 10,000 jobs are already provided by this industry. The Plan emphasizes that new facilities are intended to be located in rural areas and offered export incentives as enclave industries.

Food Processing Sector.

The National Plan also places considerable emphasis on the food industry. It projects a doubling of demand for basic food products from 1.2 billion pounds in 1980. Most food processing facilities are expected to be created to meet local demand, rather than to supply export markets. The primary exception to this is the canned fruit and vegetable industry, whose development of major export markets has been limited by the unreliability of raw material supply.

Miscellaneous Industries.

The Plan also identifies the production of buttons, toys and games as industries which will be supported.

3.4. External Market Opportunities for Jamaican Manufacturers.

Jamaican manufacturers interested in supplying products on the export market have 4 special opportunities open to them. These are related to tariff preferences which can be obtained by such manufacturers in 4 regions of the world under specific customs regulations.

3.4.1. The Caribbean Common Market.

Significant potential exists for the Jamaican manufacturer to supply the growing demand of the Caribbean Common Market. If the Jamaican product can qualify for treatment as one of Caribbean origin, it is usually granted full access to the markets of the member countries without payment of import duties. The degree of origin is defined by the value added within the Caricom region and is defined as follows:-

"Local value added" means the amount (expressed as a percentage of total sales of the approved product) by which the amount realized from the sales of an approved product (in respect of a continuous period of twelve months) exceeds the aggregate amount of the following:-

- 1) the value of imported raw materials, components and parts of components, fuels and services;
- 2) wages and salaries paid during the period to persons who are not nationals of the Member States;
- 3) profits distributed and remitted directly or indirectly to persons (including companies) who are not resident in any Member States;
- 4) interest, management charges and other income payments accruing directly or indirectly to persons (including companies) not resident in any Member State, other than a branch or agency of banks not resident in any Member State;

- 5) depreciation of Imports of plant, machinery and equipment.

The local value added shall be weighted by the wages and salaries paid to nationals of any Member State expressed as a percentage of total sales of the approval product, according to the following formula;

$$\frac{V ( 100 + W )}{100}$$

in which V is the local value added expressed as a percentage of total sales and 'W' is the wages and salaries paid to nationals of any member state, expressed as a percentage of total sales of the approved product.

Most planning experts for the Jamaican authorities estimate that the Jamaican national market is 40% of the total CARICOM market, and therefore, if the Jamaican manufacturer can show the appropriate degree of Caribbean content, his market opportunity is doubled.

In response to this, as has already been emphasized Jamaican exports have increased by more than 50% in value terms from 1969 to 1973, with this market area now accounting for close to 8% of the nation's exports.

#### 3.4.2. North America.

Traditionally, there have been close ties between Jamaica and both Canada and the USA. This is reflected in tourism and investment as well as trade. Together, in 1973, 46.4% of Jamaica's exports went to these two countries and 45.5% of its imports came from them. The potential for expanded export markets in both countries for Jamaican manufacturers has recently been enhanced by the promulgation in Canada of a Generalized System of Preferences and by the introduction of the new U.S. Trade Act.

The Generalized System of Preferences is a scheme developed under United Nations auspices, under which several developed countries have agreed to grant certain developing countries a number of special duty concessions or preferences in respect of some types of agricultural and manufactured products from the developing countries - at least during the United Nation's "Development Decade".

The effect of the GSP is to enable the qualifying products to compete favourably or within the domestic markets of the developed countries.

Countries with GSP Schemes already operating and that are of actual or potential interest to Jamaica include Australia, Austria, Canada, the EEC (including Belgium, Netherlands, Luxembourg, West Germany, France, Italy, Ireland and the United Kingdom), Japan, New Zealand, Finland, Norway, Sweden and Switzerland.



The USA provides for such preferences in its new Trade Act.

The Canadian GSP scheme provides for the lowering of tariff rates either to the British Preferential rate or to 2/3 of the existing Most Favoured Nation rate whichever is the lower. If both BTL & MFN are the same, the rate is lowered by 1/3. This may affect Jamaican exporters to Canada currently benefiting under the British preferential tariffs since such benefit may be lost. However a study of the Canadian scheme undertaken by UNCTAD (Document TD/B/C . 5/21 March 1st, 1974) reports that countries like Jamaica now benefiting from British Preferential treatment will have these tariffs lowered on 44% of the products covered. The major emphasis of the Canadian GSP scheme is directed toward industrial products, covering virtually all dutiable imports of semi-manufactured and manufactured products from developing countries. It affects about 16% of dutiable agricultural products from these countries.

Canada applies a basic rule of origin which provides for the application of the tariff if not more than 40% of the ex-factory price of the product is of non-Jamaican or non-developing country origin. In all cases, semi-manufacturers of raw materials of Canadian origin, and packing for transportation are considered to be of Jamaican origin. Table 3.9 lists specific products chosen by the consultants which benefit under the Canadian GSP scheme. The benefit will always be a tariff at or below the British Preferential rate and in some cases duty free import is assured. It should be noted that textiles, footwear, cotton clothing, and knitted garments are among the products specifically excluded from the scheme.

The American Trade Act of 1974 provides authority to the President to extend duty-free treatment to certain eligible products imported into the U.S.A. from developing countries for a 10 year period. There are several specific elements to this designation.

- a) the developing country benefitting must be designated. 26 countries are expressly excluded and there was no clear understanding at the time of writing the report as to whether Jamaica which played a role in the formation of an International Bauxite Association might be excluded. The particular item in the bill reads as follows:-

" Section 503 (3)

In addition, the President shall not designate any country a beneficiary developing country under this section. If such country is a member of the Organization of Petroleum Exporting Countries, or a party to any other arrangement of foreign countries, and such country participates in any action pursuant to such arrangement the effect of which is to withhold supplies of vital commodity resources from international trade or to raise the price of such commodities to an

Table 3.9

Some Products Benefiting under  
Canadian GSP Scheme

Canned Meats	Lard and tallow
Cocoa past	Perfumes
Pharmaceuticals	Soaps
Glues	Glass manufacturers
Eye glasses -lens	Lead, Brass and Aluminium fabrications
Imitation Jewellery	Cigarette lighters
Watches	Refrigerators
Screws	Boats
Electric Motors	Optical Instruments
Dimension Wood	Mouldings
Wooden manufacturers	Furniture
Camera	Window shutters
Mattresses.	

unreasonable level which causes serious disruption of the world economy; "

It is presumed this will not apply to Jamaica.

- b) The products to be eligible must be imported directly from the developing country; the value added in that country must be at least a minimum percentage (35%) of the value of the article, except in those cases where the country is a member of a free trade association in which case the local content from two or more associated countries must be 50%.
- c) Articles imported from any one country are excluded if the imports of the article from that country exceed \$25 million or 50% of total U.S. imports of that article, with certain limited exceptions;

Certain products are listed as sensitive and thus not subject to GSP treatment. These include, watches, textiles and clothing already subject to textile agreements, footwear and some import sensitive semi-manufactured and manufactured glass products.

This offers real opportunities to Jamaican manufacturers both in the Zone and elsewhere in the nation to manufacture products for the large American market. It is important to remember that this market is not a homogenous, country-wide market of 230 million consumers. It is, rather, a grouping within one customs barrier of many smaller markets designated according to consumer preferences, climate, ethnic background and life style. The Jamaican manufacturer should not be deterred from a marketing effort in North America because of its size, but rather he should concentrate on markets appropriate to his manufacturing capacity whose consumers would appreciate the sales appeal of his product.

In dealing with the U.S. market it is important to identify items 806.30 and 807.00 of the U.S. Tariff schedules which provide for goods exported from the U.S.A. abroad for processing and then returned to the United States to be subject to duty only on the value added abroad. Although similar provisions exist in other countries, the importance of American multi-national companies in the production of hand assembled products has led to the use of this provision to undertake to manufacture and assemble abroad, in many cases in Export Processing Zones. This has provided one of the newest economic advantages for the industrial promotion of the developing world. A recent UNIDO paper, prepared by Mr. Tanaka Acting Chief of the Export Industries Section, the following description of the impact of this activity was made:-

"When observing the situation of industrial production in the developed countries an undeniable trend is taking place, namely the trend of "production transfer" or "transplantation" is slowly but steadily expanding. The manufacturers in the developed countries are finding it more and more difficult to continue their production activities in their home countries.

The rise in cost of living, as well as the inflationary development of the economic conditions effecting such aspects as higher labour, raw material and transportation costs, in addition to the increasing difficulties in securing the needed labour forces, are forcing the entrepreneurs to search for other venues and means to maintain their production activities. Large scaled international concerns have already put these considerations into practice by creating new production units outside of the home country in the form of local production, to cover the demands of their existing foreign export markets."

in some cases this "production transfer" is occurring by the contracting of individual production facilities in the developing country to assemble or produce to the demand of marketing organization. The subcontracting operation is integrated into the international production and marketing network of the multi-national. Obviously, this type of operation offers considerable advantages for any country in simplifying all the market access and marketing problems. It also introduces new technology. However, it does have some negative features. Not only is such production "footloose", dependent as it is on only limited local resources, but it is also likely to tie the host country to sources of inputs and to market outlets over which it has a minimum of control. Also international firms have been known to use subcontracting, as a device to supplement their own capacity when demand pressure exists and to cutback on production in overseas plants first, during recessions.

The impact of this production undertaken abroad for goods destined for the metropolitan markets has already had significant impact in the Caribbean region. Texas Instruments, a major electronic assembly firm has opened a major facility in El Salvador and several firms have recently expanded in the Haitian market undertaking such production under sub-contracts. As an indication of the dramatic effect this production transfer has had in only one industry, the following table identifies the numbers of people employed in off shore assembly for the electronics industry of both the U.S.A. and Japan, but in Asia.

Table 3.10      Employment in Off-shore Assembly of Electronics Products

<u>Country</u>	<u>Total Numbers Employed</u>	
	<u>1971</u>	<u>1974</u>
Singapore	7,750	17,800
Malaysia	-	18,003
Korea	5,300	16,588
Taiwan	5,000	9,500
Hong Kong	5,000	8,250
Indonesia, Thailand Philippines & Mauritius	-	7,350
TOTAL	23,050 *****	77,491 *****

3.4.3. JAPAN

The Japanese Government has also provided a specialized scheme for General Preferences for products from developing countries, for which Jamaican manufacture is eligible. Japan grants preferences for all dutiable products with certain specific exceptions. For some of these exceptions, such as those listed below, no preferences are offered;

- leather clothing and accessories.
- silk fabrics
- rubber or artificial footwear.

For other exceptions, tariff reductions of 50% below most favoured nation rates are applied for products from developing countries. These include, among others;

- leather products
- clothing
- travel goods
- footwear
- wigs
- toys and dolls
- precious and semi precious stones.

Japan's GSP scheme provides for certain ceilings on imports of industrial products.

The origin criteria applied by Japan include the provision of "Donor Country Content". This provides for the case that when raw materials imported from Japan are used as inputs in the manufacture of product for export to Japan, this product is treated as being wholly produced in the beneficiary country. This encourages the transfer of production capacity to developing countries on the part of Japanese multi-national firms.

For goods which are manufactured from imported parts, they will receive this special preference treatment only if they have been substantially transformed into a different product. This usually means that the product on export must be classified under a different customs tariff heading than that which applied to the imported inputs.

3.4.4. The European Economic Community

The Community, including the United Kingdom has also been a major trading partner of Jamaica, with more than 23% of 1973 exports going to the E.E.C., and 26% of its imports coming from that area. The E.E.C. member countries have established specialized preferences under the U.N. Generalized System. In order to qualify for preferential treatment, the goods eligible for preference.

- 1.- must in general be transported directly from the exporting beneficiary country into the E.E.C. and
- 2.- must comply with the origin criteria specified for those goods by the E.E.C.

The origin criteria applied are that such products must be

- a) wholly produced  
or  
b) have undergone a sufficient working and processing in the preference receiving country.

As a general rule, working and/or processing is considered sufficient if the finished product becomes classified under a four digit heading of the BTN different from those covering any of the non-originating materials or parts used.

The claim for GSP treatment must be supported by appropriate documentary evidence as to the origin of the goods and direct consignment.

It should be noted that in some cases, such as cotton textiles and substitutes, jewellery, leather, phonograph records, furniture, certain quotas apply. Once imports have exceeded those quotas established for a member country, no further preference applies for that year in that country.

A significant new event has occurred, in the signature of the Lomé Convention with the ACP countries (including Jamaica). This Convention has provided a new comprehensive agreement between the Community and the ACP countries that will define the nature of the relationships concerning trade, industry, aid and co-operation between the two parties for at least the next five years (the duration of the renewable basic contract).

A preferential trade agreement is granted to the ACP nations by the Community. All products originating in the associate states, except for agricultural products which come under the aegis of the EEC's common agricultural policy, are allowed to be imported into the Community duty-free. In the case of the agricultural products not covered, the Community promises to make a more favourable arrangement than that provided for non-associate nations under the General Preferential System.

Although the degree of origin is not yet defined for such access, it is presumed to be similar to the G.S.P.rules.

This opens a widespread, wealthy and growing market for Jamaican manufacturers which probably offers the most exciting prospects for export growth in the next 2 or 3 years. It is also important to the rapid development of the zone that the Lomé Convention has established a specific commitment of the E.E.C. to industrial co-operation with member countries in the ACP group. The significance of this new approach to industrial co-operation will take some time to be demonstrated since it defines objectives rather than tasks. However, if achieved it will have a marked effect on investment by E.E.C. firms in developing countries, like Jamaica. It should be a major priority of the Kingston Export Trade Zone to attract the attention of the Community to the unique opportunity it represents.

(Title 3 of the Draft Lomé Convention is quoted in full on the accompanying page.)

TITLE 3 INDUSTRIAL CO-OPERATION FROM THE DRAFT CONVENTION OF LOME

Article 1. The Community and the ACP states, acknowledging the pressing need for the industrial development of the latter, agree to take all measures necessary to bring about effective industrial co-operation. Industrial co-operation between the community and the ACP state shall have the following objectives:-

- a) to promote the development and diversification of industry, in the ACP states, and to help bring about a better distribution of industry both within those countries and between them.
- b) To promote new relations in the industrial field between the community, its member states and the ACP states, in particular the establishment of new industries in the ACP states.
- c) To increase the links between industry and the other sectors of the economy, in particular agriculture.
- d) To facilitate the transfer of technology to the ACP states, and to promote the adoption of such technology to their specific conditions and needs, for example by expanding the capacity of the ACP states for research and for adaptation of technology and for training in industrial skills at all levels in these states.
- e) To promote the marketing of industrial products of the ACP states in foreign markets in order to increase their share in international trade in these products.
- f) To encourage participation of nationals of ACP states, particularly of that of small and medium size industrial firms in the industrial development of those countries.
- g) to encourage community firms to participate in the industrial development of the ACP states where those states so desire in accordance with their economic and social objectives.

to industrial co-operation with member countries in the ACP group. The significance of this new approach to industrial co-operation will take some time to be demonstrated since it defines objectives rather than tasks. However, if achieved it will have a marked effect on investment by E.E.C. firms in developing countries, like Jamaica. It should be a major priority of the Kingston Export Trade Zone to attract the attention of the Community to the unique opportunity it represents. (Title 3 of the Draft Lome Convention is quoted in full on the accompanying page.



3.5. Selected industries for the Kingston Export Trade Zone.

With the understanding that the Zone has 3 main objectives.

- 1) to generate employment
- 2) to enhance the validity of the Port of Kingston as a transshipment port
- 3) to produce major economic benefits or spinoffs to the nation.

there are two areas of investigation open in an attempt to identify prospective industry. The first lies in the search for potential investors now active, or likely to be active in the transfer of production facilities from metropolitan to developing nations. In the past, the usual occupants of export processing zones have been drawn from this group which includes

- electronic assembly
- garments
- electrical fittings
- toys
- plastic assembly
- builders hardware
- footwear

The significance of the transfer which has already taken place in the production facilities of these industries is demonstrated by an examination of Table 3.11 on the following pages showing the rapid acceleration of such manufactured exports from certain countries. Table 3.12 shows the components offering the most dramatic changes for several of these countries in the year from 1965 to 1971.

TABLE 3.11

INCREASE IN MANUFACTURED EXPORTS  
FROM UNDERDEVELOPED COUNTRIES.

	Value, Millions of U.S. \$			Annual Growth Rate
	<u>1960</u>	<u>1965</u>	<u>1971</u>	<u>1960 - 1971</u>
Brazil	23	109	424	30%
Hong Kong	434	788	2936	18%
Mexico	61	156	484	21%
Portugal	171	355	1172	19%
South Korea	5	107	873	60%
Spain	224	380	1771	21%
Taiwan	59	228	1588	35%

.....

Taken from Global Reach - Page 128  
Authors: Richard J. Barnett & Ronald E. Muller  
Publishers: Simon & Schuster, 1974.

Table 3.12.      Components of Manufactured Exports  
Exhibiting Fastest Growth from  
1965 - 1967

<u>Brazil.</u>	<u>Annual</u> <u>Growth Rate.</u>
Organic Chemicals.	36%
Plywood	125%
Precious & semi precious stones.	24%
Office Machines.	310%
Footwear	1067%
 <u>Hong Kong</u>	
Cotton Fabrics	10%
Telecommunication apparatus	56%
Travel goods	15%
Clothing	30%
Footwear	24%
Toys and Sporting Goods	32%
 <u>Mexico.</u>	
Iron & Steel	22%
Electrical Machinery	2857%
Clothing	1140%
Toys and Sporting Goods	2744%
 <u>Korea</u>	
Wood manufacturers	99%
Textile fabrics	136%
Electrical machinery	7143%
Clothing	212%
Footwear	125%

SOURCE:      Industrial Development Survey. UNIDO 1974.

The success of these production transfers has led to the metropolitan countries becoming increasingly sensitive to certain sectors in which employment in the developed country is severely curtailed due to imports from abroad. Particular reference in this regard is made to the garment and footwear exports, which are subject to quota restrictions under GSP schemes.

The other limiting factor is that often only the labour intensive stage in the production process is transferred - examples are polishing jewels for watches, assembling semi-conductors or sewing up baseballs. This means that the production facility in the developing country and the employment opportunities it generates are left completely to the vagaries of the international marketing system. This is especially noticeable at the moment in the semi-conductor industry. As was shown, overseas employment in Asia on this industry rose in 3 years by a factor of 3.4 (see Table 3.13) a truly dramatic growth rate.

The following table identifies the numbers of people employed in the assembly of electronic sub-components in low labour cost centres in Asia in 1971 and 1974.

Table 3.13

Total Numbers Employed.

<u>Country</u>	<u>1971</u>	<u>1974</u>
Singapore	7,750	17,800
Malaysia	-	18,003
Korea	5,300	16,588
Taiwan	5,000	9,500
Hong Kong	5,000	8,250
Indonesia, Thailand, Philippines & Mauritius	-	<u>7,350</u>
TOTAL	23,050	77,491

A growing area of production transfer, and one with perhaps the most extensive possibilities for Jamaica are in the clerical and bureaucratic fields, at a variety of skill levels. Jamaica, for example, already has one firm which undertakes computer card-punching, and another facility is operating at Shannon. Monthly billings, credit control and credit applications, direct mail advertising, subscription mailing list maintenance are all suitable activities for the Zone.

Recent technological developments have greatly increased the scope for such activities - telephone direct dialing, computer access facilities, electronic telecommunication of graphs and designs, and other electronic visual display equipment. It is now possible to centralize much word-processing activity and to organize it on an industrial basis with substantial economies of scale. With suitable governmental incentives to create the necessary external economies, much semiroutine office work could now be moved to a developing country, as could some higher-level information retrieval and research work. Supporting government policies would include the promotion of easy electronic communications of all kinds and the establishment of institutions to teach computer and data-processing skills at all levels - punch card operator, programmer and systems analyst.

The second area of examination which the Consultants undertook was an examination of non-traditional exports, and on the opportunities for further processing of the major primary products. If these could be enhanced in the Zone, not only would the necessary employment opportunities be created in the Zone but a significant spin-off of benefits would occur throughout the economy.

Reference has already been made to the industrial strategy of the Jamaican Government for 1975 onwards. Major products, most of which are capital intensive, have been identified to encourage the further processing of Jamaican primary products. The obvious exception to the capital intensive designation is food processing especially of tropical produce. Although the consultants would recommend that such a facility be encouraged to locate in the Zone, we recognize that structural problems inherent in the Jamaican agricultural scene limit the potential of this sector.

Table 3.14 identifies some of the major non-traditional items which are currently being exported. The consultants could not obtain accurate data on 1974 exports of these products although data is included in the Appendix consisting of printed lists produced by the Jamaican National Export Corporation for exports to Canada, the U.K. - U.S.A. and the E.E.C. shown month by month. There is a wide discrepancy between the information on these lists and the official statistics.

It is evident, however, from an examination of the capacity of existing Jamaican industry, that opportunities both on the export market and for backward linkages into the economy for the following industries exist;

- Furniture
- Clothing
- Travel goods
- Cosmetics and Toilet Preparations
- Medicinal and Pharmaceutical Products
- Toys and Sporting Goods
- Imitation Jewellery

In addition, since the Zone is located contiguous to a major port facility, there are strong reasons to support the development of a major service facility for heavy equipment and electronic data processing machines. The ability of a service and repair organization to warehouse spare parts for direct incorporation into heavy equipment (which requires shipment by sea) without import and export controls could make such a centre of major significance in the Caribbean region, for multi-national organizations serving the entire area.

