

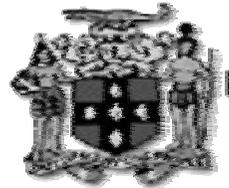
Recent Trends & Policy Development in the Caribbean Region

The Case Of Jamaica

A Presentation by

Patricia Francis

President



JAMPRO

Jamaica Promotions Corporation

April 5, 2001

Contents

- ❖ **FDI performance**
- ❖ **Policy changes at the global and CARICOM level**
- ❖ **Constraints to development from FDI**
- ❖ **Future challenges**

April 5, 2001

Global FDI Performance

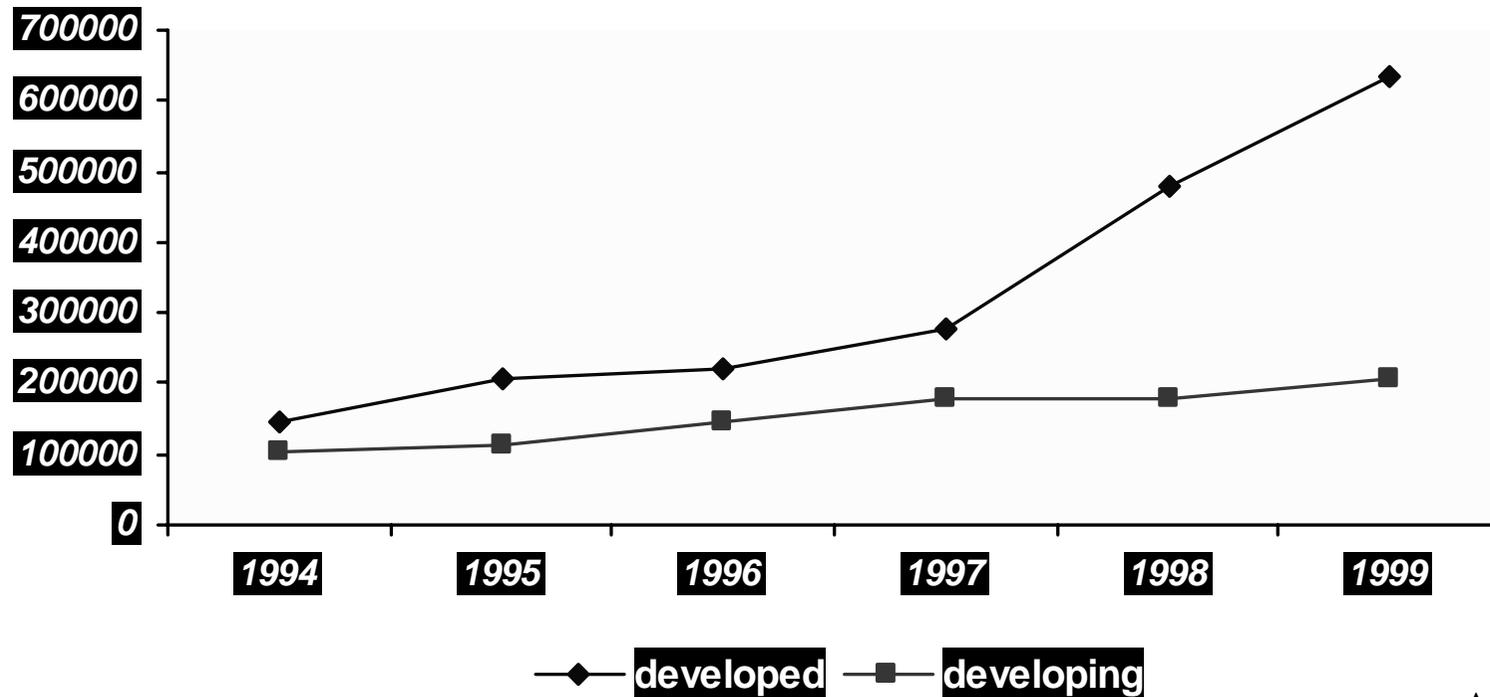
- ❖ **In 1999, global FDI inflows reached \$865.5 billion increasing 27% over 1998;**
- ❖ **FDI inflows to developing countries reached \$208 billion, an increase of 16% over 1998;**
- ❖ **This trend is no doubt bolstered by the more open global investment regime;**

Global FDI Performance

- ❖ **FDI inflows are being increasingly attracted by developed countries with over $\frac{3}{4}$ of 1999's inflows going to these economies**
- ❖ **This could reflect an increase in risk aversion and greater dependence on M&As**

