

MINISTERIAL BRIEF

Tabling SEZ Green Paper in Parliament

January 13, 2015

Background

- Mr Speaker, the tabling of the SEZ Green Paper in Parliament follows a period of wide consultation last year, involving local and international organizations and experts. Considering that the GOJ wants maximum exposure of the policy and consensus in creating this economic platform, we invite additional comments on the Green Paper toward the furtherance of the SEZ regime as an important catalyst for sustainable growth, industry diversification and integration in global value and supply chains.
- Cabinet also instructed that there should be inclusion of information on the labour market reform. The relevant section of the Green Paper includes labour market reform initiatives aimed at removing the previous perception of the Freezone as “sweat shops”. The labour practices to be adopted in the SEZs will entice job seekers to aspire to be a part of

new industries that challenge their creative intellect while guaranteeing a world class quality of life.

Rationale for the SEZ regime

- Special Economic Zones (SEZs) represent a wide variety of geographically-demarcated areas that offer simplified and efficient business regulations and procedures aimed at attracting investors. SEZs will replace the current Free Zones and will be promoted and facilitated as a strategy to attract and retain targeted investments and will catalyse and sustain economic activity across various sectors of the Jamaican economy.
- This necessitates a transitioning process especially, to protect the interests of existing occupants of the zones while ensuring seamless transitioning to the special economic zones. In this regard, I have reactivated the Free Zone Council as I am authorized to do under the existing Jamaica Export Free Zones Act in order to assist with the planning, strategy and

structure for the transitioning to a SEZ regulatory authority while providing for a smooth transition from an established Free Zone Council to the proposed SEZ Authority.

- The investments in critical logistics and related assets under the Global Logistics Hub Initiative, while improving the quality of the international network of maritime and aviation connections to the world, work in tandem with institutional and business climates that will result in greater commercial efficiencies, greater supply chain optimization and lowered costs for a wide range of increasingly sophisticated businesses along the global value chains.
- Our efforts at providing a conducive business environment has resulted in considerable strides during last year as reflected in several global indices such as the Doing Business Index, the Competiveness Index and the Logistics Performance Index. More work remains to be done in the upcoming months to remove remaining impediments to attracting foreign direct investment. Consequently the Free

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

- The Council was re-activated to create the intermediate regulatory reinforcement necessary for smooth transition to the SEZ regime, albeit in accordance with the provisions of the Jamaica Free Zones Act. Given the exigencies of time and the need for speedy legislative and regulatory changes to support the new SEZ regime, it is anticipated that the Free Zone Council will not only resume all functions stipulated under the Act but will also provide the regulatory support that is necessary during this transitional period. Hence, in keeping with the Free Zone Act, the Council will implement procedures and guidelines for planning, promotion and regulation of the free zones. In addition, the Council will be expected to implement all transitional strategies that will

result in the seamless formation and operation of the SEZ Authority. This should include the logistics of housing all relevant regulatory agencies under one roof with a single electronic window arrangement that will facilitate registration of new enterprises, granting of licenses and the issuance of permits and other facilitation measures to enable the acceleration of business processes.

- The introduction of the SEZ regime is strongly influenced by several important factors.
 - i. **Firstly, changes in industrial production and developments such as the expansion of the Panama Canal have contributed to significant shifts in international trade and offer small economies such as Jamaica, an opportunity to actively participate in global value and supply chains.**

As a logistics hub to be supported by SEZs in the middle of these trade routes, Jamaica is strategically positioned to attract large corporations that are eager to benefit from the country's near shore value advantages such as just-in-time delivery or postponement logistics and will benefit from superior market access through a network of trade agreements to be negotiated, bilaterally if necessary.

ii. The second rationale is centred on the enormous potential of the SEZ regime to stimulate wide-scale economic activities, especially in new and emerging sectors such as automotive, truck assembly, petrochemicals among others. In addition, through the SEZ regime and other initiatives, measures such as business climate reforms, creation of sustainable business-to-business linkages and other reforms will be intensified so that over time, the Jamaican economy will

be able to achieve greater levels of efficiency, transparency and predictability.

As a result of these reforms, both businesses in SEZs and the rest of the economy will be better prepared and equipped to access a larger share of the global market, expand and diversify their economic activities and hire more workers. These are all critical factors for driving investment, stimulating commerce and boosting industrial development and will have important spill-offs for the entire country.

- iii. **Next, the intention to develop a new SEZ regime ensures conformance under the World Trade Organization's (WTO) rules for middle-income countries such as Jamaica.** The existing free zone regime stipulates rigid eligibility requirements in terms of qualifying activities and requires that 85% of manufactured goods have to be exported. The new SEZ regime seeks not only to bring the country into

compliance with the WTO Agreement on [Export] Subsidies and Countervailing Measures by 2015 and thereby minimise the potential for challenges from other World Trade Organisation (WTO) Members, but to allow a seamless interface with the domestic suppliers and growing business - to - business linkages that would serve to grow domestic businesses to access new markets.

- iv. **It is also influenced by global competitive forces that could determine the success of the overall regime that demand government interventions to ensure full private sector participation, both indigenous and foreign.** We do not have the luxury of time in the highly competitive global marketplace neither can we afford delays and complacency. This is why we view the SEZ regime as a deliberate policy tool for advancing the growth and maturity of the Jamaican private sector through exposures to more business opportunities locally and internationally.

The private sector is motivated to contribute to the new SEZ regime and thereby will be able to utilize world class infrastructure and benefit from cross border trade facilitation in a logistics-centred economic environment. Consistent with the plans under the National Export Strategy, we view the SEZ regime as a tool for enhancing and stimulating export growth and diversification in both the range of products and markets. As the economy becomes more integrated in the global value chain, the export of secondary products and services is also expected to expand.

Efforts will be made to ensure that large enterprises and MSMEs capitalize on business opportunities within the SEZ and strategies are being developed to support business-to-business linkages and to orient the business community towards increasingly leveraging technology and business analytics, as tools for greater level of innovation and productivity.

Mr Speaker, for us in this administration the SEZ regime is the boiler-room (engine room) of the logistics hub initiative and a magnet for pulling in investments in a variety of value added activities from which the well-paying jobs Jamaica needs will become a reality.