Table 3.14

EXPORT OF SOME NON-TRADITIONAL

ITEMS

( in Jamaican dollars )

	<u>1972</u>	<u>1973</u>
Clothing	6,787,382	4,625,344
Furniture	225,091	640,010
Travel Goods	213,025	221,005
Electrical Machinery and appliances	961,112	1,342,639
Textiles Yarn Fabrics	875,429	1,105,512
Medicinal and Pharmaceutical Products	862,543	883,993
Cosmetics and toilet preparation	3,796,215	4,043,217
Records	881,954	854,932
Toys and Sporting Goods (excluding arms)	533,741	650,618
Articles of Jewellery and parts thereof gold, silver, others and imitation jewellery	737,922	428,297

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4.0 ORGANIZATION AND ADMINISTRATION

4.1 Relationship of the Export Trade Zone to the Port Authority of Kingston.

The consultants examination of the administrative and organizational links which now surround the planning for and operation of the Kingston Export Trade Zone, led us to the conclusion that steps should be undertaken early to establish clearly defined areas of responsibility and zones of administrative authority, for each of the partners active in the development of the Zone. Currently there are 3 elements active in the Zone development program.

4.1.1. The Port Authority, a legal corporate body of the Crown, now has sole responsibility and authority for the development of both the transshipment port and the Kingston Export Trade Zone. An examination of the Authority's duties and functions as defined in the Port Authority Law of 1959 clearly underlines the prime and major function of the Authority as "regulating" operating and improving port facilities." (See Exhibit 4.1). The law provides for the Authority to obtain financial resources from both the Consolidated Revenue Fund of the Island, provided annually, as well as from amounts the Authority is permitted to borrow itself under Government guarantee. It is through these financial provisions that both capital and operating resources for the Zone are obtained.

4.1.2. The Free Zone Promotion Council is an agency established under the aegis of the Port Authority to provide for the participation of representatives of Crown agencies, private industry, and commerce in the promotion of the Free Zone. The Terms of Reference of this Council (see Exhibit 4.2) clearly identify its role "to plan and develop a program for promoting the Kingston Free Zone!" However, since the Council was formed early in the development program of the Zone, with aggressive and active members, it has developed its own perception of its function, as a senior Advisory and Management Council for the Zone. Since three members of the Promotion Council are themselves members of the Port Authority, this perceived function is viewed as a delegation from the Authority itself.

4.1.3. The Free Zone Management staff is the third, and most recent element in this picture. This staff, now consisting of Mr. Skeffrey, the Manager of the Zone, and Mr. R. Woolery, Promotion Officer, is made up of appointments to the staff of the Port Authority, approved by that Authority, and paid from its operating budget. The administrative efficiency with which the management of the Zone operates, is most crucial to the success of the Zone. Partly because of the difference between defined and perceived roles of the Council, and partly because of the wider aspects of the function of the Port Authority itself, the management of the Zone appears likely to be restricted in its freedom of action, and subject to overlapping jurisdictions.

Evidence of the conflict exists in the resignation of the first Chairman of the Promotion Council during the time of the consultant's assignment over disagreement with the role the Council was to play.



The Kingston Export Trade Zone has an important function in the national development of Jamaica. Its success is as important for the economic development of the island, as it is for the viability of the new Transshipment facilities. Mr. Wesley A. Walnwright, Executive Chairman of the Jamaica Industrial Development Corporation in a speech to the Jamaican American Chamber in New York on October 3rd, 1974, said "The free zone development will provide facilities for light assembly and manufacturing, warehousing, bulk-breaking, re-packaging and distribution. It carries all the liberal incentives of a free zone and is expected to put Jamaica, more than ever before, in the mainstream of international industry and commerce and adds a new dimension to the country's attractiveness as a base for offshore industries". If the Zone is to fulfill these aspirations, it must be able, in both its day to day management and its future development, to adapt quickly to changing circumstances. Peter Drucker, the noted American business sociologist defines today's age as one of a "continuum of discontinuities". The only significant way of being prepared for such a continuum in a management and organizational sense, is to provide for flexibility, both in organizational design and management practice.

International practice in the administration of export processing zones, confirms the need for flexible and in most cases autonomous management of such facilities. Brendan O'Regan, Chairman of the Shannon Free Airport Development Company Limited, of the Republic of Ireland in a paper presented at a UNIDO Working Group Meeting in Panama in September, 1974 said "While it may not appear at first sight to be a necessary characteristic of an Industrial Free Zone, I see one other quality as essential for success. That is, that the Zone must be planned, managed and promoted by a State Authority or State Company which, while controlled in broad policy matters by the Government (ideally, through a part-time board of directors appointed by the Government,) must be free to act commercially, flexibly, and with all the management skills associated with manufacturing industry itself. This calls for full Government commitment, and the giving by the Government of necessary authority to be a carefully-chosen group of competent and responsible officers".

Mr. O'Regan's position is further amplified by his colleague Mr. Arthur O'Keefe who in a speech to experts on industrial free zones in Shannon in March, 1972 said "In our experience, this considerable degree of autonomy has ensured the speediest and most efficient type of administration. It is necessary that agencies responsible for the administration of an estate, should be able to function with the type of freedom and flexibility, which may not be possible in a regular government department. Day-to-day problems and decisions have to be tackled with the speed and flexibility, which we associate with a normal commercial business." This belief is not held in Ireland alone but reflects current opinions wherever successful export processing zones are operating. Mr. Teodoro Q. Pena, Chairman - Administrator, Export Processing Zone Authority in the Philippines in a paper presented for the UNIDO Working Group in Barranquilla, Columbia in October, 1974 reviewed the checkered history of the free zone concept in his country. The thrust of his study is that only when the prestige, authority and support of the President of the Philippines was thrown behind the concept, did it achieve success.

Mr. Peña says on page 90 of his paper;

" Work on development of the Zone was considerably delayed because of various deficiencies in the original enabling act - no appropriation or capital for development, no incentives for Zone enterprises, no management flexibility for the Implementors. Only the full and continuing support of the President who appreciated the economic potentials of the Export Processing Zone made it possible for the Zone Authority to pursue its development program."

With references to other processing zones or free trade zones, the following is noted.

Baranquilla.

The Free Industrial and Commercial Zone at Baranquilla is a non-profit, autonomous public establishment. It is administered by a Board of Directors and a Manager subject to the supervision and control of the Comptroller General of the Republic of Colombia.

Colon.

The free trade zone operates as an autonomous agency of the Government of Panama. It is administered by a manager appointed by the President of Panama and board of directors comprised mainly of businessmen active in Panama.

The key adjectives used to describe the management of successful export processing zones are thus "autonomous" and "flexible". In our opinion, there are special factors in the Jamaican situation which further support the idea of a flexible, autonomous Zone management. Some of these are as follows:-

1. The financial management of the zone over a 20 year period at the current proposed leasing rate will result in the Zone being in receipt of major capital or debt equity from Government for several years. Independent or semi-autonomous status would permit strict accountability.
2. The management of the Zone will be expected to eliminate blockages and to speed processing of applications of prospective investors throughout a large number of Government ministries and agencies. The chief executive and operating officer must have the authority and the opportunity to undertake such activities at the most senior levels of Government. His access to these levels is best assured through the establishment of an autonomous management agency.

3. The operating style of the Zone must be such that it ensures flexibility and inspires confidence among the pragmatic business men who will be investors in the Zone. This style of management will be achieved when the zone has administrative freedom to hire and fire, and to enter into contracts or terminate the same, without reference to the day to day impact such activities would have on the financial and administrative capabilities of another agency or authority.
4. It is apparent, that the creation of a separate agency to administer the Zone would ease the legal problems now associated with proper legislation for the granting of special tax and fiscal incentives.

The view that the Zone should be administered by an agency separate in finance and Management from the Port Authority is also supported by the UNIDO specialist Mr.P.F.Ryan in his memo to the consultants of March 12, 1975.

The support for the position that the zone Authority should only be a department of the Port Authority lies in two areas,

- 1) the saving of administrative costs by sharing of service functions
- 2) the financial commitment already undertaken by the Port Authority in the preparation of the land for the Zone.

It is evident that it will be simpler to administrate the entire transshipment and zone facility as one financial unit, then separate them under two different administrations. The financial Plan used to support the original request for the foreign loan was established on the basis that the leasing of buildings within the Zone would provide some of the cash flow necessary to finance and administer both the Zone and the Transshipment Port.

#### 4.1.4. Recommendations.

Redma would recommend in spite of the close financial linkage between the Zone and Port, the establishment of a separate, semi-autonomous agency to administer the Kingston Export Trade Zone. The Agency should be separate so as to permit immediate and direct access by the senior executives of the agency to other Jamaican government institutions on behalf of Zone interests.

It is defined as semi-autonomous because the major equity in the Zone is held by the Port Authority, and thus the Zone Agency must be subject to annual budgetary reviews by the Authority. The Agency would have the same financial powers as has the Port Authority (i.e. the ability to incur debt) but in the initial years at least these powers would be derived from the Authority and subject to its approval, at annual budget reviews.

It is apparent that this establishment would require the preparation of special legislation. The recommended information to be included in such legislation is found later in this report.

Redma recommends that a Board of Directors be established for policy direction and control of the Zone, and that it be composed of nine members. The Chairman and four other members would be appointed by the Minister of Public Utilities, Communications and Transport, two members by the Minister of Industry, Tourism and Foreign Trade, one by the Minister of Finance and one by the Jamaican Manufacturers Association. The General Manager of the Trade Zone Agency would sit as a non voting member of the Board.

Redma would recommend the appointment of three members of the Board, plus the General Manager of the Agency as an Executive Committee to provide more frequent policy direction to the activities within the Zone. The General Manager would chair this Committee whose major task should be the preparation of multi-year management and financial plans for the further development of the Zone.

Redma would recommend that the position of General Manager of the Kingston Export Trade Zone be recognized as the level of responsibility of a Permanent Secretary, and that his relationship with other government agencies and ministries be at this level.

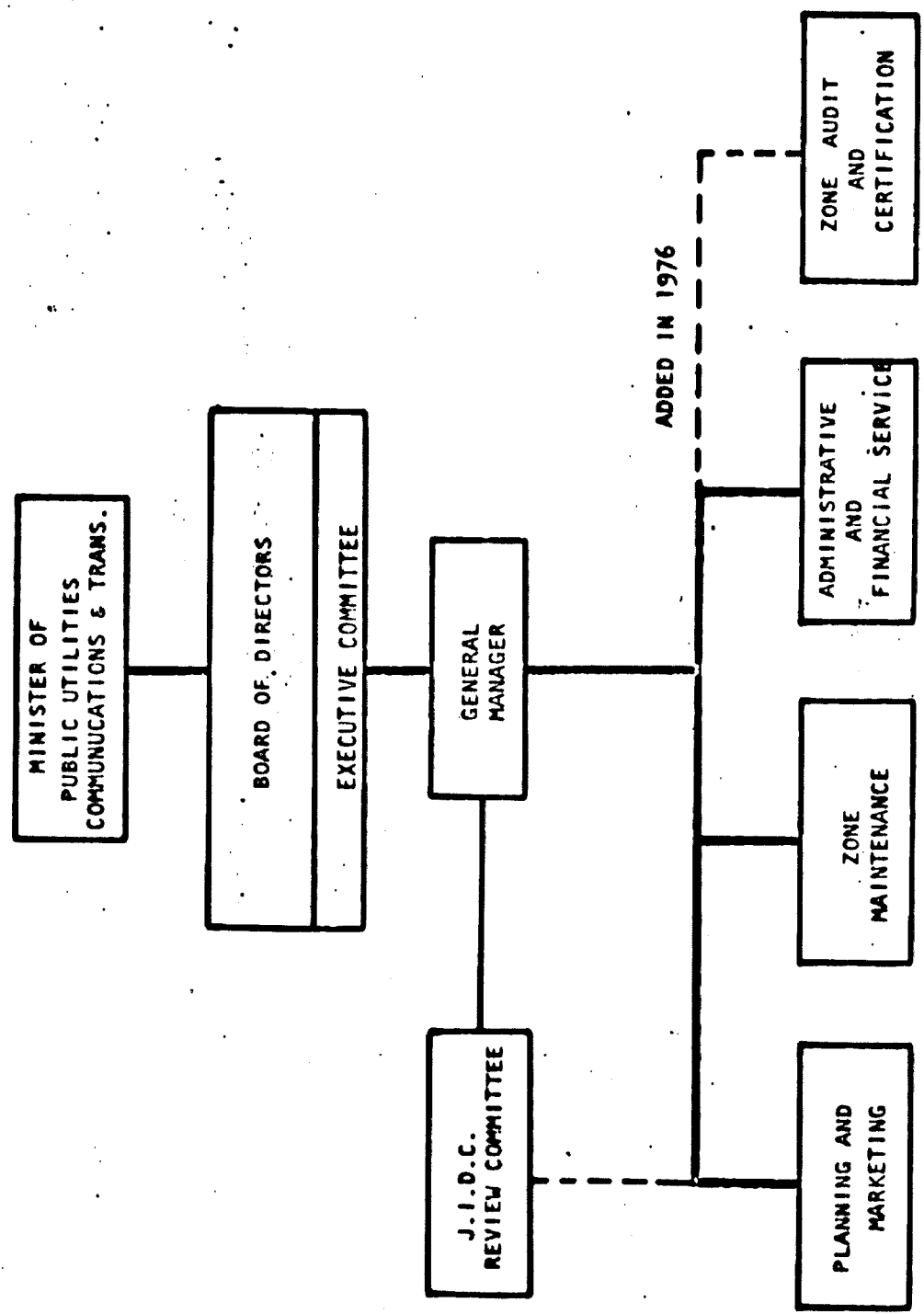
Redma would support as an interim step, while this organizational framework is being established, the identification of an Export Trade Zone Advisory Committee consisting of the General Manager of the Zone and four other individuals, two of whom would be members of the Port Authority and two of whom would be drawn from other Government ministries and agencies, most likely the JIDC and the JNEC. The General Manager of the Zone should chair this Committee, and should seek to involve the members of this Committee in the preparation of a multi-year management and financial plan for the Zone for presentation to the Port Authority and Government.

The primary task of the Free Zone Promotional Council should be confirmed quickly as promotion. Redma would recommend that this Council be asked to prepare under the guidance of the Zone management a promotional program for Europe, Canada the U.S.A. and Japan which dovetails into the promotional activities of JNEC, JIDC and the overseas activities of the Ministeries of External Affairs, Foreign Trade and Tourism. This plan should identify clearly what function each of the agencies and business enterprises represented on the council can do to support the Zone.

#### 4.2. Proposed Management Structure of the Kingston Export Trade Zone.

Figure 4 on the following page identifies in an organigram the proposed management structure Redma would recommend for the Export Trade Zone Agency. It provides for a basic initial complement of four executives and seven office staff positions, but makes provision for the addition in 1976 of an additional executive and three additional maintenance and/or clerical staff positions.

FIGURE 4.



ORGANIZATIONAL STRUCTURE

KINGSTON EXPORT TRADE ZONE

The Planning and Marketing function identified in the organigram will be concerned with the general promotion of the Zone, and with the co-ordination of special analyses of the benefits of locating in the Zone prepared for specific "targetted" industries and investors. More will be said about this function later in the report, but it will be concerned specifically with;

- 1) marketing of the Zone to industry.
- 2) planning and research to identify investors
- 3) general publicity and promotion.

The Zone Maintenance function will be concerned with the general maintenance and protection of the Zone buildings and properties and the supervision of further construction within the Zone. It will undertake also to supervise physical planning of future extensions of the Zone, working in close harmony with the Planning and marketing function which would set growth targets.

The function of the Administrative and Financial Services section would be to provide such services for the Zone Agency and to assist Zone investors in the recruitment of financial and administrative staff for their own operations. It will provide;

- 1) Internal financial & staff administration
- 2) Training and staff supply.
- 3) Labour relations counselling.

The Zone Certification and Audit function will undertake the auditing of the financial records of the investors in the zone both to ensure the adherence to Zone and Customs regulations, as well to provide certification of Jamaican labour and material content added in the manufacture and processing of goods within the Zone. This service would work most closely both with the Collector-General of Customs and the Jamaica National Export Corporation, relying on such agencies for advice and counsel.

It must be remembered that each of these functions must have a vital on-going relationship with the industrial clients in the Zone. Each Manager must recognize his major responsibility in providing swift and capable service to meet the needs of the industrialist, whether it be in labour negotiations, supply of training officers, or in the provision of trade data.

Redma would recommend that the following positions be allocated immediately and filled as quickly as possible during 1975.

General Manager	( already appointed)
Manager, Planning and Marketing	
Manager, Zone Maintenance	
Manager, Administrative and Financial Services.	
Secretary/Typist	- 3
Clerks	- 3
Office attendant	- 1

During the years 1976 and 1977, it is recommended that financial planning and budgeting for the Zone permit the employment of the following staff:-

1976 -	Manager, Audit and Zone Certification
	Clerk (1)
	Maintenance Staff (2)
1977 -	Specialist, Industrial Promotion
	Accountant
	Clerk Typist (2)

4.3. Administrative Relationships with Other Agencies.

The management of the Zone will have to establish, as it already has begun to do, close day by day working relationships with various government ministries and agencies to permit quick action on behalf of potential investors. Most of these are identified in a separate chapter of this report, but special reference should be made here to the Ministry of Industry, Trade and Tourism and the Jamaica Industrial Development Corporation. The role of the Zone is to enhance the industrial development of the nation, and every effort must be made to ensure that prospective investors in the Zone are not being syphoned off from more appropriate locations, elsewhere in the country which would fit more accurately into the new strategy for industrial growth. The Management of the Zone may find it useful to establish review committees with both of these agencies so as to integrate them clearly and logically into the full development of the Kingston Export Trade Zone.

EXHIBIT 4.1.

EXCERPTS FROM THE PORT AUTHORITY LAW  
No. 13 - 1959 - KINGSTON, JAMAICA

DUTIES OF THE PORT AUTHORITY.

- Item No. 6. It shall be the duty of the Authority,
- (a) To regulate the use of all port facilities in a port
  - (b) To provide and operate such port facilities and other facilities and other services as the Minister may require
  - (c) To recommend to the Minister from time to time such measures as the Authority consider necessary or desirable to maintain or improve the port facilities.
  - (d) To operate such facilities as may be vested in the Authority or to lease them on such terms as may be approved by the Minister.
  - (e) To maintain and improve where practicable, such port facilities as are vested in the Authority.

FINANCIAL PROVISIONS ( Part IV)

- Item No. 12. The funds and resources of the Authority shall consist of:-
- (a) Such sums as may be provided annually for the purpose in the Estimates of Revenue and Expenditure of the Island.
  - (b) sums borrowed by the Authority for the purpose of meeting any of their obligations or discharging any of their functions.
  - (c) All other sums or property which may in any manner become payable to or vested in the Authority in respect of any matter incidental to their powers and duties.

APPOINTMENT OF MEMBERS - SCHEDULE - SECTION 4.

1. The Authority shall consist of not more than 10 members to be appointed by the Minister, being persons who do not hold offices of emolument under the Crown in Jamaica and who appear to the Minister to be qualified as having had experience of and shown capacity in matters relating to industry, finance, economics, accountancy, commerce or law.



Exhibit 4.2. Terms of Reference of the Zone Promotion Council

It is the responsibility of the Port Authority of Jamaica to create, develop and promote the Kingston Free Zone which is closely inter-linked and complementary to the development of the Container/Transshipment dock facilities.

As the Port Authorities proceed to provide the physical requirements for the Zone-infrastructure, buildings, security-steps must now be taken to plan and initiate a programme of promoting the Zone to attract local and overseas interests to develop manufacturing plant, distribution centre, warehousing and other commercial activities within the Zone. This promotion must be undertaken as a national effort and it is proposed that both the Government agencies most concerned and the organized private sector interests engaged in activities that are related to the operation of a Free Zone should be primarily involved in its planning and execution.

For this purpose the Port Authority is appointing a committee to be known as the Free Zone Promotional Council. Mr. Abe Issa, C.B.E., has agreed to be Chairman of the Council. Mr. George Holness would be the other Port Authority representative - with the Chairman of the Port Authority as an Ex-Officio member.

The council will also include representatives from the Jamaica Industrial Development Corporation and nominees of the following organizations in the private sector:-

1. Jamaica Chamber of Commerce.
2. Jamaica Manufacturers Association
3. Jamaica Exporters' Association
4. Jamaica National Export Corporation
5. Airlines Association of Jamaica
6. Shipping Association of Jamaica
7. Jamaica Bankers' Association

It is expected that each participating organization will make available, for achieving the promotional objectives of the Council, the full weights and scope of its influence and such human and organizational resources as may be available to it.

Exhibit 4.2. (Cont)      TERMS OF REFERENCE.

The terms of reference of the Council will be:-

1. To plan and develop a program for promoting the Kingston Free Zone, and to make recommendations for its implementation.
2. To superintend, participate in and report on the implementation of such programme.
3. To keep the promotional programme under constant review as to its adequacy and effectiveness, and to up-date it from time to time.

In carrying out the foregoing functions the Council would be expected:-

- (a) to identify categories of industries that are traditional lead investors in Free Zones and gear the promotion to immediately attracting firms, both local and overseas, which are engaged in such industries, to the Kingston Free Zone;
- (b) to identify other categories of industries which could gain advantage from locating on the Free Zone and devise ways and means of getting them to locate there;
- (c) to evaluate as regards categories of industries and individual firms the advantages to such industries and firms in locating on the Free Zone;
- (d) to inform, interest and attract potential Free Zone investors at a rate consistent with the potential for developing the facilities.

The Council will be serviced by the Port Authority and through its Chairman and secretariat will report regularly to the Port Authority.

5.0 MARKETING AND PROMOTION PLAN FOR THE ZONE.

5.1 The Reasons for International Investment in Developing Countries.

No one active in International development needs to be reminded that the world is currently re-orienting its relationships into a new economic system. It was perhaps dramatized most clearly in the Declaration on the Establishment of a new International Economic Order adopted by the UN General Assembly on May 1, 1974.