Global FDI performance

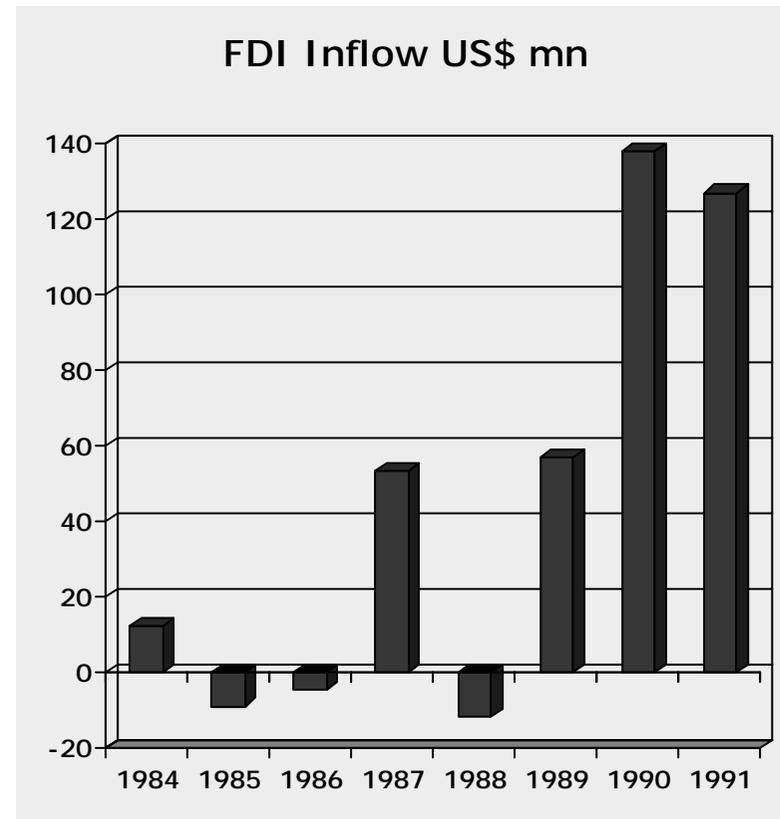
FDI in Developed vs developing countries (US\$'000)



April 5, 2001

Jamaica's Historical FDI performance

❖ **In the pre-liberalization (1980-1991) period, Jamaica's FDI record was unstable averaging under US\$45mn p.a. with many years of investment loss;**



April 5, 2001

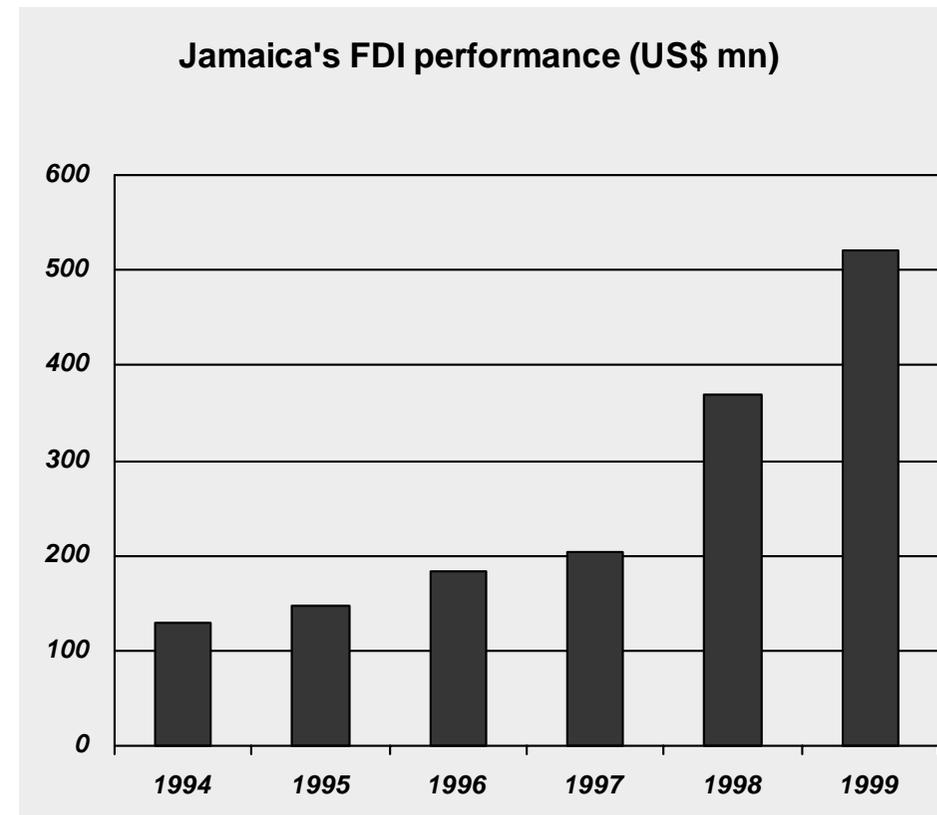
Jamaica's Historical FDI performance

- ❖ **This instability was partly due to the politically turbulent period of 1976-1980 where FDI loss averaged US\$7 m annually;**
- ❖ **This was preceded by the 1966-1970 period where FDI inflows averaged US\$107 m and the 1971-75 period where the average was \$74 m;**