The Impact of this Declaration and the Program of Action proposed with them on the Metropolitan countries of the world has been dramatic, not only because of the validity of the objectives, but because the developing world has recognized its own economic power, as expressed in 3 dimensions;

- a) as the source of scarce resources
- b) as the market place for products for the developed world
- c) as the source of low cost labour

The calls for a new International Economic Order are efforts to redefine new economic values, for the above 3 elements already so highly valued by manufacturers and consumers in the developed world. Table 5.1 on the following page, illustrates for example, the significance of specific mineral resources in the American economy, and the percentage supplied from developing countries.

The importance of developing countries as market places for the developed economies has always been recognized in the developed world, especially in the corporate boardrooms of the major multi-national concerns. Indeed, most of their resources within the past 10 years have been extended towards creating a "Global Supermarket" in which a bottle of Coke, a Revlon tube of lipstick, or Sony tape recorder meets the needs of any consumer in the world, be he in Zambia, Indonesia, Jamaica or Canada.

Most major investments in industrial processing made in developing countries are undertaken by firms from the metropolitan countries to establish or protect regional and national markets. A study of more than 100 leading U.S. manufacturing companies undertaken by the American Industrial Conference Board in 1966 entitled "U.S. Production Abroad and the Balance of Payments -- A survey of Corporate Investment Experience," demonstrated that marketing strategy was clearly the most dominant element in overseas investment decision. When the investor was asked what makes a "good investment opportunity", their replies invariably referred to marketing opportunities rather than anticipated rates of return. In short the aim of most of the hundred companies covered in the board's survey was to sell more rather than to earn more. If a country offered highly attractive marketing opportunities companies are prepared, up to a point, to accept difficult and restrictive investment conditions.

TABLE 5.1      PRESENT AND PROJECTED IMPORTANCE OF THE  
DEVELOPING WORLD TO THE U.S. ECONOMY  
AND ITS GLOBAL CORPORATIONS.

1. INCREASING U.S. DEPENDENCE ON IMPORTS OF STRATEGIC MATERIALS.

	% Imported from All Foreign Sources				% Imported from Developing Countries
	<u>1950</u>	<u>1970</u>	<u>1980</u>	<u>2000</u>	<u>1971</u>
Bauxite	64	85	96	98	95
Chromium	n.a.	100	100	100	25
Copper	31	17	34	56	44
Iron	8	30	55	67	32
Lead	39	31	61	67	32
Manganese	88	95	100	100	57
Nickel	94	90	88	89	71
Potassium	13	42	47	61	n.a.
Sulfur	2	15	28	52	31
Tin	77	98	100	100	94
Tungsten	37	50	87	58	37
Vanadium	24	21	32	58	40
Zinc	38	59	73	84	21

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Taken from Global Reach                      -                      Page      126  
 Authors: Richard J. Barnett and Ronald E. Muller  
 Publishers: Simon & Schuster, 1974.

In recent years, a new factor promoting investment in developing countries has appeared. In a recent book "The Multinationals" by Christopher Tugendhat, Pelican Library, the author makes the following statement;

"The main reason why most U.S. companies have expanded abroad is their desire to capture foreign markets; but in some industries the time may be approaching when companies go abroad in order to establish low cost facilities with which to supply the American market."

That this has already occurred is amply demonstrated by the following changes in the structure of global trade patterns in manufactured goods, documented in the Industrial Development Survey published by UNIDO for its Second General Conference held in Lima Peru in March, 1975.

From 1965 to 1971, these changes were identified;

1. The exports from the developing countries of all manufactured goods to the developed market economies rose from \$4.2 billion dollars in 1965 to \$8.3 billion dollars in 1971.
2. In 1971, such imports from developing countries accounted for 19.2% of all imports of manufactured goods into the developed market economies.
3. In 10 selected developing countries, exports of all manufactured goods to a selected 11 developed market economies rose from \$1.7 billion in 1965 to 4.5 billion in 1974. \*
4. In an analysis undertaken of the exports of these manufactured goods from the 10 selected developing countries, more than 60% were identified as labour intensive.

It is easily explained why production transfers to developing markets are occurring with such frequency, and why industrial production in developing countries has risen so quickly. Table 5.2 compares hourly wage rates in selected industries in developing countries with those in the U.S.A. Table 5.3 identifies average hourly earnings by industry in Canada in November, 1973, in Canadian dollars. Table 5.4 shows current hourly earnings of assembly workers in American semiconductor plants abroad.

Reference. The 10 selected developing countries were:-  
\* Hong Kong, India, Republic of Korea, Mexico, Singapore, Pakistan, Brazil, Argentina, Egypt, Iran.

The 11 selected developed market economies were:-  
Australia, Belgium, Luxembourg, Canada, Germany, France, Italy, Japan, Holland, Sweden, the U.K. and the U.S.A.

TABLE 5.2

DIFFERENTIAL HOURLY WAGE RATES \* IN SELECTED INDUSTRIES

DEVELOPING NATIONS VS. U.S.A.

	Average Hourly Rate (In US dollars)	
	Developing Nations	U.S.A.
<b>Consumer electronic products.</b>		
Hong Kong	0.27	3.13
Mexico	0.53	2.31
Taiwan	0.14	2.56
<b>Office Machine Parts.</b>		
Hong Kong	0.30	2.92
Taiwan	0.38	3.67
Mexico	0.48	2.97
<b>Semiconductors</b>		
Korea	0.33	3.32
Singapore	0.29	3.36
Jamaica	0.30	2.23
<b>Wearing Apparel</b>		
Mexico	0.53	2.29
British Honduras	0.28	2.11
Costa Rica	0.34	2.28
Honduras	0.45	2.27
Trinidad	0.40	2.49

\* Hourly wage rates for a given country and the U.S.A. are for comparable task and skill levels.

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Taken from Global Reach - Page 127  
Authors: Richard J. Barnett & Ronald E. Muller  
Publishers: Simon & Schuster, 1974.

TABLE 5.3

CANADA

AVERAGE HOURLY EARNINGS BY INDUSTRY - NOVEMBER 1973.

	<u>HOURLY EARNINGS</u> <u>DOLLARS.</u>
Mining, including milling	5.01
Manufacturing:	
Durable goods	4.28
Non-Durable goods	3.64
Construction:	
Building	6.18
Engineering	5.56
Other Industries	
Urban transit	4.84
Highway and bridge maintenance	3.43
Laundries, cleaners and pressers.	2.34
Hotels, restaurants and taverns.	2.41

All figures in Canadian Dollars.

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TABLE 5.4

AVERAGE HOURLY EARNINGS \* (excluding overtime) of ASSEMBLY  
WORKERS EMPLOYED IN U.S. SEMICONDUCTOR PLANTS IN VARIOUS CENTRES  
ALL FIGURES IN U.S. DOLLARS.

	<u>1971</u>	<u>1974</u>	<u>Increase %</u>
Hong Kong	0.28	0.60	114
Taiwan	0.14	0.40	186
Singapore	0.29	0.57	97
Korea	0.26	0.40	54
Malaysia	-	0.37	-
Philippines	-	0.20	-
Mauritius	-	0.17	-

- Sources:- (1) U.S. Tariff Commission: Economic Factors Affecting the use of Items 807.00 and 806.30 of the Tariff Schedule of the United States, Washington, 1970.  
(2) Chin-Yuan Hin: Industrialisation in Taiwan 1946-72, Praeger, 1974.

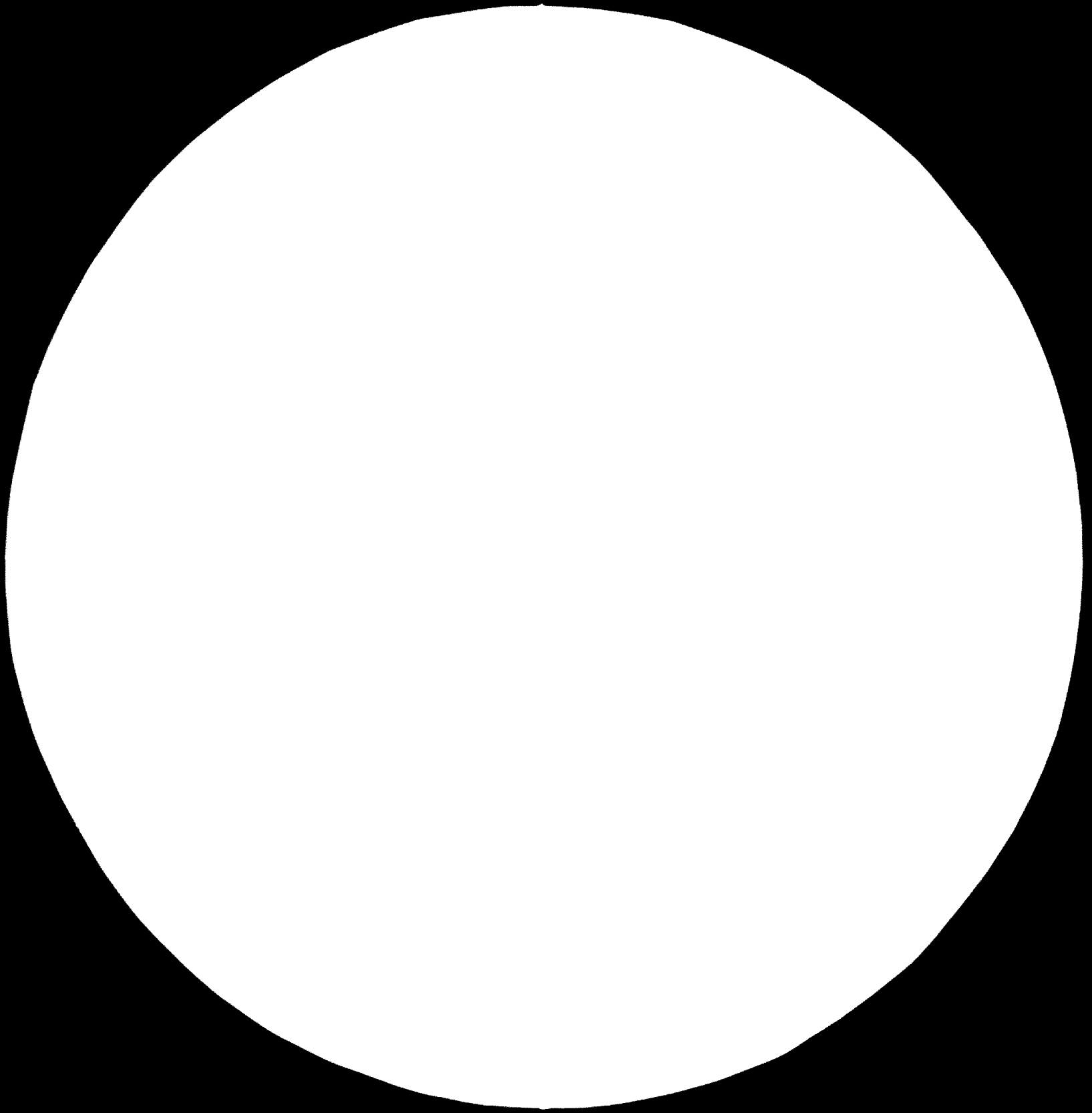
\* Includes fringe benefits.



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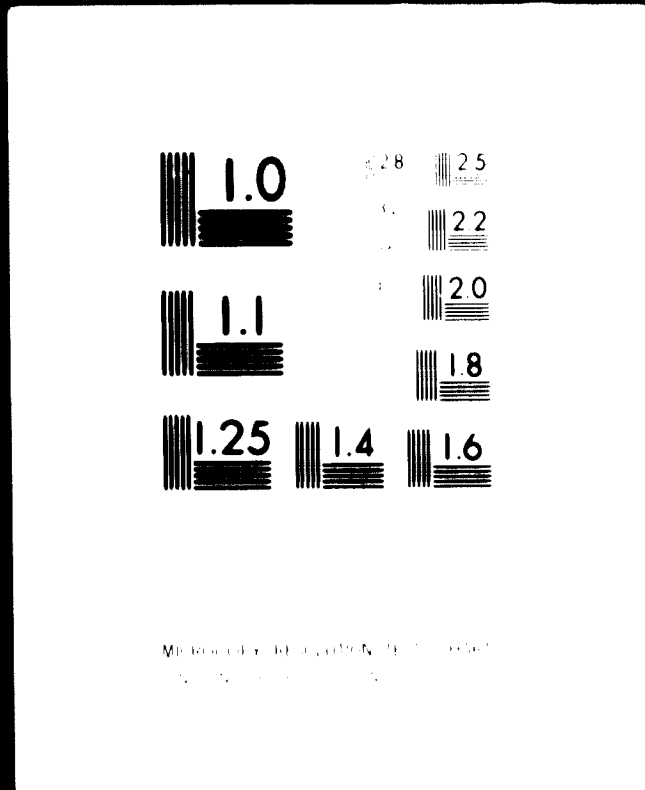


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In the consultants opinion, as was expressed in Chapter 2 of this report, the Kingston Export Trade Zone can be marketed to prospective investors as an answer to all 3 of these reasons for investment from abroad, but in the following priority:-

- First As a source of lower cost labour for production.
- Second. As a production centre for the service of a regional or hemispheric market.
- Thirdly As a location offering access to specific resources and raw materials.

Promotional material and marketing approaches should reflect these reasons and this order of priority.

## 5.2. Proposed Approach to Prospective Investors.

Experienced industrial promotion agencies active in the search for international investment for production facilities, usually identify 4 steps in the marketing process as follows:-

1. Identification of Investment features
2. Promotion of these Features
3. Selection of Prospective Investors.
4. Negotiation with the Investors.

Redma would propose that the Zone Agency establish its marketing plan with these 4 major steps.

### 5.2.1. Identification of Investment Features.

The first point that must be identified to the prospective investors are the 3 general reasons for investment, and the capability of the Zone to satisfy them.

#### 1. Lower cost labour.

Table 5.5 identifies a comparison of labour rates which was put together for a UNIDO conference in October, 1974. Although not all the figures may be completely accurate they offer a basis for comparison. Since Jamaica does not have the lowest labour rates in the region emphasis in promotional and sales material must be placed on.

- a) comparisons with comparable wage rates in the developed countries.
- b) comparisons in terms of productivity and availability of semi-skilled labour with other lower wage areas.

**TABLE 5.5. ESTIMATED WAGE AND EMPLOYMENT DATA-SELECTED COUNTRIES.**

	Minimum Hourly Wages	Fringe Costs Paid by Employer	Total Hours Labour Costs	Hours Employed Daily	Hours Employed Weekly
	(US\$)	(US\$)	(US\$)		
BELIZE	.40	.12	.52	8	5.3
CHILE	.56	.31	.87	8	5.5
COLOMBIA	.16	.03	.19	8	5.5
DOMINICAN REPUBLIC	.35	.08	.43	8	5.5
GUATEMALA	.17	.13	.30	8	5.7
HAITI	.16	-	.16	+ 8	5.5
IRELAND	1.63	.12	1.75	8	5
JAMAICA	.50	.12	.62	8	5.5
KOREA	.19	.02	.21	8	5.5
MAURITIUS	.12	.03	.15	8	5.5
MEXICO	.35	.17	.52	8	6
NETHERLANDS ANTILLES	.65	.16	.81	8	5
NICARAGUA	.31	.31	.62	8	5.5
PANAMA	.60	.06	.66	8	5.5
PHILIPPINES	.18	.02	.20	8	5
TRINIDAD AND TOBAGO	.75	.20	.95	8	5
URUGUAY	.25	.13	.38	8	5.5
VENEZUELA	.50	**	.50	+ 8	5.5

1o. - Above data collected at First International Group Meeting on Industrial Free Zones under sponsorship of United Nations Industrial Development Organization (UNIDO), at Barranquilla, Colombia, October 5-11, 1974.

2o.- It must be emphasized that wage and cost data are very imprecise estimates.

\*\* Figures not available.

2. Production or Service Centre for Regional and World Markets.

As has been explained above, Redma holds the view that most investment decisions are made on the basis of marketing strategies. For this reason, we believe it is essential that the Zone manufacturers be able to export both to the Caricom and to third countries. (To permit this will require the establishment of fiscal incentives which are in keeping with the Caricom Harmonization Agreement on Fiscal incentives. See Investment features number 10.)

It is important, however, that the description of this feature clearly identify the prospects of marketing production from this Zone to the EEC, the USA, Canada and Japan. Exports from the Zone to those markets are the primary advantage to the nation.

3. Availability of Resources.

To promote the backward linkages from the Zone into the Jamaican economy, the Zone management should emphasize those raw materials and resources currently available in Jamaica which can be utilized for the production of goods and services. Although a recitation of raw materials available in the country may be of some benefit in promotional literature, the Zone management will want to undertake specific research for likely prospective investors and their production processes.

To assist in the definition of other features to investment in the Zone, Table 5.6 has been included from a study for the Harvard Business Review, identifying a corporate rating scale used by one American manufacturer to quantify the investment climate. This scale is applied to distinguish between investment choices but after the intention to invest has already been taken. It should be noted that:-

- a) free convertibility is almost twice as important as foreign ownership restrictions.
- b) Political stability, foreign ownership restrictions, discrimination and controls, and history of inflation are all relatively equal.
- c) tariff protection, and availability of local capital are least significant.
- d) freedom from income taxes is not even shown as an item for rating.

**TABLE 5.6**  
**CORPORATE RATING SCALE FOR DETERMINING**  
**A COUNTRY'S INVESTMENT CLIMATE.**

<u>Item</u>	<u>Number of Points.</u>	
	<u>Individual subcategory</u>	<u>Range for category.</u>
<u>Capital repatriation:</u>		
No restrictions.	12	0-12
Restrictions based only on time	8	
Restrictions on capital	6	
Restrictions on capital & income	4	
Heavy restrictions	2	
No repatriation possible	0	
<u>Foreign ownership allowed:</u>		
100% allowed and welcomed	12	0-12
100% allowed, not welcomed	10	
Majority allowed	8	
50% maximum	6	
Minority only	4	
Less than 30%	2	
No foreign ownership allowed	0	
<u>Discrimination and controls,</u> <u>foreign versus domestic businesses:</u>		
Foreign treated same as local	12	0-12
Minor restrictions on foreigners, no controls.	10	
No restrictions on foreigners, some controls	8	
Restrictions and controls on foreigners	6	
Some restrictions and heavy controls on foreigners	4	
Severe restrictions and controls on foreigners	2	
Foreigners not allowed to invest	0	

Item	Individual sub category	Range for category
<u>Currency stability</u>		
Freely convertible	20	4-20
Less than 10% open/ black market differential	18	
10% to 40% open/black market differential	14	
40% to 100% open/black market differential	8	
Over 100% open/black market differential	4	
<u>Political stability:</u>		
Stable long term	12	0-12
Stable, but dependent on key person	10	
Internal factions, but governments in control	8	
Strong external and/or internal pressures that affect policies	4	
Possibility of coup(external and internal) or other radical change	2	
Instability, real possibility of coup or change	0	
<u>Willingness to grant tariff protection:</u>		
Extensive protection granted	8	2-8
Considerable protection granted, especially to new major industries	6	
Some protection granted, mainly new industries	4	
Little or no protection granted	2	
<u>Availability of local capital.</u>		
Developed capital market; open stock exchange	10	0-10
Some local capital available; spec- ulative stock market	8	
Limited capital market; some outside funds (IBRD, AID) available.	6	
Capital scarce, short term	4	
Rigid controls over capital	2	
Active capital flight unchecked	0	



<u>Item</u>	<u>Individual subcategory</u>	<u>Range for category.</u>
<u>Annual Inflation for last 5 years.</u>		
Less than 1%	14	2-14
1% - 3%	12	
3% - 7%	10	
7% - 10%	8	
10% - 15%	6	
15% - 35%	4	
Over 35%	2	
Total		8 -100

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Source: Harvard Business Review: September-October, 1969.

Taken from "The Multinationals" - pages 206, & 207.  
Author: Christopher Tugendhat.  
Published by Penguin Books, 1973

For most export processing zones, major emphasis is placed on fiscal and tax incentives designed to lower installation and operating costs for new industries. While the consultants accept these as necessary to retaining a competitive balance for the Zone with reference to other areas of location, we believe that in today's world of trans-national corporation and double taxation agreements, such offers are much less significant than is generally thought. Redma would propose that the Zone management document the following features, for the promotion of investment in the Zone, in a continuing priority from the 3 mentioned above.

4. A freely convertible currency area.
5. A stable national economic and political scene.
6. Foreign ownership encouraged but in partnership with Jamaican nationals.
7. No discrimination or business controls if the firm operates within the regulations of the Zone
8. Productive, easy to train and responsible labour available.
9. Location on major shipping routes, and proximity to the Port, and the Airport
10. Fiscal incentives.  
As has already been pointed out, Redma holds the view that access to the Caricom market, is a reason of major significance to prospective investors in the Zone. To permit investors into the Zone only if they commit themselves to exports only to third countries would be to limit the Zone's potential, and hamper its rapid development. If this is so, the fiscal incentives to be applied within the Zone would be limited to those available to Jamaica under the Harmonization Agreement.

Redma Consultants Ltd would expect that treatment of the Zone as a Caricom territory will result in strong objections within the region, even if tax incentives are only those specified in the agreement. Regardless of the claim that no incentives are being offered which are not permitted under Caricom, there is an obvious benefit from the fact that manufacturers can locate in the Zone and import their raw materials requirements on a duty free basis, and free from import controls. It is essential agreement should be reached early among members of Caricom on the treatment of Industrial Free Zones established in member countries. The Caricom market if available to manufacturers in the Zone will be a significant factor for many years.

The incentives which should be offered to Zone manufacturers are therefore, in the opinion of the consultants, as follows:-

For - 1) Export only to Third Countries:

- Relief from income taxes for 10 years
- Partial relief thereafter at 50%

2) Export to the Caricom Market;

- Relief from income taxes for from 5 to 9 years dependent on the Caricom content of the product produced, and on the level of export profits earned in exports to Third Countries. (This is in accordance with the Caricom Harmonization Agreement.)

The following table identifies the incentives available in various situations;

Table. 5.7 Maximum Percentage of Income Tax Relief for maximum period of years.

Percentage that Export profits to Third Country Markets are of all sales.	<u>Caricom Value Added</u>		
	<u>50%</u>	<u>25% - 50%</u>	<u>10% - 25%</u>
10% - 21%	25%	25%	25%
21% - 41%	35%	35%	35%
41% - 61%	45%	45%	45%
61% or more	50%	50%	50%
<b>Years of Income Tax Relief</b>	<b>9</b>	<b>7</b>	<b>5</b>

The formula used to calculate export profits is

$$\frac{E - X - P}{S}$$

where: E Is the proceeds from export sales for the year;

P Is the profits of the approved enterprise from all sales of the approved product for the year;

and S Is the proceeds of all sales for the year.

Local Value added means the amount (expressed as a percentage of total sales of the approved product) by which the amount realised from the sales of an approved product ( in respect of a continuous period of twelve months) exceeds the aggregate amount of the following:-

- (a) the value of imported raw materials, components and parts of components, fuels and services;
- (b) wages and salaries paid during the period to persons who are not nationals of Caricom States;
- (c) profits distributed and remitted directly or indirectly to persons (including companies) who are not resident in any Caricom member;
- (d) interest, management charges and other income payments accruing directly or indirectly to persons (including companies) not resident in any Caricom Member State;
- (e) depreciation of imports of plant, machinery and equipment;

This is weighted by the wages and salaries paid to nationals of Caricom countries as a total percentage of the sales by the following formula

Weighted local value added=

$$= \frac{V ( 100 + W )}{100}$$

where V is the local value added

and W is the figure for wages and salaries paid to Caricom nationals expressed as a percentage of total sales.

It should be pointed out that this should apply equally to exports from Zone manufacturers into Jamaica, as well as to other parts of the Caricom market. If any manufacturer exists however only to serve the Caricom market area he should be advised that he will not be relieved of income tax, unless some exports to third countries are undertaken. He will however, receive the general advantages available in Jamaica under general industrial incentive legislation. The Industrial Incentives Law of Jamaica provides that for an "approved" product an income tax holiday of 7 to 10 years can be given. It is recommended that this could still apply to those firms serving only the Jamaican and Caricom markets.

For non-manufacturing concerns not exporting goods or services in the Free Zone, the consultants would recommend that they be subject to the local rate of taxation on their activities. We cannot see any validity to the Zone offering tax advantages to in-bond merchants, or marketing offices of major transnational companies. The already numerous advantages of the Zone should be sufficient to attract major numbers in excess of the wishes of the Zone management to retain a balanced development.

In order to provide examples of incentive schemes applicable in other Zones, Exhibit 5.1 is taken from the booklet outlining such provisions for the Shannon Zone, and Exhibit 5.2 from a UNIDO report on the Bataan Export Processing Zone.

It should also be noted that the above recommendations are not totally in line with those recommended by Mr.P.Ryan of UNIDO. He would recommend that all investors should be encouraged:-

- To export 100% of their production.
- To export outside of the Caricom market.
- Not to sell in Jamaica, except for rejects.

He emphasized that failure to adopt such a policy leads to a situation in which foreign firms are given advantages (duty free import, tax remission) which enables them to compete and undercut local manufacturers.

11. Complete freedom of remittance of corporate profits

The Zone should be clearly identified, because of its freely convertible currency, and its limited business controls as an area offering complete freedom for the transfer in and out of corporate income. This will emphasize its validity in times of recession and ensure the maintenance of investments within the Zone.

12. Jamaica as a pleasant place to live.

Not enough emphasis in the developing countries is placed on the attractiveness of the country or city as a place to live. Industrial development promotion specialists in Europe and North America have for the past several years, emphasized as the second most important feature in any location study for a new industry, the attractiveness of the area for the family of the senior executives responsible for the firm. Jamaica can offer unique advantages in this regard.

5.2.2. Promotion of the Zone's Investment Features.

Having identified the 12 features listed above, the zone management should undertake as soon as possible a two-fold promotional program to create an awareness of the potentials offered to prospective investors in the Zone.

Redma Consultants Limited would recommend two highly successful methods:-

- a) advertising in Trade Journals.
- b) direct mail promotion to selected industrialists.

The first activity (a) will create an awareness of the Zone facility in the mind of potential investors and the second (b) will provide for a more complete promotion of all the attractions which can be offered. As an example of (a), we have enclosed copies of 3 recent advertisements placed by the Industrial Development Corporation of Barbados as well as one rather unique one drawn from the European edition of Time Magazine. You will note that all of these identify clearly the features offered by investment within their area. The general advertising program should be directed primarily to the European and Japanese markets. It should feature those basic industries identified previously in Chapter 3 as the most likely to succeed in the Zone, as well as identify the attractions most likely to reach them.

The second element of the general promotion plan should be a direct mail program, which sends to large numbers of major concerns direct information concerning the Zone and its importance to industry in the metropolitan countries. This program should concentrate on major firms in each of the 9 members of the EEC as well as a similar list of Japanese transnational corporations. 3 mailings should be designed to be mailed consecutively at 2 month intervals.

The cost of this general promotional activity has been estimated to be approximately Jamaican \$75,000 per year. This estimate includes:-

General Advertisements	
- ( 2 each in English, French German and Japanese )	\$30,000
Direct Mail Program	
- Preparation of 3 mailing pieces in each of 4 languages.	\$10,000
- 3 mailings to each of 50,000 addresses	<u>\$35,000</u>
TOTAL.	<u>\$75,000</u> *****

It is recognized that this activity will enhance the attractiveness of Jamaica as a potential site for investment in general. It is also understood that Jamaica Industrial Development Corporation offices in New York and London as well as the offices of Jamaican Trade Commissioners abroad will act as referral points for enquiries. For these reasons the consultants recommend that the cost of this promotion be shared equally, and that it be undertaken with the full collaboration of the Jamaican Industrial Development Corporation.

This program during the first 12 months of operation should concentrate on the attraction of investors from the EEC and Japan. By mid - 1976, the North America will again be in a "boom" economic condition and will warrant attention. The consultants do not envisage, however, major increases in expenditure being necessary

5.2.3. Selection of Prospective Investors.

Although the promotional activities described above are necessary, the promotion of industrial development sites is not a process undertaken with a scatter gun but rather with a rifle. The general advertising program creates an awareness of the potential benefits offered in the Zone, but a specific selection of the industries most desired within the Zone must be undertaken by the management of the Zone itself. This selection of industries requires an understanding of the economic needs of Jamaica being met by the new industry, as they are reflected in the satisfaction of those needs by specialized industries.

The consultants would recommend the following specific "Criteria for Selection" to be applied to prospective industries to see if they meet the needs of the Zone and the Jamaican economy;

- a) the creation of employment
- b) the incorporation of Jamaican semi-manufactures or materials
- c) the potential for export to countries outside the Caricom region
- d) the percentage of Jamaican ownership
- e) the length of history of the firm
- f) the stage of the life-cycle of the product to be manufactured



Exhibit 5.3 on the following page identifies the proposed application of the criteria, and the various weights which each are given in an assessment of the attractiveness of any particular industry.

Every product goes through a life cycle similar to the one shown in Exhibit 5.4. This life cycle is based on the observable fact that the sales volume of a typical product follows an S - curve such as that shown. During its introduction on the market a product usually passes through a low-volume production phase. Then it enters a period of rapid growth to reach a sales peak at maturity, and then sales gradually decline. Notice that the profit curve shows a declining rate of growth and absolute decline before corresponding sales. Of course, each product has its own particular profile but the average one follows the curve illustrated. In every case the end is the same - obsolescence and disappearance. Before this happens a product may go through a series of new life cycles.

Special marketing and production strategies are needed at each stage of a product's life cycle. For example, in the introduction stage the product is competing with old goods and, as a result, advertising may be directed mostly at informing the public about the uses and advantages of the product. When the product approaches maturity there will be competition with sellers of the same type of product, sellers of other products, and threats from new products.

Marketing mix will also vary among the different life cycle stages. For example, in the maturity stage brand advertising may be mixed with cost reduction to make the product more competitive, repackaging to give it a new competitive status, new channels of distribution to open up a new market, and other advertising which points out to consumers possible new uses for the product.

In the stage of saturation, the product is competing with new products, it is becoming obsolete, consumers may be getting "tired" of it, or it has lost its identity as a result of the expansion of private brands of distributors. These conditions suggest a much different mix of marketing strategies than noted above.

In order to retain old customers, service may be expanded, advertising may be directed more toward brand names, redesign of the product may be needed to breathe new life into it, or it may be abandoned.

Special reference should be made to the question of the stage of life-cycle in which the product to be manufactured is found. The allocation of a particular phase during the evolution of the life-cycle itself is a highly subjective decision. For example the following identifies the various stages in the product life-cycle of the television receiver:

EXHIBIT 5.3

PROPOSED CRITERIA FOR SELECTION OF INDUSTRY  
IN THE KINGSTON EXPORT TRADE ZONE.

CRITERIA:

		<u>POINTS TO BE ALLOCATED.</u>
1.	Number of new employment positions created	
	10	5
	10 - 20	10
	20 - 50	20
	50+	30
2.	Percentage of Jamaican semi-manufactures or raw materials incorporated into the product (see definition of local value added in Table 5.7)	
	10 - 25%	10
	25 - 50%	15
	50% plus	20
3.	Percentage of exports to Third countries of total sales;	
	10 - 20%	10
	21% - 40%	15
	41% - 60%	18
	Above 60%	20
4.	Percentage of Jamaican ownership	
	10 - 20%	7
	21 - 50%	8
	Above 50%	10

..../Cont.

Exhibit 5.3(Cont. )

5.	Number of years the firm has been in business	
	less than 2 years	2
	2 - 10 years	5
	More than 10 years	10
6.	The stage of the life- cycle of the product	
	Phase 1. Introduction	10
	Phase 2. Growth	9
	Phase 3. Maturity	8
	Phase 4. Saturation	6
	Phase 5. Decline	
	TOTAL POSSIBLE POINTS.	<hr/> 100

**It may seem as a shock,  
but you can  
increase profits  
by manufacturing  
your electronic components  
in Barbados.**

If electronic components are your industry, take them down to Barbados. You'll find that using Barbados as a manufacturing location can be more profitable than a location in Canada. Even when your final market is Canada.

To put what we're saying into cold figures, we compared the cost of assembling semi-conductors in Barbados and Toronto. This example will give you an idea of the kind of profits you can make in your industry.

Our model plant operates in Barbados and occupies 18,000 square feet of factory space. It uses equipment which would cost about \$1,000,000 to replace in 1973. It employs 660 persons in a "two-shift" operation and it assembles over 15 million semi-conductors, of varying sizes, per year.

Considering the various factors that involve the manufacture of semi-con-

ductors in both places, our model company would realize a *tax free* savings of more than \$3,900,000 a year over a similar Toronto based operation.

What are some of the reasons for these profits? First, the model company would be exempt from income tax for the first ten years of its venture. It would be allowed to import duty free any machinery or raw material it requires in its manufacturing process. It could rent factory space at a cost lower than Toronto. And exports to Canada would benefit from the Canadian General Preferential Tariff.

Our model company would also benefit by the Barbadian workers it employs. They're skilful, co-operative and quick to learn. And they have a literacy rate of 98%.

Get in touch with us about taking your industry down to Barbados. The better profits are no shock.

**BARBADOS INDUSTRIAL DEVELOPMENT  
CORPORATION**

Suite 1108, 11 King St., West, Toronto M5H 1A3. Tel. (416) 869-0603

Barbados Industrial Development Corporation  
1108, 11 King St. West, Toronto M5H 1A3

Barbados Industrial Development Corporation  
1108, 11 King St. West, Toronto M5H 1A3

If toys are your industry, take them down to Barbados. You'll find that using Barbados as a manufacturing location can be more profitable than a location in Canada. Even when your final market is Canada.

To put what we're saying into cold figures, we compared the cost of manufacturing toys in Barbados and Toronto. This example will give you an idea of the kind of profits you can make in your industry.

Our model plant operates in Barbados and occupies 12,000 square feet of factory space. It uses equipment which would cost about \$1,000,000 to replace in 1973. It employs 87 persons and its output is about 875,000 pieces per year.

Considering the various factors that involve the manufacture of toys in both places, our model company would realize a tax free savings of more than \$265,000

a year over a similar Toronto based operation.

What are some of the reasons for these profits? First, the model company would be exempt from income tax for the first ten years of its venture. It would be allowed to import duty free any machinery or raw material it requires in its manufacturing process. It could rent factory space at a cost lower than Toronto. And exports to Canada would benefit from the Canadian General Preferential Tariff.

Our model company would also benefit by the Barbadian workers it employs. They're skilful, co-operative and quick to learn. And they have a literacy rate of 98%.

Get in touch with us about taking your industry down to Barbados. We think we've got a proposition you'll want to play with.

## **BARBADOS INDUSTRIAL DEVELOPMENT CORPORATION**

Suite 1108, 11 King St., West, Toronto M5H 1A3. Tel (416) 869-0603

If pants are your industry, take them down to Barbados. You'll find that using Barbados as a manufacturing location can be more profitable than a location in Canada. Even when your final market is Canada.

To put what we're saying into cold figures, we compared the cost of manufacturing slacks in Barbados and Toronto. This example will give you an idea of the kind of profits you can make in your industry. Our model plant operates in Barbados and occupies 16,000 square feet of factory space. It uses machinery and equipment which would cost about \$250,000 to replace in 1973. It employs 110 persons and its output is 625,000 pairs of slacks per year.

Considering the various factors that involve the manufacture of slacks in both places, our model company would realize

a tax free savings of more than \$209,000 over a similar Toronto based operation.

What are some of the reasons for these profits? First, the model company would be exempt from income tax for the first ten years of its venture. It would be allowed to import duty free any machinery or raw material it requires in its manufacturing process. It could rent factory space at a cost lower than Toronto. And exports to Canada would benefit from the Canadian General Preferential Tariff.

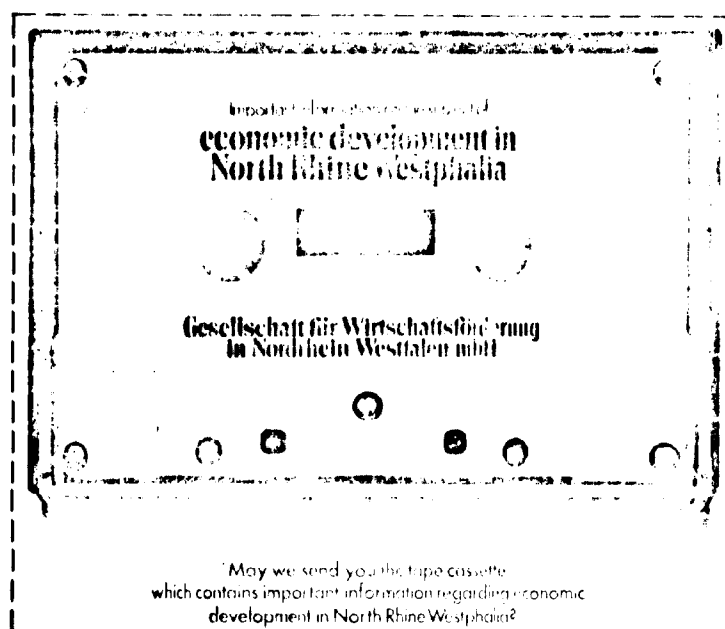
Our model company would also benefit by the Barbadian workers it employs. They're skilful, co-operative and quick to learn. And they have a literacy rate of 98%.

Get in touch with us about taking your industry down to Barbados. And it won't be long before you can pocket the profits.

## **BARBADOS INDUSTRIAL DEVELOPMENT CORPORATION**

Suite 1108, 11 King St., West, Toronto M5H 1A3. Tel. (416) 869-0603

North Rhine Westphalia Promotes Success  
**The Minister of Economic Affairs in person  
now wishes to tell you what North Rhine Westphalia can do  
for interested entrepreneurs.**



Interested entrepreneurs may now obtain detailed information on the subject of economic development and industrial settlement in North Rhine Westphalia at first hand: a tape cassette containing a personal statement by North Rhine Westphalia's Minister of Economic Affairs Dr. Horst-Ludwig Riemer.

Along with further important facts you will learn from the responsible State Minister in person which regional advantages North Rhine Westphalia offers to all industrial fields, with which measures the state promotes investment projects and in which priority regions grants from 5 to 20% of the invested sum are applicable.

You may obtain this tape cassette free of charge and postage paid from the "Gesellschaft für Wirtschaftsförderung in Nordrhein-Westfalen", an instrument of the state which gives enterprises individual and unbureaucratic advice on all questions concerning the choice of location.

**Gesellschaft für Wirtschaftsförderung  
in Nordrhein-Westfalen mbH**

4 Dusseldorf, Königsallee 100, Telephone 0211 370529, Telex 8587 830

The evolution of this cycle began in 1948 and the final phase was reached in the late 1960's. It has only now entered Phase Five in the opinion of some marketing specialists, but this decline may be more likely a result of worldwide recession.

- Phase One - Introduction of T.V. set - low profits.
  - exploration of production methods and market
  - low demand
  
- Phase Two/  
Stage A - wide demand - high profits
  - mass production and marketing
  
- Phase Two/  
Stage B - imitators attracted by high profits enter market - falling profits
  - dramatic increase in supply
  
- Phase Three
  - rush to new markets abroad as export from home base - rising profits
  
- Phase Four/  
Stage A - imitators in foreign markets, with lower labour costs enter markets abroad, and then enter home market of pioneers. - falling profits
  - increased competition in overseas and in home market
  
- Phase Four/  
Stage B - original pioneers now seek low wage areas to supply domestic and overseas markets until basic manufacturing costs become stable internationally - stabilizing profits

It is interesting to note that the major impact of the development of the T.V. product life-cycle on export processing zones did not occur until Phase 3 and Phase 4. This suggests that the future economic prospects for Zones concentrating on T.V. assembly will be limited. Zone management must be careful in its assessment of products whose life-cycle is already in Phase 4, because whereas some products may have had life spans of 20 years today there exist specific examples of very short life-cycles. The hand-held electronic calculator was introduced in early 1971, and it has now



entered into Phase 4, of its life-cycle and may already be in Phase 5, all in the space of 5 calendar years. Already more than 60% of the world's production of such electronic calculators is undertaken in low-wage export platforms, such as export processing zones.

In addition to the application of specific criteria to particular industries to see if they match the objectives of the Zone, it is also important to understand the marketing and investment strategy which is followed by the selected industry. This strategy represents the view of the world held by the firm, and it is important to appreciate this view in the specific negotiations which led to their investment in the zone. In this regard, a useful scheme exists to characterize the approach of firms to the world market place called EPRG. This framework identifies four types of attitudes or orientations toward internationalization that are associated with successive stages in the evolution of international operations - ethnocentrism, polycentrism, regiocentrism (a regional orientation), and geocentrism (a world orientation). These attitudes are assumed to reflect the goals and philosophies of the company with respect to international operations and to lead to different management strategies and planning procedures with regard to international operations.

In the ethnocentric phase, top management views domestic techniques and personnel as superior to foreign and as the most effective in overseas markets. As the company begins to recognize the importance of inherent differences in overseas markets, a polycentric attitude emerges. The prevalent philosophy in this stage is that local personnel and techniques are best suited to deal with local market conditions. This frequently gives rise to problems of co-ordination and control, resulting in the adoption of a regiocentric position. Regiocentrism recognizes regional commonalities and leads to the design of regional strategies. At the extreme, this orientation may lead to geocentrism which is characterized by the attitude of "the best man for the job" irrespective of national origin.

In the ethnocentric company, overseas operations are viewed as secondary to domestic operations and primarily as a means to dispose of "surplus" domestic production. Plans for overseas markets are developed in the home office, utilizing policies and procedures identical to those employed in the domestic market. Overseas marketing is most commonly administered by an export department or international division and the marketing personnel is composed primarily of home country nationals.

No systematic research is conducted overseas, and no major modifications are made to products sold in overseas markets. Prices are calculated on the same basis as in the home market, with the addition of overseas distribution costs. Promotion and distribution strategies are similar, to the extent possible, to that employed in the home country.

In the regiocentric and geocentric phases the company views the region or the entire world as a potential market, ignoring national boundaries. The firm develops policies and organizes activities on a regional or world wide basis. Marketing personnel include people from the region or from any country of the world. Standardized product lines for regional or worldwide markets are developed, and pricing is established on a similar basis. Promotional policy is developed regionally or worldwide to project a uniform image of the company and its products. Regional or global channels of distribution are also developed.

The desirability of the particular international orientation - E.P.R or G seems to depend on several factors: the size of the firm, experience in a given market, the size of the potential market, and the type of product and its cultural dependency.

Size of Firm: For a small firm, the most desirable approach is likely to be that associated with ethnocentrism - focusing on overseas customers who have needs and interests similar to domestic customers. Larger firms, on the other hand, are more likely to have adequate resources to investigate overseas markets and to find it economical to adopt a poly-, regio-, or geocentric approach.

Experience in Overseas Markets: For firms just entering overseas markets, an ethnocentric approach entails minimum risk, though further development or involvement in international markets will require movement to the polycentric or geocentric position. Similarly, adoption of geocentric strategies requires considerable knowledge and experience in various different national markets.

The Size and Degree of Heterogeneity of the Potential Market: Where the potential market is small relative to the domestic market, the design of separate strategies may be uneconomical. As overseas sales grow, segmentation on a country-by-country basis becomes feasible. As sales of national segments increase, further segmentation within each country may take place, and policies aimed at similar segments within different countries may be co-ordinated on a regional or world-wide basis.

The Nature of the Product: Products embedded in the life style or cultural patterns of consumers may be less susceptible to the development of global policies. For example, personal grooming products and food may have to be modified to suit differences in taste. Although the basic appeal is to the same needs, a different presentation of these appeals may be required. For industrial products, on the other hand, there may be no difference in customer interests or response.

The most appropriate E.P.R.G. position will, therefore, depend on the individual company, its objectives, and the specific market situation. While some firms feel that the polycentric type of organization is currently the most appropriate, the problems associated with this type of organization are being recognized. In some cases this results in interest in moving toward regiocentrism or geocentrism in regard to certain types of marketing decisions. In general, however, national and cultural differences are considered to be too great to permit substantial movement toward these positions at least in the near future.

In the selection of particular industries which are to be approached to invest in the Zone, care should be taken to identify which description best fits their strategy. The docket produced for the firm should reflect an understanding of the firm's approach to marketing and production.

The consultants would propose that the following steps should be undertaken in the selection process of specific industries.

- Step 1. Beginning with the recommended industries identified in Chapter 3, select major firms of a transnational character in each category for specific promotion. These should be drawn from the EEC, Japan, and North America.
- Step 2. Based on general economic research, and on specific analysis for that industry, apply to each of the firms chosen, the specific criteria recommended above, to identify a weight for each.
- Step 3. As a result of the various weights, establish a priority for the direct sales program necessary to attract each firm to the Zone.
- Step 4. Undertake an analysis of the current stage of international-development of each firm using the EPRG framework.
- Step 5. Design a specific proposal for each firm, utilizing the criteria and the understanding gained of its international perspective, so as to demonstrate the validity of the Zone as an investment location for that firm. This proposal should include an identification of all the benefits and features of the Zone expressed in terms of the needs of the prospective investors.

Redma Consultants Ltd would recommend that the Zone management seek UNIDO assistance in the initial phase of this program, possibly through the retention of consultants to undertake the specific analysis necessary to its completion.

- Step 6. The Zone management should undertake to present this special docket of information to the prime decision maker of the company concerned in person.

For this reason, the consultants have included in the financial plan an amount of \$5,000 Jamaican per annum for travel.

#### 5.2.4. Negotiation With the Investors.

The final stage of activity in the marketing chain is the actual negotiation with the prospective investor. This investor has indicated his interest as a result of the general promotion of the Zone, or from the selective promotion undertaken in 5.2.3. In the latter case, the criteria for selection has already been applied to the investor in a general way, but now that the specific interest is aroused, it should be recalculated to identify its benefits to the Zone and Jamaica more directly.

For these purposes, the consultants have designed a proposed application form to be used to register all interests from prospective investors. It is found at the end of this chapter as Exhibit 5.6. This form should be completed by all prospective investors, and on the basis of this information the criteria of selection applied again. In some cases, the criteria will lead to saying "no" to some investment proposals because it has been shown that such investments are not in the best national interest. More importantly, however the application of the criteria offers the Zone the opportunity to decide what the maximum cost of incentive can be and thus decide how to deploy incentive resources on a differential basis between investment projects of different characteristics.

The Zone Management should then undertake full and complete negotiations with each investor it wishes to attract to the Zone. In relation to each proposal, there must be close examination of its soundness—has it competent management, adequate finances, assured markets? An industry which fails within a few years is usually worse than no industry at all. Therefore the examination of the proposal to ensure its soundness in relation to the Zone is of equal interest to the investor and to the Zone Management.

The negotiation phase of the marketing of the Zone will involve much more than just the promotional features and advantages identified in the preceding pages. The Planning and Marketing Element of the Zone's organizational structure may be responsible for the phase of negotiation but it will be essential that it be able to call on readily available expertise regarding.

- customs
- currency control
- labour rates, relations and availability
- training
- housing availability
- work permits
- banking
- tax legislation

The Consultants would propose the identification by the Zone management of key contracts in other Ministries and Agencies who can provide ready answers.

5.2. The Successful Conclusion to Marketing and Promotion.

The following paragraph is taken from a presentation made by Mr. D. MacCarvill, Assistant Manager of the Planning and Research Division, of the Industrial Development Authority in Ireland in a presentation in March, 1972.

" There are three parties to the investment process-the host country, the investor and competitor countries. if one is to be successful in the attraction of foreign investment the interests of all three parties must be integrated into the process. Traditionally it is probably fair to say that countries tended to look on the needs of the investor primarily and to consider their own needs only broadly. The policies adopted in Ireland have been to look more closely at the country's own needs and the benefits which will accrue to it and to be prepared to accept in the extreme that an investment be lost rather than too high a price be paid for it. We are however, conscious of the competitive position, though this is less easy to determine precisely, since an investment decision is a mix of considerations, some financial, and others concerned with intangible factors such as political and racial stability, worker attitudes, language etc. It is important however, to know how one's country is viewed by investors as compared to their view of other locations and to take steps to promote on a basis which takes account of all these factors. "

We believe that this represents the soundest approach to the actual negotiation with the best prospective investors, and will ensure their successful development within the Zone.

EXHIBIT 5.1.

TAX RELIEF OFFERED AT SHANNON

Tax Relief

Profits attributable to export trade in Irish manufactured goods are eligible for relief from Income Tax and Corporation Profits Tax for a maximum of twenty consecutive years. The relief granted is 100% remission from tax for the first fifteen years and part remission at reducing rates for a following period not exceeding five years. The tax relief period will terminate in April 1990. Consequently, the period of relief to which a company may be entitled is dependent on the year of assessment for which the first claim to relief is made. The precise period of relief can be seen from the following table:-

<u>1ST YEAR OF CLAIM</u>	<u>RELIEF AVAILABLE</u>
1970/71	15 years 100% relief and 5 years partial relief.
1971/72	15 years 100% relief and 4 years partial relief.
1972/73	15 years 100% relief and 3 years partial relief.
1973/74	15 years 100% relief and 2 years partial relief.
1974/75	15 years 100% relief and 1 year partial relief.

THE RATES OF  
PARTIAL RELIEF ARE:

- 1st year 80% of the full rate.
- 2nd year 65% of the full rate.
- 3rd year 50% of the full rate.
- 4th year 35% of the full rate.
- 5th year 15% of the full rate.

Where the first year of claim is later than 1974/75, 100% relief will be given for each year up to and including 1989/90.

The relief is in respect of goods manufactured in Ireland. It also applies to the profits of a company undertaking design and planning services in Ireland in connection with specified engineering work executed abroad.

At Shannon Airport, special legislation provides that profits arising from export business are completely exempt from Income Tax and Corporation Profits Tax until 1990. Apart from the manufacture or handling of physical products, commercial and trading companies undertaking work at Shannon for overseas markets may also qualify for this tax concession. For example, the Free Trade Zone may be used as a location for international headquarter-type operations.

EXHIBIT 5.2.

INCENTIVES AND ADVANTAGES OFFERED BY THE BEPZ

**Tax Benefits offered by the Bataan Export Processing Zone.**

- Tax-free and customs duty-free importation of machineries, equipment, raw materials and supplies.
- Exemption from the payment of export tax.
- Exemption from the payment of municipal and provincial taxes.
- Net-operating loss incurred in the first five years of operation may be carried over as a deduction from taxable income during the succeeding five years.
- Accelerated depreciation of fixed assets.

EXHIBIT 5-6     PROPOSED APPLICATION FORM - KINGSTON EXPORT TRADE ZONE  
INFORMATION REQUIRED FROM PROSPECTIVE INVESTORS.

1. Promoting Organization
  - name and address
  - brief history, sales volume, assets, ownership
  - If new venture-proposed directors & shareholder
  - Jamaican interests - % of Jamaican ownership
2. Proposed Activity
  - What kind - to be service, warehousing, re-packaging, manufacturing, in-bond warehousing
3. Products or Service to be offered
  - types, description
4. Facility Required.
  - factory space-current need, likely expansion
  - land-specialized facilities required.
5. Facility Proposed
  - to lease factory space or to build own facility
  - if leasing, proposed alterations required.
  - if building - preliminary plans
6. Equipment
  - Identification of proposed machinery and equipment to be installed, including price and origin
7. Raw Material and Semi Manufactured Parts
  - Identify likely volume of annual purchases of raw materials and parts
  - origin
  - percentage of value of output these will represent.
8. Labour/Employment
  - list projected employment after first full year of production and proposed expansion - identify skilled/semi-skilled/unskilled needs as well as management personnel. List management intended to come from abroad, including skills and professional expertise.
9. Finances
  - Identify the proposed investment in terms of Fixed Assets - Building, equipment, machinery
  - Operating/Working Capital
  - Where will it be raised? What is the proposed capital expenditure program?
  - Provide audited financial statements for parent organization for past three years.
  - Submit proposed profitability analysis and cash flow statements for each year proposed in lease



- 10. Marketing/Distribution
  - Identify source of all products warehoused, including volumes and likely values.
  - Present marketing plan for products in terms of values and volumes for each market to be served identifying separately -
    - Jamaica
    - In-bond tourist
    - Caricom area
    - Other Caribbean
    - U.S.A.
    - EEC
    - Japan
    - Canada
    - Australasia
  - Identify buyers for product whether under contract, or to parent organization or to company-related marketing agency.
- 11. Royalties or Other payments
  - Will any royalties, commission or fees be payable to external interests in the above sales?
- 12. Environmental Concerns
  - What effluents will result from production? What plans does the firm have for waste treatment or control of emission?

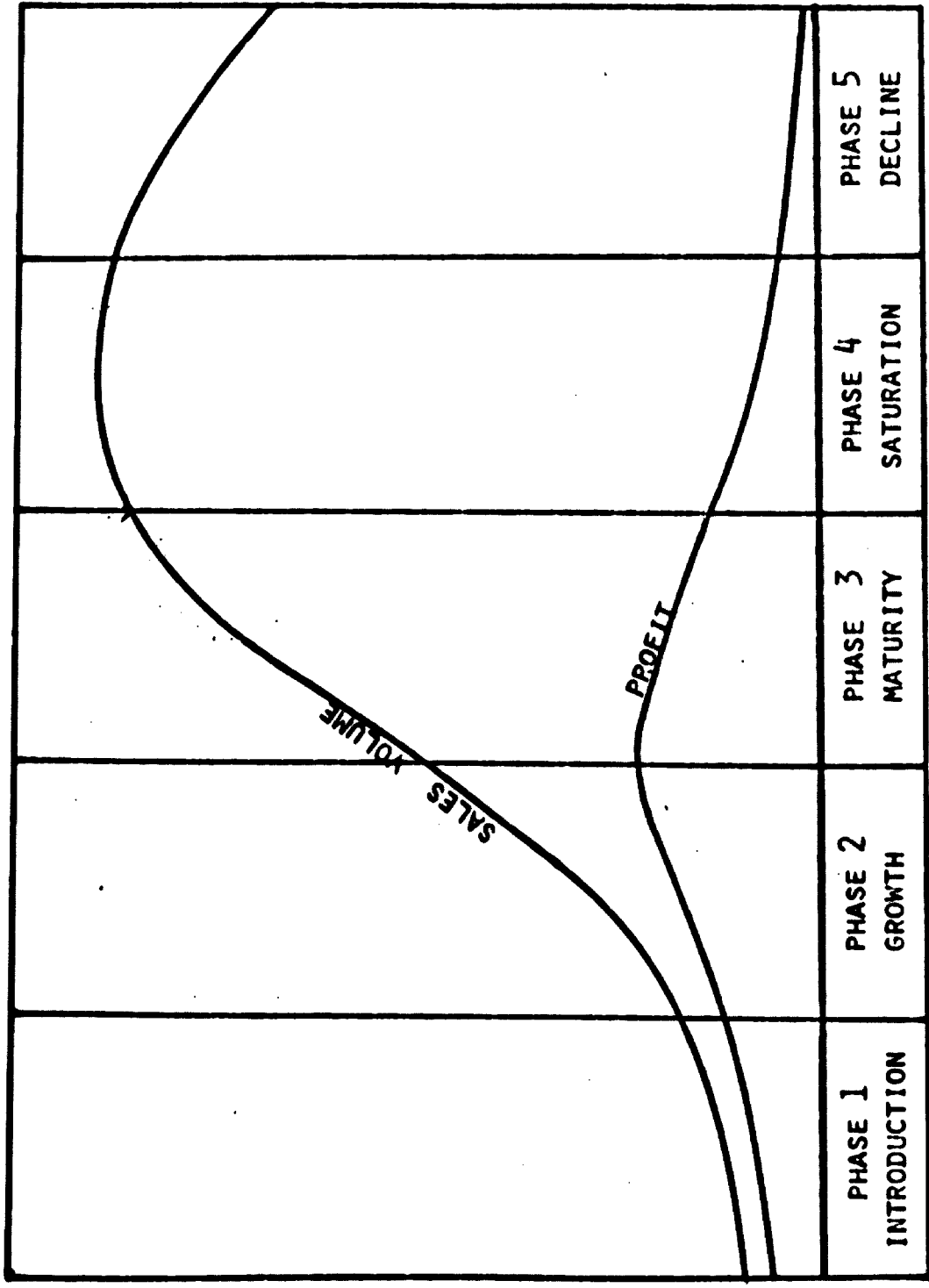


EXHIBIT 5.4 BASIC PRODUCT LIFE CYCLE

6.0 LEGAL FRAMEWORK FOR THE KINGSTON EXPORT TRADE ZONE.

6.1 The Act Incorporating the Kingston Export Trade Zone.

It is currently the opinion of senior management of the Port Authority, that a separate act to incorporate the Zone is not necessary. This arises from the view that the Zone is to be operated as a department of the Authority itself, and that its financing will be undertaken as a part of the general financing of the Port Authority.

As is clearly evident from chapter 4 of this report, Redma Consultants Ltd does not share this view. We believe that the Zone must be separately administered from the Port Authority, and although it may accept a financial subsidiary relationship it must be clearly able to operate in financial independence. Thus we would recommend the preparation of special legislation constituting the Kingston Export Trade Zone and its governing agency and identifying the following main elements:-

- (a) role of the Zone
- (b) identification of the legal rights of the Zone agency including the ownership of land and buildings, the ability to lease land or buildings, the ability to operate facilities and administer services and the ability to enter into legal agreements with lessees.
- (c) the establishment of a Board of Directors.
- (d) the identification of reporting linkages for statutory and fiscal purposes.
- (e) the creation of an extra-customs area for the purpose of fulfilling the functions of the Zone.
- (f) the provision of statutory regulations for the administration of the act and the proper functioning of the zone.

We believe that the validity of this recommendation is shared by the legal Counsel to the Port Authority.

The following articles identify the significant elements of the legislation required. They are drawn from a review of legislation incorporating similar zones in other parts of the world. Zone management has been provided in an appendix to this report with copies of such legislation.

6.1.1. Name

The Act should identify its purpose to create the Kingston Export Trade Zone with the objective of promoting the industrial and commercial development of Jamaica.

6.1.2. Corporate status.

The Act should identify that the Zone will be administered by the Kingston Export Trade Zone Agency, which will be defined as a "Crown Corporation" having all the legal responsibilities and authority. As an example, the following phrase might be used.

" The Agency shall be a body corporate with perpetual succession and a common seal and power to sue and be sued in its corporate name and to acquire, hold and dispose of land. "

6.1.3. Line of Responsibility.

An article should be included to identify that the Minister of Public Utilities, Communications and Transport, remains the officer of the Crown responsible for the administration of the Zone, although this responsibility may be delegated to the Board of Directors of the Agency.

6.1.4. Appointment of the Board of Directors.

An article will be required delineating the methods of appointment of members of the Board of Directors. This should be in accord with the recommendations made in Chapter 4. The article might read as follows:-

"The Board of Directors of the Kingston Export Trade Zone shall be composed of 9 members nominated by the Minister of Public Utilities, Communications and Transport representing certain interests as follows:-

- a) The Chairman and four other members of the Board representing the interests of the Port Authority, and the transportation interests of Jamaica.
- b) Two members on the recommendation of the Minister of Industry Tourism and Foreign Trade to represent the interests of the Government of Jamaica in industrial development.
- c) One member on the recommendation of the Minister of Finance to represent the Government's Revenue and fiduciary obligations.
- d) One member on the recommendation of the Jamaican Manufacturers Association to represent the private manufacturing sector."

Among its functions the Board of Directors will elaborate the budget of the organization, authorize the acquisition of real estate, etc., approve all the plans of operations, policies and measures which it deems necessary, and generally, exercise all the powers necessary or incidental to attain the purposes of the Law.

6.1.5. Appointment of Officers.

An article identifying the responsibility of the Board of Directors to appoint officers of the Agency subject to the approval of the Minister of Public Utilities, Communications and Transport. It should specify that the senior position of General Manager includes that he be a non-voting member of the Board of Directors. Length of tenure, and forms and levels of remuneration should also be included to provide for compensation appropriate to other agencies. It may also be appropriate to identify certain restrictions applicable both to members of the Board and senior executives regarding the maintenance of pecuniary interests in activities benefiting directly from location in the Zone. The Schedule to the Port Authority Law, 1959 included as Exhibit 6.1 would be an appropriate guide in this regard.

The Act should identify that it will be the responsibility of the General Manager to execute the policy of the Agency to direct its operations and to manage its administration, in accordance with the orientations defined by the Board.

6.1.6. Role of the Zone

An important element of the enabling legislation will be an article defining the role of the Export Trade Zone. The Consultants would recommend that the definition of that role, as given in Chapter 2 of the report, should be framed by the legal counsel, and incorporated within the enabling legislation

6.1.7. Duties and Responsibilities of the Zone Agency.

A section of the act should identify in relatively loose terminology the function of the Agency in administration of the Zone. This would include:-

- the definition of the Zone as an extra-customs area within a delimited parameter adjacent to the Port of Kingston.
- the identification of the Agency as responsible for the administration of this Zone by;
  - a) promoting the development of all business activities to ensure the Zone achieves its role which would include, inter-alia, the introduction, storage, packing, manufacturing- assembly and transportation of all kinds of merchandise, raw materials, equipment and other commercial items:-

- b) constructing buildings for offices, plants, stores, warehouses and workshops, in order to develop the operations enumerated above;
- c) leasing lots of land for the building of offices, plants, stores, warehouses and workshops, in order to develop the operations enumerated above; and
- d) entering into any type of contracts related to its activities;
- e) issuing factory and business registration and construction approvals and pertinent licenses;
- f) inspecting plant installations and working conditions for employees;
- g) inspecting products and issuing pertinent licenses or certificates of origin;
- h) regulating the import and export of commodities;
- i) regulating of foreign exchange and trade;
- j) prevent smuggling and providing the patrol and inspection for such purposes; and
- k) rendering services to industries located in the zone.

It may be appropriate to identify the role of the Minister of Public Utilities, Communications and Transport in the provision of directions to the Board of Directors of the Agency to ensure that it adheres to Jamaican Government policy guidelines. The following could be used as an example of an article to provide for this function"

" It is expected that the Kingston Export Trade Zone Agency will support and adhere to the general policy of industrial development of the Government. To assist in this regard, the Minister may give to the Agency directions as to the policy to be followed by the Agency in the exercise and performance of its functions."

#### 6.1.8. Financial Provisions.

An article of the Act will be required to identify the source of financial resources to the Kingston Export Trade Zone. Since it is expected that for the initial period at least these sums will form part of the resources made available to the Port Authority, the legislation will require that these funds be allocated and identified within the resources of that Authority.

This article might specify that:-

The funds for the use of the Agency shall consist of:-

- (a) such resources as may be provided annually for this from the budget of the Port Authority and included for that purpose in the Estimates of Revenue and Expenditure of Jamaica;
- (b) resources borrowed by the Agency for the purpose of meeting any of their obligations or discharging any of their functions;
- (c) all other resources or property which may in any manner become payable to or vested in the Agency in respect of any matter incidental to their powers and duties.

It should also indicate that the Agency has the power with the consent of the Minister to borrow money for the purpose of fulfilling its obligations. These loans may require the provision of the Government to guarantee such loans as to repayment of principal and payment of interest.

Special articles, similar to those defined in the Port Authority Law regarding the keeping of accounts, the auditing of these accounts, and the preparation of an annual report should also be drafted. These provisions should include the necessity of tabling such an annual report in the House of Representatives.

#### 6.1.8. Regulations

The Act will also require the identification of the power of the Agency with the approval of the Minister to make and establish regulations pursuant to the administration of the Zone. The wording of this article should be such that these regulations can apply both to the administration internally of the Agency, and to the general regulation of the Zone, its territory and occupants.

#### 6.1.9. Function and Duties of the Export Trade Zone Promotion Council.

It may also be deemed useful to identify within the Act, the function, duties, and method of appointment for the Export Trade Zone Promotion Council. This element, however, should be simple and relatively flexible, and should highlight the function of the Council only as a Promotion Agency.

#### 6.2 Regulations for the Administration of the Zone

The Consultants have provided the Zone Management with a complete copy of the regulations developed by the Taiwan Government for the development and management of export processing zones. We recommend the study of these regulations and the identification of those necessary to the administration of the Kingston Export Trade Zone. The following specific types of regulations will be necessary.

6.2.1. General Regulation of Investors In the Zone.

These regulations would define the activities which would be expected of each investor in the Zone. These would begin with a definition of the investor which would identify firms incorporated to undertake the manufacture, processing or assembling of export products within the zone and the firms engaging in such activities as storage, transport, loading, unloading, packing, and repair essential to the course of production or sales operations of the firms engaged in the manufacture, processing, or assembling of export products in the zone.

These regulations should identify limitations imposed on such firms. For example in Taiwan the following limitations are applied.

- " 1. That the enterprises are established with new investments;
2. That the establishment and operation of such enterprises will not adversely affect the operation of existing domestic industries also engaged in export;
3. That the raw materials, semi-finished products, or finished products of such enterprises can be easily inspected or regulated; and
4. That the operation of such enterprises during the course of manufacture or production will not endanger public safety or public health inside the export processing zones. "

The regulations should establish that the prospective investor must complete application forms (see Chapter 5) and submit them to the Zone Agency for screening and approval. The Agency would undertake their transmission to other Ministries as necessary.

The regulations should identify that such approved investors may hold and use land in the Zone under lease, and shall in addition to paying rent in accordance with the provisions of the lease pay their share of the expenses for development of public utilities, installations and facilities. Plant buildings inside the Zones may be constructed by the investors themselves with prior approval or by the Agency for lease.

The regulations will specify the requirement that the approved investor undertake the contractual requirements identified in the lease for the facility.

The regulations should identify that investors in the Zone may undertake storage, displaying, repacking, processing and manufacture related to the export sales of raw materials, semi-finished products, and finished products. Such firms would be required to keep ledgers in which itemized detailed entries shall be made to record the quantity and value of their incoming and outgoing commodities for inspection and auditing by the Agency and customs authorities at any time.



The raw materials semi-finished and finished products referred to above may be stored for an indefinite period of time in an export processing zone. In the case of loss or shortage, reports should be submitted to the Agency to explain the causes of the loss or shortage. The Agency shall thereupon conduct a joint inspection of the loss or shortage with the customs authority, and, if it is found that the loss or shortage is true and the causes given are acceptable, may permit a deletion of the loss or shortage from the books, of the Investor.

The regulations should specify that if an investor fails to satisfy the regulations, the Agency may order and enforce his compulsory removal from the zone within a prescribed period of time in addition to meeting out penalties in accordance with the provisions of the regulations.

**6.2.2. Regulations concerning the entry into and exit from the Zone of Goods.**

Specific regulations should be established for the movement of goods and material in and out of the Zone. This would include but not be limited to the following:-

Entry into and exit from the Zone by all personnel and vehicles shall be made at specific localities designated by the Agency and shall be subject to the necessary inspection to be conducted by custom officers and watchmen and guards.

Bringing of commodities into or out of the zone in violation of the regulations should be deemed as an act of smuggling and the person who does such an act shall be liable to severe penalties under the relevant provisions of the Customs Laws.

When goods are brought into or out of the Zone, application for approval shall be filed in advance with the Agency for inspection sealing and release of the commodities by customs authorities stationed in the zone and also for supervision and inspection of the goods in the course of transit.

Except for products for export, all investors should request the Agency to issue a permit for taking any supplies, commodities or other articles out of the Zone. The Agency shall keep one copy of the permit for record and the other copy shall be given to the applicant. When the articles are being taken out of the Zone, the guards and customs personnel will examine both the permit and the articles, and after release of the articles, the permit would be returned by the guards and customs officers to the Agency for nullification.

When entering and leaving, the Zone all the staff members and workers of firms set up in the Zone are required to show their entry and exit permit to the guards for examination. If necessary, the guards and customs officers may search both the personnel and vehicles.

All visitors are required to apply to the Agency for issuance of temporary entry and exit permits before entering the Zone.

When it is necessary for vehicles operating outside the Zone to enter it, the operators should request the Agency to issue temporary entry and exit permits to them. Such permits shall be returned to the guards upon departure of the vehicles from the Zone.

All firms established inside the Zone should voluntarily exercise due supervision of their staff members and workers to abide by the laws and regulations of the Zone. No finished products, or raw materials or the like should be taken out of the Zone without approval. The firms will be required to carry out the necessary inspection of their staff members and workers before their departure from the Zone.

6.2.3. Banking and Foreign Exchange Regulations.

Separate regulations will be required to govern the operation of banks in the Zone and to provide for the operation of a freely-convertible currency area outside of Jamaica. In this regard the following currency and banking regulations were proposed by an Interministerial Working Party, and are endorsed by the Consultants.

- "
- a) All banking operations set up within the Zone will be subject to the Banking Law, the Bank of Jamaica Law and the Exchange Control Law, and the banks or branches concerned would be required inter alia to make reports and furnish statements in accordance with these laws.
  - b) Branches set up by local commercial banks will be able to collect and make payments in Jamaica dollars in the ordinary course of business. They will also be allowed to operate foreign currency accounts for customers engaged in export business in the Zone but the opening of each account so operated would require the prior approval of Exchange Control.
  - c) Where the branch is set up by an overseas bank and is independent of any other operation carried on by that bank in Jamaica, it would not be accorded 'authorised dealer' status (i.e., it would not be allowed to purchase or sell foreign currency in exchange for Jamaican dollars) but would be allowed to engage in foreign currency transactions in which case it would be able to receive and make payments in foreign currency (without conversion to Jamaica dollars) with reference to Exchange Control.

- d) Any business set up by a foreign-based operation would be allowed freedom from Exchange Control in the sense that they could move their funds into and out of the Zone without Exchange Control approval. They would not normally be permitted, however, to borrow locally either from the commercial banks or from other sources. Where any such business had an expatriate staff it would have the option of paying them in foreign currency and each member of that staff would be entitled to operate a foreign currency or external account with a local commercial bank including any with 'authorised dealer' status operating within the Zone.

In the case of local staff, the business would be obliged to pay their salaries, etc. in Jamaica currency. The same would apply to other local persons supplying goods and services and for this purpose the foreign business would be allowed to operate a Jamaican dollar account funded from foreign currency or from an external account if it owns and operates one.

If a foreign-owned business within the Zone should supply goods to a customer in Jamaica, that business would be entitled to receive foreign currency in payment. (The customer would however, be required to obtain Exchange Control approval to make the payment). In other words, the transaction would be treated no differently from one which had taken place between a Jamaican and a supplier in a foreign country and to whom payment is made.

- e) Where a business set up in the Zone is owned and operated by residents of Jamaica and is especially incorporated for operation in the Zone (for example, manufacturing or warehousing for export) it would be allowed to operate a retained (foreign currency) account but this condition could only follow the granting of permission by the Exchange Control to the owners (residents of Jamaica) to make the investment after they had satisfied Exchange Control with regard to any criteria which may exist for the making of direct investments outside of Jamaica.

The business could enjoy the facility of paying for its imports through the retained (foreign currency) account but as a condition to being allowed to operate in the Zone, it would be required to bring "home" in due course, the profits accruing from the business.

Where expatriates are employed, the business could pay their salaries in foreign currency and such employees would be entitled to operate their own external or retained (foreign currency) accounts at any of the commercial banks in Jamaica including any with 'authorised dealer' status operating within the Zone. In the case of Jamaican employees this concession would not be allowed and they could receive their salaries only in Jamaican dollars. "

In a discussion with Mr.M.A.Berry, the Director of Exchange Control for the Bank of Jamaica, the consultants and Mr.Berry reached the following tentative points of agreement, which would also have to be documented as regulations:-

The first of these related to a Jamaican firm wishing to invest in a manufacturing or warehousing operation within the Zone. It was agreed that such firms must seek permission under exchange control legislation to invest Jamaican dollars sufficient for the necessary capital assets in the new plant. Such requests would be treated in the normal way as similar requests for investment abroad. However, it would be expected that such firms would obtain working capital and all further funds for expansion from sources of funding outside of Jamaican currency control.

Secondly, and with reference to inbond operators Berry and his officials were of the opinion that such investments as would be required for their operation within the Zone (especially related to the cost of goods warehoused) should be met from outside Jamaican currency control. He emphasized that such operations could likely obtain liberal credit from their suppliers.

Thirdly, it was further agreed that it would be appropriate for all payment for Jamaican goods and services to be made in Jamaican dollars through banks operating outside of the Zone. Thus each investor in the Zone would have to have his own Jamaican currency accounts outside of the Zone, in Jamaica.

The consultants would emphasize however, that if it is in the interest of Jamaican industrial development to encourage Jamaican investment in the Zone, it might be practical to establish slightly more lenient guidelines for such investment as compared to Jamaican investment in other countries. One way to do this might be to permit the Jamaican investor to convert from Jamaican dollars into foreign exchange sufficient funds for his initial investment in plant and equipment plus working capital required for the first 2 years of operations. If a Jamaican firm is to establish a new export business it is logical that it will have to wait some time before foreign exchange earnings can match overall working capital requirements. An alternative might be to permit the Jamaican investor to set up a special closely controlled account in Jamaican dollars which would be used to pay those Zone expenses such as labour and raw material purchases that can be paid in Jamaican dollars.

Very strict control over such accounts would be necessary to prevent the abuse of the facility, and probably such accounts should only be established on a short term basis until the operation has an opportunity to become self financing. Under normal circumstances a Jamaican investor in the Zone would not be permitted to draw additional funds from the Jamaican market after his initial investment.

Banks operating in the Zone would be expected to operate under the control of the Bank Act of Jamaica, but regulations will be required under which such banks can operate without day-to-day interference. Such banks should be there only to serve the needs of companies operating in the Zone and should not attempt to establish themselves as international financial institutions transacting business with third countries. In the normal circumstances, companies operating in the Zone would have Jamaican dollar bank accounts in Kingston through which they would pay local expenses, but funds provided for these accounts would have to come from foreign exchange. There should be no need for companies or individuals operating in the Zone to have foreign exchange bank accounts outside of the Zone. The Zone Agency, as part of its contract with each company operating in the Zone should establish very strict penalties for any infringements of the foreign exchange rules of Jamaica or of the Zone. The Agency would have access to the books and records of all companies operating in the Zone should the bank of Jamaica or any other agency suspect illegal activity. Under normal circumstances however companies operating in the Zone should be free to carry on business on a day-to-day basis without interference from the Agency or the Bank of Jamaica. Specific clear rules should be established for all Jamaican Banks operating in the Free Zone.

The consultants agreed with the Director of Exchange Control that specific agreements would have to be made by the Bank of Jamaica with each of the likely investors. Each firm investing in the Bank would also require a Jamaican subsidiary which would be liable to legal and financial control by the Bank of Jamaica. It was also clear that the hypothecation of Jamaican assets by investors in the Zone in return for foreign investment within the Zone would have to be examined very closely to ensure that such a procedure did not provide for the illegal conversion of Jamaican assets into foreign exchange.

The Director of Exchange Control recommended strongly that all commercial banks operating within the Zone be required to bond all their employees against illegal currency transactions. He also agreed that any commercial bank not presently operating in Jamaica should not be allowed to set up an operation in the Zone unless it could be demonstrated that the present banks were not adequately servicing the area. He confirmed that it was the intention of the Bank of Jamaica to set up some special services to expedite approvals relating to banks operating in the Zone. He also emphasized that he would be applying additional penalties to ensure maintenance of close and watchful supervision of the operations of these banks. It was agreed that loans granted to companies operating in the Zone by foreign credit agencies whether foreign controlled or not, would not be included in the credit ceiling as established in October 31st, 1969. He did not agree that reporting requirements should be any less for those banks operating in that field, nor that commercial banks should be allowed to set up and operate service facilities within the Zone.

In summary Mr. Berry expressed preliminary approval of the idea that a Jamaican investor wishing to invest in an operation in the Zone would be permitted to convert his Jamaican dollars into sufficient foreign exchange funds for his initial investment in plant and equipment. The consultants emphasized that this initial investment should probably also include a provision for some working capital for the first year or two of operation. Under normal circumstances a Jamaican investor would not be permitted to draw additional funds from the Jamaican market after this initial investment. It was confirmed that specific and clear regulations for the operating of Banks within the Zone would have to be established to prevent any kind of illegal activity and provide a clear permission for the Zone management and for the Bank of Jamaica to establish all foreign exchange transactions occurring within the Zone.

The consultants also undertook considerable discussion with the Director of Exchange Control relative to the application of the import regime on manufacturers in the Zone. This regime establishes limits on the import of raw materials and semi-manufacturing goods subject to the nations requirements for foreign exchange. The consultants proposed that after a manufacturer was established in the Zone, he be permitted to operate his business with the import of raw material from any source including those proscribed or limited under the import regime established by Jamaica.

However, the import of the products manufactured within the Zone into either the Caricom or the Jamaican market would be treated as third country exports unless they could satisfy, in their manufacture, either for reasons of raw material content or labour content, the criteria necessary to be designated as Caricom products. If they could be so designated, they would be permitted to be imported as Caricom manufacturers. Mr. Berry could see no reason to oppose this concept, and thus concurred in the establishment of regulations to permit this development.

#### 6.2.4. Customs Regulations.

The following regulations were proposed by the Interministerial Working Group and are supported by the consultants as appropriate. They have been adjusted to fit our recommendations:

- " 1. Subject to any prohibition which exists or may be imposed by Government and to the requirements of these Regulations all imported goods may without entry for use in the Island be:-
  - (a) Stored
  - (b) Loaded, unloaded, reloaded.
  - (c) Packed, unpacked, repacked, refilled, divided, split-up, assembled, mixed, separated, cleaned, marked or remarked.
  - (d) Worked, reprocessed or processed.
  - (e) Destroyedwithin the Zone area. Restricted goods landed in the area will

not, for the purpose of this Regulation, be regarded as being imported into the Island.

2. Subject to such conditions as may be imposed by Customs, the Zone Agency shall have authority over all goods deposited within the Zone area and over all activities and operations within the area. Requests for permission to carry out any of the operations listed above should be addressed to the "Agency" who will grant such permission subject to any requirements of the Customs Laws in regard to the handling of these goods.
3. Notwithstanding the provisions above, the following goods may not be stored in the Zone except as approved under existing laws:
  - Firearms and Ammunition
  - Dangerous Explosives
  - Petroleum and Oil Fuels
  - Inflammable materials
4. All goods landed or taken into the Zone must be consigned to a company, person occupying space within the area, the Port Authority, or the Zone Agency.
5. Goods may be transferred within the area from one approved occupier to another with the approval of the Agency.
6. The Agency may take such steps as are necessary to preserve goods within the Area, whether by removal from place to place or by storing at the expense of the owners of such goods.
7. Whenever a process of manufacture which takes place within the Area, involves the use of dutiable materials whether local or imported, and whether the resultant product is for export or for sale locally, the manufacturer will be required to satisfy the Agency and the Collector General as to the quantities of the several inputs.
8. Goods intended for sale or disposal within the Island may not be removed from the Area until the full duties thereon have been paid and all requirements as to import restrictions are satisfied. Documentary evidence of such payment must be produced before the goods are allowed to exit from the Zone.
9. No goods may be sold in retail quantities within the Zone.

10. Samples may be displayed within the Zone but may not be taken out into the Island without payment of duty, except where such samples are deemed by Customs as having no commercial value.
11. Goods, whether for shipment or local use, must, when being removed from the Zone be accompanied by appropriate Customs documents applicable to Zone transactions and may be subject to check and/ or examination by Customs at the point of exit.
12. Goods on which duty has been paid or local goods which are liable to duty may be brought into the Zone for mixing with other goods within the Zone, subject to proper account being taken and to check by the Agency, and other appropriate authorities.
13. The Agency will control entry into the Area and will issue such means of identification or passes as it deems fit.
14. The Agency will dispose of goods or property abandoned within the area whether by destruction or sale and in the case of disposal by sale, will apply the proceeds to settlement of fees and other charges subject to approval by appropriate authorities. Any amount remaining from the proceeds may be claimed by the owner within three months of sale, failing which it becomes part of the funds of the Port Authority.
15. Goods leaving the Zone should be in good packaged condition and where damaged or broken will be subject to Customs inspection in order to determine losses or shrinkages.
16. Losses and shrinkages in manufacturing processes must be certified by the Agency.
17. Goods of non-perishable nature may be stored for unlimited periods subject to the payment of fees and compliance with regulations.

In addition, since manufacturers will be encouraged in the Zone to undertake to incorporate a maximum amount of Caricom content within their production processes, regulations will be required to identify the role of the Zone Agency in providing "certificates of origins" and reports on levels of "value added" in accordance with the formulas identified in Chapter 5. Here the system used by the Jamaica National Export Corporation should be adopted, and in the initial year of operation, JNEC should likely be requested to undertake the certification themselves on behalf of the Agency.

Specific customs regulations may be required to deal with the export of goods manufactured in the Zone into Jamaica. It must be remembered that the concept of this Zone includes transshipment, break-bulk and re packaging, some of which will be for the Jamaican market.



The Chairman of the Port Authority made the following proposals regarding constraints on these exports to Jamaica from the Zone with which the consultants agree. They should be included in the draft of customs regulations.

- " 1. All goods manufactured on the Zone, may be exported into Jamaica if Jamaica imports such goods from any non-Caricom Country. Such exports would be subject to the same terms or conditions as if they came from Third Countries.
2. Where goods manufactured in the Zone, but not now manufactured in Jamaica comply with the Caricom value added test (i.e. 51% Caricom content.) then if such goods are produced in the Zone by a Jamaican or Caricom producer, (i.e. a concern which is not less than 51% Jamaican or Caricom owned) its product shall be allowed into Jamaica on the same basis as Caricom goods are allowed in Jamaica subject, however, to 3 below. All other goods produced in the Zone not complying with the requirements of this clause, shall be categorized as Third Country goods.
3. Where goods qualify as Caricom goods, are produced in the Zone, but contain raw materials, etc. imported from Third Countries, and the importation of such materials, etc. into Jamaica for manufacturing purposes, is prohibited or restricted, then such goods manufactured on the Zone, shall be treated as Third Country manufactures, unless and until such raw materials imported from Third Countries, are replaced by raw materials obtained in Jamaica or from other Caricom Countries.
4. Where any Third Country manufacture is produced on the Zone and their importation into Jamaica is restricted, then the Minister may give preference for the importation of such goods from the Zone, rather than from a Third Country. "

#### 6.2.5. Work Permit Legislation

Jamaica has in force the Foreign Nationals and Commonwealth Citizens (Employment) Act of 1964 ( Act 48) under which provisions foreign nationals are required to seek a " work permit" to be employed in Jamaica. For this permit, approval is required by the Minister of Immigration and an annual fee is required. Current fee levels are about \$600 per year. The application of this work permit legislation to foreign investors in the Zone will do much to slow its development. If the Government of Jamaica wishes to prohibit the use of foreign personnel in certain trades or professions, this should be clearly spelt out and the trades and professions specifically identified in the beginning so that each participating company knows exactly where it stands. In principle a Zone should not have any restrictions but this may not be acceptable in the Jamaican situation.

Companies operating in the Zone should be permitted to bring in any foreign personnel without work permits for a period of up to 8 weeks. All personnel working for more than 8 weeks in any one calendar year could be required to obtain work permits, but the Agency should be responsible for obtaining these permits on behalf of the investors. No fee should be assessed. The Agency should make every effort to simplify the procedures involved in obtaining work permits and should speed up the process as much as possible. It is essential that any investor in the Zone know exactly what the rules governing non-Jamaican personnel are from the beginning. These rules should not be changed once they are established.

It is gratifying to note that the Inter-ministerial Working Group agreed with this position. The regulations they proposed are as follows;

- " a) No work permit fees will apply to foreign personnel employed in the Zone.
- b) Owners of foreign companies and/or their representatives are permitted to reside in Jamaica so long as the particular business is operative.
- c) Foreign investors, with not less than 20% of the risk capital of a company approved to operate in the Zone, are permitted to reside in Jamaica so long as they are full-time employees of the above mentioned company.
- d) Technical personnel (employees) with skills in short supply in Jamaica will be allowed residency status so long as the management of the investor in the Zone satisfies the Ministry of Labour that the local supply of trained manpower in the relevant field is unavailable.
- e) Zone companies will be expected to employ local skills, if available."

### 6.3. Incentives.

Separate published regulations will be required to identify the various incentives which will be offered to investors in the Zone. These incentives have been discussed in Chapter 5 of this report and do not require further elaboration. It should be emphasized, however, that such regulations should provide the opportunity for a fairly wide use of discretionary power by the Minister and the Agency, subject to clearly defined limits.

Incentives will usually consist of income, tax, holidays, whose value and period of holiday will depend on;

- a) number of employment positions created
- b) local or Caricom Value added
- c) percentage of sales to Third Countries
- d) percentage of Jamaican ownership

6.4. The Lease for Land or Building.

The most critical document used by the Agency will be the lease agreement signed with each individual investor. In the appendix to the report a full copy of the draft lease used by Shannon Free Airport Development Company Limited has been included.

For the purposes of the drafting of a standard lease for the Kingston Export Trade Zone, the consultants recommended that the following items be included.

- a) Terms of lease - from a minimum of 1 year upwards, but will encourage the following minimum terms.

Manufacturers	--	3 years
Freight and/or service industries	--	1 year
- b) Cost or value - Identify a schedule of rates according to term, labour involved, kind of space.
  - Identify the addition of service charges for estate landscaping, street and lighting maintenance, water supply, general maintenance, administration charges, firefighting services.

All to be calculated annually from actual charges proportioned according to land rented.

- c) Rent schedule of payments - payable in advance (quarterly)
- d) Rent Review - subject to revision every 2 years if term more than 2 years.
- e) Zone Agency - Include a clause defining the Zone agency as responsible for maintenance of "export zone" concept - thus lessee must seek approval, maintain records and act generally in accordance with zone regulations as they are promulgated from time to time.

In addition the following specific items should be included in the draft lease;

1. Items must be included concerning local government working safety regulations and other factory laws, to ensure tenant abides by such general restrictions and if modifications are required to ensure that they undertake them.
2. Items must be included concerning right of lessee to alter facilities (and for land rentals, or to construct buildings) subject to approval of Zone Agency especially regarding outside colours, frontage etc. signage etc.
3. Items must be included concerning responsibility of lessee to maintain, clean, and repair all areas leased. This may include requirements to repaint exterior every 2nd year and to advise Zone authority of intention to undertake major repairs.
4. Items must be included concerning responsibility of lessee in terms of water usage and effluent garbage treatment.
5. Items must be included concerning requirements of lessee to insure the premises occupied at a sufficient value so as to permit the Agency to replace such premises if destroyed. This will include the prohibition of storage of dangerous material and will indemnify the Agency from public liability.
6. Items must be included concerning limitation of external signs or floodlights which are not approved by Agency.
7. Items must be included concerning sub-leasing, surrender and restoration of premises.
8. Items must be included restricting use of the premises to those intended.
9. Item must be included concerning the termination or cancellation of lease and defining the conditions of the breach of a lease.

The consultants recommended the adaption of the draft leases of the Jamaica Industrial Development Corporations to fit the above requirements.

EXHIBIT 6.1

THE PORT AUTHORITY LAW, 1959

SCHEDULE.

1. The Authority shall consist of not more than ten members to be appointed by the Minister, being persons who do not hold offices of emolument under the Crown in Jamaica and who appear to the Minister to be qualified as having had experience of and shown capacity in, matters relating to industry finance, economics, accountancy, commerce or law.
2. The Minister may appoint any person to act temporarily in the Temporary place of any member of the Authority in the case of the absence or inability to act of such member.
3. (1) The Minister shall appoint one of the members of the Authority to be the chairman thereof.  
(2) In the case of the absence or inability to act at any meeting of the chairman, members of the Authority present at such meeting shall elect one of their number to act as chairman at that meeting.
4. (1) The appointment of every member of the Authority shall be evidenced by an instrument in writing, and such instrument shall state the period of office of the member which shall not exceed three years.  
(2) Every member of the Authority shall be eligible for re-appointment.
5. (1) Any member of the Authority, other than the chairman, may at any time resign his office by instrument in writing addressed to the Minister and transmitted through the chairman, and from the date of the receipt by the Minister of such instrument such member shall cease to be a member of the Authority.  
(2) The chairman may at any time resign his office by instrument in writing addressed to the Minister and such resignation shall take effect as from the date of the receipt of such instrument by the Minister.
6. The names of all members of the Authority as first constituted and every change in the membership thereof shall be published in the Gazette.
7. (1) The seal of the Authority shall be authenticated by the signature of the chairman or one member of the Authority authorised to act in that behalf and the secretary of the Authority, and shall be judicially and officially noticed.

7. (2) All documents, other than those required by law to be under seal, made by, and all decisions of, the Authority may be signified under the hand of the chairman or any member authorised to act in that behalf or the secretary of the Authority.
8. (1) The Authority shall meet at such times as may be necessary or expedient for the transaction of business, and such meetings shall be held at such places and times and on such days as the Authority shall determine.
  - (2) The chairman may at any time call a special meeting of the Authority and shall call a special meeting to be held within seven days of a written request for that purpose addressed to him by any two members of the Authority.
  - (3) The chairman or, in the case of the absence or inability to act of the chairman, the person elected to act as chairman in accordance with the provision of sub-paragraph (2) of the paragraph 3 of this Schedule shall preside at the meetings of the Authority, and when so presiding the chairman or the person elected as aforesaid to act as chairman, as the case may be, shall have an original and a casting vote.
  - (4) The quorum of the Authority shall be not less than one-third of the members of the Authority including the chairman or the person elected to act as chairman as aforesaid.
  - (5) Subject to the provisions of this Schedule the Authority may regulate its own proceedings.
  - (6) The validity of any proceeding of the Authority shall not be affected by any vacancy amongst the members thereof or by any defect in the appointment of a member thereof.
9. There shall be paid to the chairman and other members of the Authority such remuneration, if any (whether by way of salaries or travelling or other allowances) as the Minister may determine.
10. (1) The Authority may appoint and employ at such remuneration and on such terms and conditions as it thinks fit, a secretary, and such officers, agents and servants as it deems necessary for the proper carrying out of its functions:-  
Provided that:-
  - (a) No salary in excess of the rate of one thousand five hundred pounds per annum shall be assigned to any post without the prior approval of the Minister;
  - (b) no appointment shall be made to any post to which a salary in excess of the rate of one thousand five hundred pounds per annum is assigned without the prior approval of the Minister.

10. (2) The Governor may subject to such conditions as he may impose, approve of the appointment of any officer in the service of the Island to any office with the Authority.

Provided that in relation to pension, gratuity or other allowance, and to other rights as a public officer such officer shall be deemed to be in the service of the Island while so employed.

11. (1) No action, suit, prosecution or other proceedings shall be brought or instituted personally against any member of the Authority in respect of any act done bona fide in pursuance or execution or intended execution of this Law.

- (2) Where any member of the Authority is exempt from liability by reason only of the provisions of this paragraph the Authority shall be liable to the extent that it would be if the same member was a servant or agent of the Authority.

7.0 THE PHYSICAL PLAN FOR THE ZONE.

Redma Consultants Ltd was not charged with the responsibility for the physical design of the Zone. This is in the capable hands of

Hue Lyew -Chin  
Consulting Engineers  
4 Haining Road,  
Kingston 5. Jamaica.

However, the consultants spent several hours with the engineers discussing the plans for development of the Zone. Copies of blue prints associated both with the layout of the Zone, and with the preliminary design of the first 5 factory shells now under construction, are included with this report. The recommendations we have made are summarized in the following pages. These should be examined with reference to Plate 1.

- 7.1. The original plan for the site recommended the retention of the lots to the extreme left of the site, as shown on Plate 1, for commercial development. In the opinion of the consultants this land is valuable for development within the Zone. A good deal of other land exists in the surrounding estate which could be developed for commercial purposes.

Redma Consultants Limited does not recommend that space be allocated from the Zone at this stage for the provision of commercial facilities primarily oriented to serve the surrounding work force. As the internal work force grows examination of its needs for eating, recreational, and commercial facilities should be identified and decisions made on the provision of internal facilities at that time.

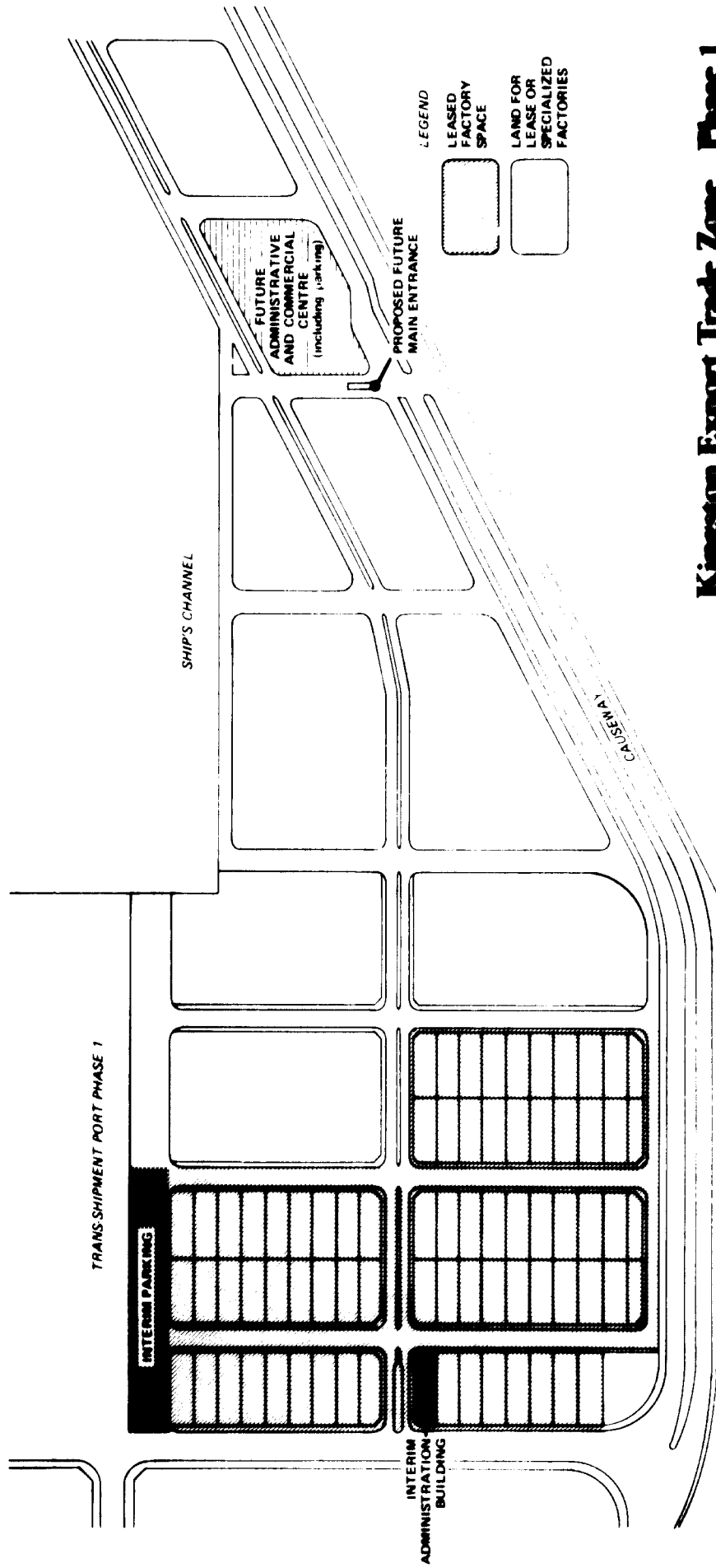
- 7.2 The original plan calls for a single entrance to the Zone at the point now indicated as the Interim Administration Building on Plate 1. The consultants recommend that a site be reserved for future development of administration and commercial facilities at the narrowest point of the complete site, but closer to the centre of the full facility. It should be remembered that the Administration building needs to be both inside and outside of Zone perimeters.

- 7.3 The consultants recommended that a limitation on the amount of leased factory space be established as shown in Plate 1. The other areas should be reserved for the construction of specific industrial facilities. We would recommend that of the total initial development (Lots 452 and 453 or that portion illustrated in the accompanying plate) that the following allocations be made.

	<u>Acreage</u>	<u>%</u>
Factories pre-built for lease	12.1	24
Land for specialized Development	23.6	46
Land for roads, administration commercial and other developments	15.10	30

This latter item is high due to odd shape of the parcel of land.



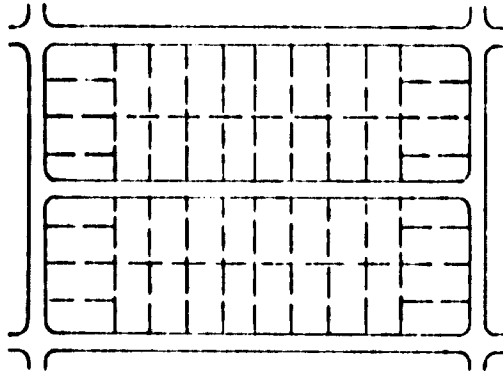


**Kingston Export Trade Zone Phase 1**

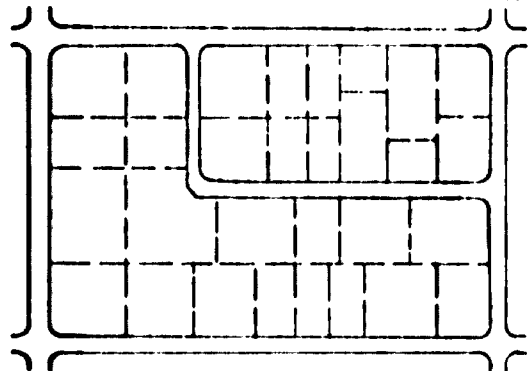
**PLATE 1**

# souplesse du découpage des super-blocs flexibility of the super-blocks system

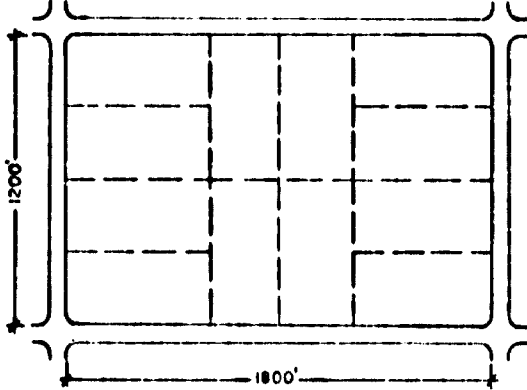
très petits lots semblables : 1 acre  
identical small lots : 1 acre



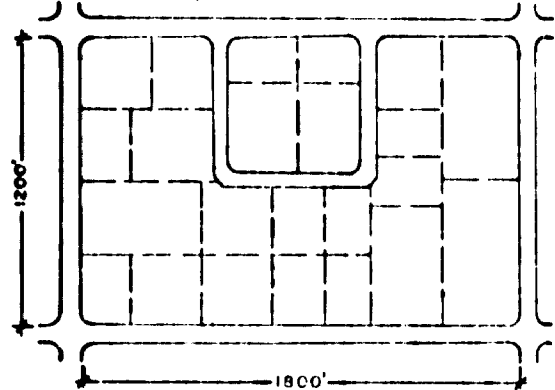
petits lots : 1 à 2.75 acres  
small lots : 1 à 2.75 acres



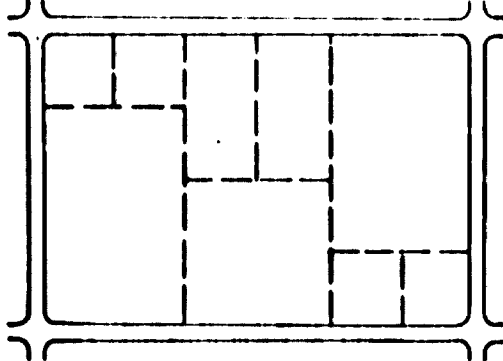
lots moyens semblables : 4 acres  
identical middle size lots : 4 acres



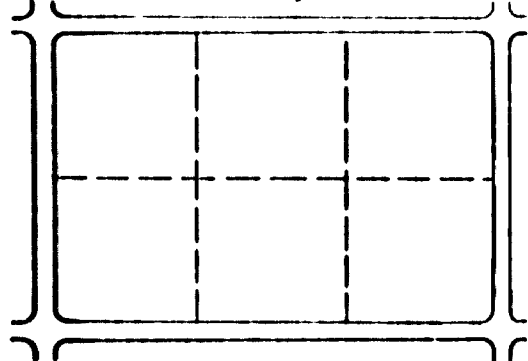
variation de petits lots : 1.5 à 4 acres  
variety of small lots : 1.5 à 4 acres



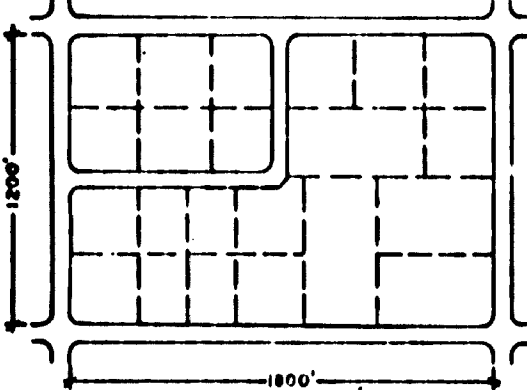
grande variation de dimension : 2 à 12.4 acres  
variety of dimension : 2 à 12.4 acres



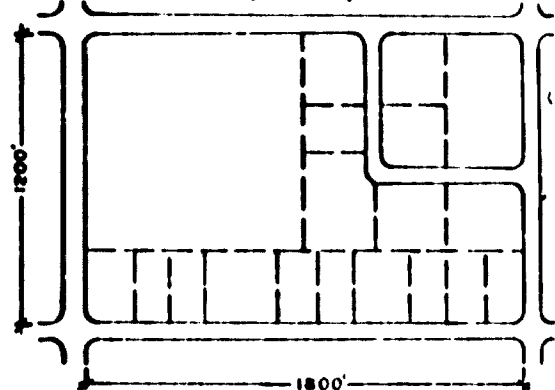
grands lots semblables : 8.25 acres  
identical large lots : 8.25 acres



variation de petits lots : 1.4 à 4.15 acres  
variety of small lots : 1.4 à 4.15 acres



très grande variation de dimension : 1 à 18.5 acres  
variety of large lots : 1 à 18.5 acres



7.4 We have included on the accompanying page an example of the super block development principle which insures the retention of flexibility in the subdivision of industrial land. This superblock development provides for blocks of land 1,200 ft by 1,800 ft. The current plan calls for a road network at intervals of 280 ft by 530 ft. For those elements of the Zone not already determined by road or service facilities, we would recommend the incorporation of a superblock plan. It will permit easy subdivision when the size and types of industrial facilities required are more clearly defined.

7.5. The consultants have recommended that the existing railway easement be used for the first several years for employee parking. As the Zone develops and the need for the railway spur is more evident, parking facilities can be provided at the permanent commercial and administrative centre.

It should be remembered that space for only 2 vehicles will be permitted at each leased factory unit. It will be expected that most employees will park outside the Zone. This implies that at the final stages of development the Agency will be required to operate an internal transportation system.

The Consultants would recommend that discussions be initiated with the Railway authorities, and with each likely investor concerning the need for the railway spur. It appears to be of significant value mostly to shippers and manufacturers in Montego Bay, who would plan on using the container port if containers could be shipped by rail from Montego Bay direct to the container port. Since initially the rail line will be of more value to the container port than to the Free Zone, costs for the rail line have not been included in the Zone Budget. Consideration should be given to the way in which traffic arriving at the Port by rail will be handled in relation to the Zone. The best solution that Redma would recommend is that a special gate be installed adjacent to the spur line which would be locked at all times except when rail cargo was being off loaded for the Zone. It might be possible to arrange this gate so that fork lift trucks and other equipment could be used to remove cargo from a railway car and deliver it direct to a Zone manufacturer or warehouse. The consultants would not recommend that any investor be permitted the impression that rail service will be provided to his factory door.

7.6. For the preliminary period, the consultants would propose that a trailer facility be used to house the Zone staff necessary to location directly on the site. This facility can be located easily on the first space to the right or left of the current Zone entrance. It will also include space for customs authorities, as well as security attendants.

- 7.7. Redma Consultants Ltd supports the concern of the Zone management to develop the most aesthetic fencing and interior treatment of the Zone. Control of smuggling will be undertaken through fiscal measures, and not by high barbed wire fences. The consultants would recommend that the following basic criteria be applied to the Zone's internal design;
- The maximum percentage of roads area should not exceed 15% of the park.
  - The total built area should not exceed approximately 60% of the area of the lot (land use intensity 0.6)
  - Every worker should have a gross area equivalent to 100 square feet of floor space.
- 7.8. With reference to the road network the consultants concurs with the basic design criteria of 24 ft secondary roadways and 50 ft dual carriageway main roads. Six foot sidewalks are appropriate as designed. The consultants would recommend the use of mercury vapour systems for street lighting at a height of 20 ft spaced every 200 ft along the roadway.
- 7.9. It appears likely that water supply may be a problem for the future development of the Zone. The current rule of thumb is 40 to 100 Imperial gallons per employee per day according to the type of industry. If the entire zone is occupied at the proposed criteria of 100 sq.ft. per employee the application of this rule will suggest between 1,130,000 and 2,800,000 Imperial gallons per day will be required in the Zone. (This assumes a Zone working population in excess of 28,000 people.) The need for such a water supply will become evident as the individual investors are delineated. Sewage treatment facilities will of course, depend on the specific industrial needs as well.
- 7.10. Since the final design of the proposed factory buildings to be built by the Agency had not been determined by the time of the departure of the consultants, only the preliminary designs were available. The only comment to be offered by the Redma team of this design was the need to retain flexibility in the interior spacing to permit both airconditioning (especially for the pharmaceutical industry) and natural lighting. The actual design used, however, would be more dependant on cost considerations than aesthetic ones.

8.0 ANCILLARY SERVICES REQUIRED BY THE ZONE.

A relatively large number of special services will be required within the Zone. Although this report does not attempt to identify all the specialized agencies which will need to be active in the Zone, the consultants have pointed out certain significant ones.

8.1 Fire-fighting Services.

There appears to be only 2 fire stations for the entire Metropolitan area of Kingston. The closest to the Zone, and indeed to the Port itself (with the exception of a marine fireboat) appears to be almost 3 miles distance. If the Zone is to undertake major industrial development, it will certainly be necessary to discuss with the Kingston authorities the location of fire-fighting services in closer proximity. These need not be on the Zone itself, but could service more adequately the surrounding industrial area by locating a small mobile unit nearby. In the interim, special care will have to be taken with regard to prospective investors to minimize fire risks.

8.2 Telex, Telephone and Cable Services.

Preliminary discussions have already been held with the appropriate Jamaican authorities to provide for rapid communications services. In the initial development phase, it would be appropriate to request the Post Office to operate a small facility within the interim administration centre, which could also accept cables and telegrams. Provision for a full postal station should be made in the permanent administration centre.

8.3 Maintenance Services.

The provision of maintenance of all services used in common by the occupants of the Zone, including general landscaping, roads, lighting, and water supply will be provided by the Agency staff itself. The Agency would also undertake the external maintenance of the leased buildings.

The lease signed by each occupant should identify his own responsibility for the maintenance of building inside, as well as for the repairs for any changes or damages which he causes.

The consultants would recommend that this maintenance program be contracted to available Jamaican concerns until such time as it appears advantageous to hire permanent staff. The Agency would be required to approve any maintenance contractor employed by an occupant, although it does not appear necessary to identify such contractors by a licensing system.

8.4 Labour and Training Services.

The Agency will be heavily involved in assisting prospective investors to locate labour appropriate to the firm's needs and to undertake training programs for labour, taking maximum advantage of Jamaican incentives for such programs. It is recommended by the consultants that this facility be represented, in the first instance, by close co-operation with the Ministry of Labour and the Jamaica Industrial Development Corporation. As the need develops, it may be appropriate for the Agency to retain an officer full-time at this task.

8.5. Investor Related Services.

There exists an undefined, and inexact need for direct assistance to prospective investors to guide them through the necessary procedures to ensure their settlement as contented occupants of the Zone. This will be the primary function of the Zone Agency, especially the marketing element of it. It will require close personal contact in all the Ministries affected by this new investment. It will involve knowing sources and procedures to identify and obtain quickly:-

- exchange control permits
- work permits
- import regime approvals
- medical facilities
- housing

8.6 Recreational services.

Such services are not envisaged as necessary in the preliminary phase of development, but centrally located recreational areas must be identified as the Zone develops

8.7 Canteen Facilities.

The consultants would recommend that the Agency permit the entry of an appropriate number of mobile food vendors to provide canteen facilities during the development phase. If centralized canteen services appear necessary within the first two years of development they can be established, but it is becoming less and less common in similar Zones around the world.

8.8. Customs Services.

It is proposed that specific arrangements be established to provide at the entrance gate and in the interim administration centre for 3 customs officers for the preliminary development period. Such customs officers would not be responsible for the security of the Zone, but the breach of customs and Zone regulations. It is expected that such officers will be provided at the cost of the Jamaican Customs Authorities and not the Agency.

8.9 Security Services.

The consultants would expect that Jamaican Police authorities will undertake the general protection of the Zone, both inside and outside. However, provision by the Agency exists within its operating budget to employ a security service to undertake the maintenance of additional security at night.

8.10 Banking Services and Exchange Control

These are discussed in Chapter 6.

8.11 Internal Transportation

These are referred to in Chapter 7. It is not viewed as a necessary facility for the first 5 years of operation. However, by the end of that period internal transportation may be required to accommodate the work force.

8.12 Workers Housing

Since the Zone is located very close to the urban areas of Kingston (within walking distance) no requirement exists for the development of housing for Zone workers.

8.13 Power, Water, Drainage, Sewage and Garbage Disposal

The financial plan in chapter 9 has provided for the infrastructure costs for the installation of these necessary services. Repayment of these investment costs are defined in the plan. Each investor will be required to meet the operating costs dependent on consumption or usage. Such costs will be paid directly to the provider of such services, not to the agency

9.0

THE FINANCIAL PLAN FOR THE KINGSTON EXPORT TRADE ZONE.

Redma Consultants Ltd has undertaken the development of 2 different 10 year cash flow projections for the Kingston Export Trade Zone. One uses a 10% year to year escalation factor and the second a 20% year to year escalation factor ( It should be noted that Jamaica currently is suffering from a year to year inflation factor in excess of 20%).

The basic assumption for this financing program is that Phase I (which incorporated the existing 14 acre site plus the area now allocated to commercial activity) will all be developed as factories built by the Zone Agency, and that the balance of lots 452 and 453 will be developed privately by organizations which wish to build their own facilities. These total all the space indicated in Plate 1. The existing plan for the 14 acre site calls for the construction of 57 buildings. On the assumption that the commercial zone would also be available for construction of factories, another seventeen buildings are added. In keeping with the understanding that land should not be brought into the project from the Port Authority (before it is actually used,) the costs of both parcels of land have been allocated in relationship to the time when they will actually be required according to the financial program. This is also the only way in which the financing costs can be kept down to an affordable level.

The idea behind the financing program may need a little explanation, since the major problem is that the debt servicing burden on financing becomes much more significant than the actual costs of operation. If the project were entirely financed on a debt basis it appears unlikely that the Zone could ever reach the point where it could pay any of its obligations. By using a contribution of equity in the initial years followed by debt, Redma has developed a 20 year program during which the full debt would be repaid, dividends paid on the equity every year, and approximately \$3 million left at the end of 20 years for repayment to the Port Authority. We have provided a combination of \$6 million of equity with the balance as debt. Another factor which should be pointed out is the arrangements proposed for repayment of the debt. Redma estimates that the total debt financing required will be \$7.9 million, using an annual interest rate of 10% in calculating the cost of this financing.

Redma would suggest that the financing be drawn down as required over a period of 5 years. No repayment of principal would be made until funds were available from the operation for this purpose. According to our calculations repayment would start in 1983 and the complete loan would be repayed by 1993. We believe such a program is viable as suggested provided this type of unusual repayment program can be developed for the dead financing period.



It must be pointed out that current financial plans for the Zone integrate its development entirely within the financing of the Port Authority, and the development of the transshipment port. The above program breaks out the costs of the Zone to identify its capability for self-financing, subject, of course to the Port Authority financing the unused land for the period it is not required by the Zone.

9.1 The Breakdown of Land in the Zone

The following calculations have been undertaken to define the land area and building space identified in Plate 1. (Since the application of the Gordon Cay area of land is more than 5 years into the future, it has not been included in this financial Plan.)

Phase 1 (currently) will provide for 57 buildings. To this has been added the area along First Road originally identified for commercial purposes, but now allocated for buildings to lease. The space provides for an additional 17 buildings. These 74 buildings occupy 17.1 acres. The remaining 33.7 acres will be available for development as specially designed buildings. Of this average, 23.6 (30%) is usable for factory space.

This provides for

Pre-built factories	747,000 sq. ft.
Specialized factory	1,467,972 sq.ft

The cost of this land has been \$2 Jamaican per sq.ft. The following table identifies the assumptions made regarding the development of these spaces over the years, and thus its allocation to the cost of development.

TABLE 9.1.

	Number of Factories to be build during year.	No. of total acreage	Allocation of Costs for pre-built factories	Allocation of Costs for specialize Factories (25% each year) (Jamaican \$)
1975	10	13.4	\$200,207	
1976	15	20.3	\$303,299	\$733,986
1977	15	20.3	\$303,299	\$733,986
1978	15	20.3	\$303,299	
1979	15	20.3	\$303,299	\$733,986
1980	4	5.4	80,681	
1981				\$733,986
			<u>\$1,494,084</u>	<u>\$2,935,944</u>
			*****	*****

9.2 The Estimate of Infrastructure Costs.

The Current plan identifies the following costs for infrastructure

	<u>Jamaican \$</u>
Current quote for services	\$174,712
Services not included	50,000
Fencing	90,000
Escalation Factor 1975	30,000
Cost of office & furniture	<u>30,000</u>
	\$ 374,312

The useable square feet in that area is 525,022

Thus the Infrastructure cost  
is 71¢ Jamaican per sq.ft.

The costs of infrastructure for the second portion of the current plan would be

$$71¢ \times 1000.000 \text{ sq.ft.} = \$710,000$$

The infrastructure cost breakdown for the second portion if the following assumptions are made:-

- total cost \$710,000
- assume block development in 250,000 sq.ft units in years - 1976, 1977, 1979, 1981
- assume that costs escalate each year

TABLE 9.2

	<u>1975 cost base</u>	<u>with 10% escalation.</u>	<u>With 20% year to year escalation</u>
1976	\$177,500	\$195,250	\$213,000
1977	\$177,500	\$214,775	\$255,600
1979	\$177,500	\$259,878	\$368,064
1981	\$177,500	\$314,452	\$530,012

9.3. The Estimate of Building Costs.

It has been assumed that 10 factory units will be built every year until all such facilities are completed. The current quote for each unit now under construction is.

Building	\$J 65,000
Services, paving & extras	\$J <u>15,000</u>
	\$J 80,000
	*****

**TABLE 9.3**      **BUILDING CONSTRUCTION COSTS (ASSUMING 10% ESCALATION)**

<b>Year</b>	<b>No of units built</b>	<b>Cost per Unit (J\$)</b>	<b>Total Building Cost (J\$)</b>
1975	10 units	\$80,000	\$800,000
1976	15 units	\$88,000	1,320,000
1977	15 units	96,800	1,452,000
1978	15 units	106,480	1,597,200
1979	15 units	117,128	1,756,920
1980	4 units	128,841	515,364

**TABLE 9.4**      **BUILDING CONSTRUCTION COSTS (ASSUMING 20% ESCALATION)**

<b>Year</b>	<b>No of units built</b>	<b>Escalated Unit Cost (J\$)</b>	<b>Total (J\$)</b>
1975	10	\$ 80,000	\$ 800,000
1976	15	96,000	1, 440,000
1977	15	115,200	1, 728,000
1978	15	138,240	2, 073,600
1979	15	165,888	2, 488,320
1980	4	199,066	796,262

9.4. Operating Costs.

Redma Consultants Limited would propose the following operating budget;

<u>Staff Salaries.</u>	<u>Jamaican Dollars</u>	
General Manager	20,000	
Planning & Marketing Officer	13,000	
Zone Maintenance Manager	10,000	
Administrative Manager	12,000	
Secretaries (3)	5,000	each
Clerks (3)	5,000	each
Office attendant	2,000	each
Total salary budget	<u>87,000</u>	
<u>Expense Budget</u>		
Promotion	35,000	(½ of Total Budget)
Travel	5,000	
Security (1975)	3,000	
Office Equipment & Sup.	5,000	
Building Maintenance (1975)	<u>3,000</u>	
TOTAL BUDGET	138,000	

Due to a start-up lag, the consultants have proposed an allocation of \$80,000 of this budget in 1975, but additional expenditures for 1976, and 1977 of \$20,000 each year.

TABLE 9.5                      OPERATING BUDGETS FOR THE AGENCY

Year	Addition to Budget	Budget with 10% escalation	Budget with 20% escalation
1976	20,000	173,800	189,600
1977	20,000	213,180	251,520
1978		234,498	301,824
1979		257,948	362,189
1980		283,743	434,627
1981		312,117	521,552
1982		343,329	625,862
1983		377,661	751,035
1984		415,427	901,242

9.5. Revenue Projections.

The consultants have assumed the following graduated scale of lease rates which would be applied for the lease of pre-built factory space depending on its use.

	<u>Jamaican Dollars per sq.ft.</u>
In-bond merchants	\$3.00
Warehouse & Distribution	\$2.75
Distribution with re-packaging	\$2.25
Manufacturing	\$2.00

These rates would be applied and modified depending on the employment generated and the term requested. The consultants would propose the use of graduated rent scale related to the number of employees per 6,000 feet of factory facility. The application form for the investor would provide space for the applicant to indicate the expected number of employees in his facility. Rent would be based on this estimate and he would be given a year to work up to his estimated total. He would be required to report at the end of each year thereafter the average number of employees during the year. This would form the basis for any necessary rent adjustment. Since the Zone agency would have the right of access to all records of companies in the Zone it would be possible to check the level of employment if there were any question of its accuracy. As long as the rules for the rent calculations are spelt out at the beginning there should be no difficulty in estimating the amount of money required for rent. A company will have to relate its rent budget to its expected employment level.

We also recommend the leasing of land for the construction of manufacturing facilities at the concessionary rate of Jamaican 50 cents per sq.ft. Escalation would be applied at year end depending on inflationary trends.

Assuming an average lease rate of \$2.35 Jamaican per square foot, minus an allocation of \$0.10 for vacancies, the figure of \$2.25 per square foot has been used for revenue calculations for pre-built factories. A pre-built factory is identified at 6,500 sq.ft, and it is assumed that on average these are leased on 3 year leases renewable for a further 3 years. It is assumed that 8 factories are built in the first half of the year, and 7 in the second. Based on these assumptions, the following table identifies projected revenue from such space.

TABLE 9.6

	<u>Revenue from Rental (10% Escalation) (\$J)</u>	<u>Revenue from Rental (20% Escalation) (\$J)</u>
1975	\$ 36,563	\$ 36,563
1976	207,610	212,810
1977	440,830	471,770
1978	685,750	766,870
1979	965,380	1,172,080
1980	1,233,960	1,617,330
1981	1,309,295	1,808,885
1982	1,377,545	2,067,260
1983	1,463,345	2,421,160
1984	<u>1,518,920</u>	<u>2,677,805</u>
<b>TOTAL</b>	<b>\$9,239,198</b> *****	<b>\$13,253,533</b> *****

With reference to the revenue from the rental of land, based on a 1975 base price of Jamaican \$.50 per sq.ft., escalation is applied only to the leases signed the following year. 1,000,000 sq.ft of space is completely rented by 1984, although no land is serviced and ready for leasing until 1976. It is assumed that 50,000 sq.ft is leased at that time. The following table identifies the revenue projected from such leases.

TABLE 9.7

	<u>Revenue from Leased Land (Escalation 10%) \$ Jamaican</u>	<u>Escalation 20% Jamaican</u>
1976	12.500	12.500
1977	69.000	73.000
1978	140.400	155.800
1979	219.000	254.800
1980	305.700	373.300
1981	400.800	515.800
1982	505.200	687.100
1983	620.100	892.900
1984	746.700	1,140.100

9.6 Debt and Equity Financing.

The following 2 tables identify the specific financing requirements calculations and cash flow needs we project for the Zone. They underline the allocation of specific equity and debt charges to the Zone as it is needed by the demands of the development of the Zone. It should be noted that by 1980 assuming the pace of development assumed above is maintained, the actual operation of the Zone will be self-financing without reference to financing costs. It will be in 1982 that revenue will more than meet financing costs as well, and by 1983 repayment of debt will begin. Assuming an average operating revenue of \$J 1,750,00 per year by 1985, the debt will be completely repaid by 1993.

It is to be noted that a cumulative equity position in the Zone is maintained by the Port Authority at \$J6,000,000 which interest is serviced but not repaid. A cumulative debt position to the Authority of \$J8,000,000 is identified by 1981, but this amount is both serviced annually and repaid as noted above by 1993, with 10% interest paid annually.

9.7 Conclusions.

It is the consultants opinion that although the existence of a fiduciary relationship between the Port Authority and the Agency is a fact, it should be limited to an investment role. The Zone should not be expected to finance the entire construction program of the Port. In this regard, Mr.P.Ryan of UNIDO makes the point as follows:-

" No attempt should be made to use revenues from investors in the Free Zone to pay off loans or finance other projects.

In fact a Government subsidy will be needed to subsidize costs and to effectively promote the zone overseas, at least in the first few years. "

The allocation of the costs of the land to the Zone as they are developed provides for a land banking operation by the Authority which can prove most beneficial to the Zone.

KINGSTON EXPORT TRADE ZONE

PROJECTED 10 YEAR CASH FLOW  
USING 10% PER YEAR ESCALATION FACTOR.

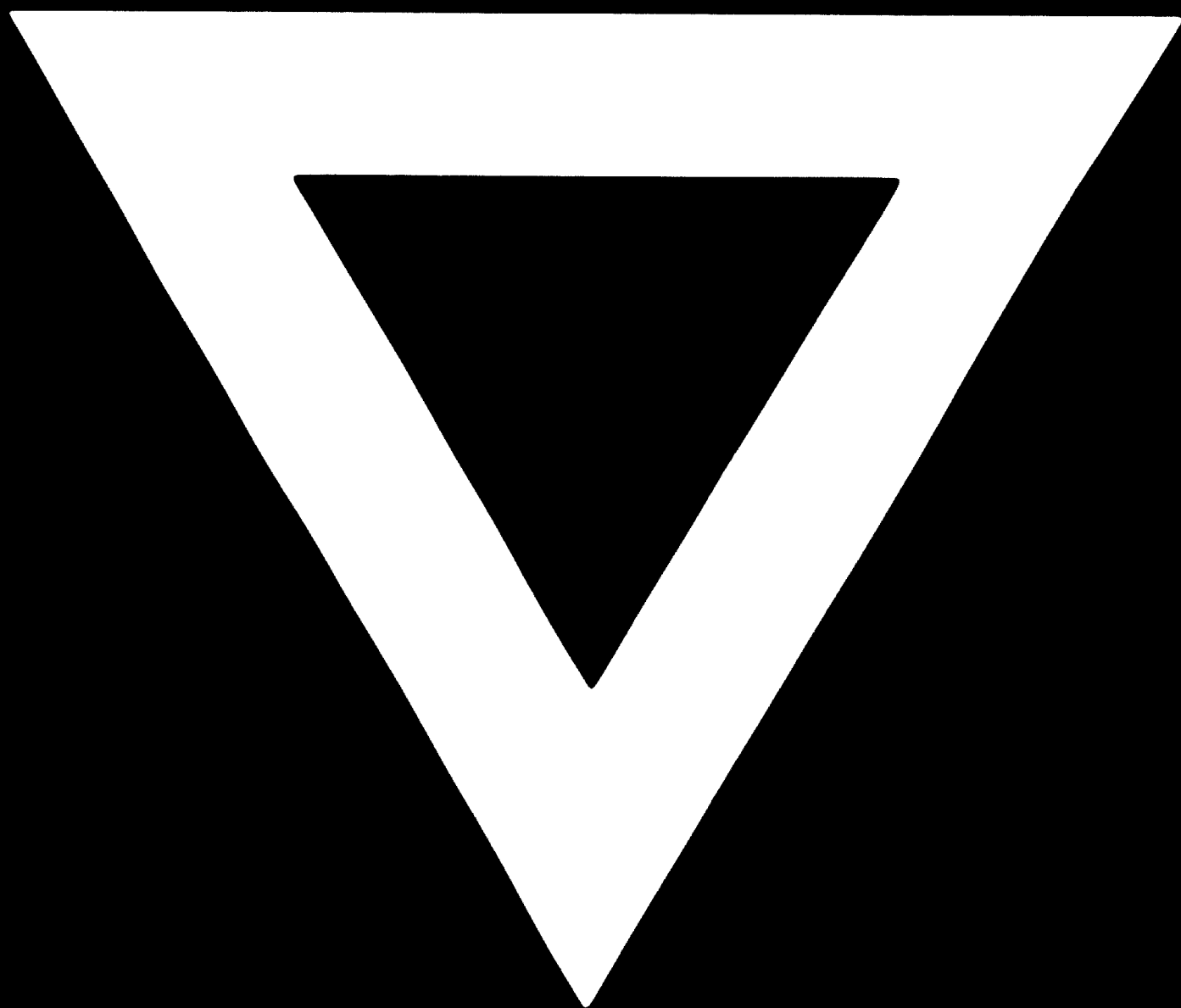
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Land costs - parcel 1.	200207	303299	303299	303299	303299	80681				
- parcel 2.		733586	733586		733586		733586			
Infrastructure - parcel 1.	374312	195250	214775		259878		314452			
- parcel 2.		1320000	1452000	1597200	1756920	515364				
Building construction	8000000	173800	213180	234498	257948	283743	312117	343329	377661	415427
Operation costs.										
Outlay(before financing costs)	1454519	2726335	2917240	2134997	3312031	875788	1360555	343329	377661	415427
Revenue										
"Factory leases"	36563	207610	440830	68750	565380	1233960	1309295	1377545	1463345	1518520
"Land leases"		12500	69500	140400	219000	305700	400000	505200	620100	746700
Total operating revenue	36563	220110	509830	826150	1184380	1539660	1710095	1822745	2083445	2265620
Net outlay (Revenue) before financing	1417956	2506225	2407410	1308847	2127651	(659872)	(349540)	(1539416)	(1705784)	(1850193)
Finance costs										
Equity service	112000	308000	420000	420000	420000	420000	420000	420000	420000	420000
Debt service		140000	140000	340000	660000	710000	800000	800000	770000	710000
Net outlay(revenue) including finance costs.	1529956	2814225	2967410	2068847	3207651	470128	870460	(319416)	(515784)	(720193)
Borrowing (Repayment)										
Equity	1600000	2800000	1600000	2000000	2200000	500000	900000	-	(300000)	(600000)
Debt.										
Net Cash Flow	70044	( 14225)	32590	(68847)	(7651)	25872	29540	319416	215784	120193
Cumulative cash flow	70044	55819	88409	19562	11911	41783	71323	390739	606523	726716
Cumulative Equity	1600000	4400000	6000000	6000000	6000000	6000000	6000000	6000000	6000000	6000000
Debt	1400000	3400000	6000000	6000000	6000000	7100000	8000000	8000000	7700000	7100000



KINGSTON EXPORT TRADE ZONE  
PROJECTED 10 YEAR CASH FLOW  
USING 202 ANNUAL ESCALATION FACTOR

	1972	1976	1977	1978	1979	1980	1981	1982	1983	1984
Land costs - parcel 1. - parcel 2.	200207 733986	303299 733986	303299 733986	303299 733986	303299 733986	80681	733986			
Infrastructure - Parcel 1. - Parcel 2.	374312	213600	255600	368064	368064		530012			
Building construction	800000	1440000	1728000	2073600	2438320	796262				
Operating costs.	80000	189600	251520	301824	362189	434627	521352	625862	751035	901242
Outlay (before financing costs).	1454519	2880485	3272405	2678723	4255858	1311570	1785550	625862	751035	901242
Revenue "Factory leases" "Land leases"	36563	212810 12500	471770 73000	766870 155880	1172080 254800	1617330 373300	180885 515800	2667260 687100	2422160 892900	2677805 1140100
Total operating revenue	36563	225310	544770	922670	1426880	1996630	2324685	2754360	3315060	3817905
Net outlay (Revenue) before financing	1417956	2655175	2727635	1756053	2828978	(679060)	(539135)	(2128498)	(2564025)	(2916663)
Finance costs Equity service Debt service	112000	322000	420000	420000	420000	420000	420000	420000	420000	420000
Net outlay (Revenue) Includ. finance costs.	1529956	2977175	3337635	2626053	4108978	670940	508965	(668438)	(1194025)	(1666663)
Borrowing (Repayment) Equity Debt	1600000	3000000	1400000	1900000	4100000	700000	900000	-	(700000)	(1200000)
Net cash flow	70044	22825	(37635)	(26053)	(8578)	29060	(865)	688498	494025	456663
Cumulative Cash flow	70044	92869	55234	29181	20203	49263	48398	73696	123021	1697534
Cumulative Equity	1600000	4600000	6000000	6000000	6000000	6000000	6000000	6000000	6000000	6000000
Cumulative Debt.	1500000	1900000	4500000	8600000	9300000	9300000	10200000	10200000	9500000	8300000

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**80.03.19**