April 5, 2001

Jamaica's Current FDI Performance

- ❖ **Over the 1994-1999 period, Jamaica's FDI inflows increased over 300%;**
- ❖ **Globally, Jamaica ranks 15th in terms of openness to FDI flows and FDI importance to the economy***

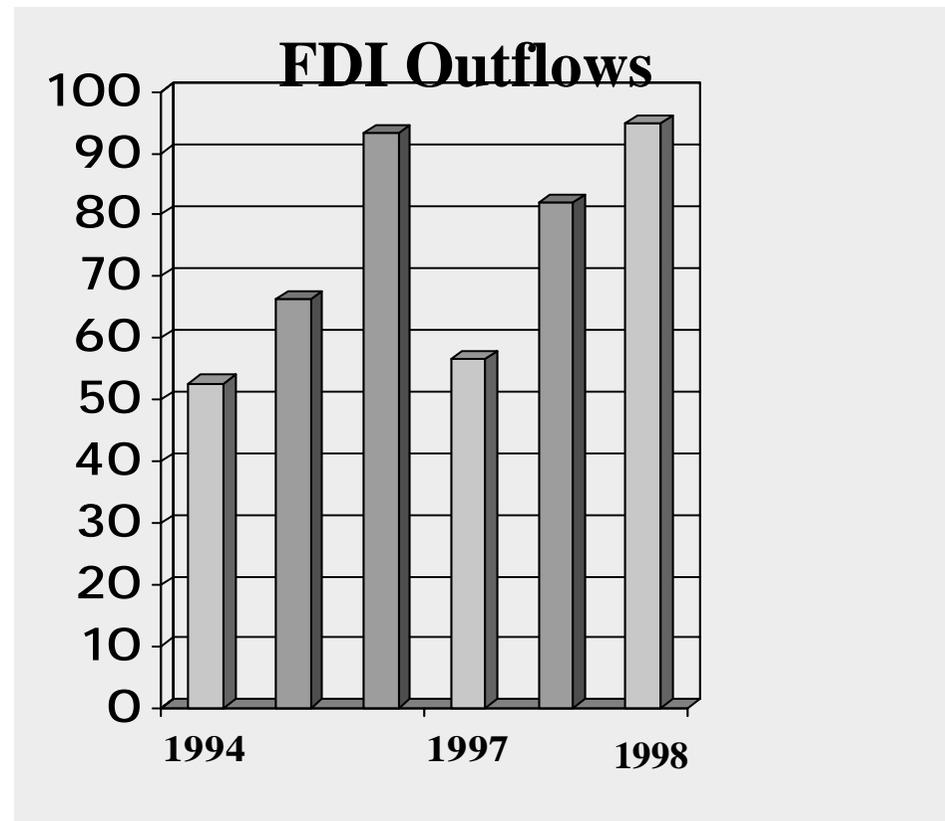


April 5, 2001

*Source: World Investment Report 200

Jamaica's Current FDI Performance

- ❖ **Jamaica is now an increasing outward investor with US\$95 m in outward investment in 1999 up from \$53 m in 1994;**



April 5, 2001

Global Policy Changes

- ❖ **The developed world has consistently been lobbying for more transparent global rules governing cross border investment to support globalization;**
- ❖ **The 1980's marked the most recent efforts at globalization with the IMF and GATT prescribing liberalization policies designed to get prices to reflect market signals;**
- ❖ **During this period countries were encouraged to open not only their trade regime, but also investment regimes;**

April 5, 2001

Global Policy Changes

- ❖ **This openness called specifically for no pre-screening, no reserved sectors for locals, no conditions on the rights for entry such as hiring local personnel, using local raw materials, allowing technology transfer or having to keep some foreign exchange in the local banking system for a period of time;**

Global Policy Changes

- ❖ **Avoidance of double taxation was also an important policy shift;**
- ❖ **National governments now have less control over the sectors to which FDI inflows are attracted;**
- ❖ **In recent times, the WTO through the Trade Related Investment Measures Agreement (TRIMS) has supported the trend in global policy away from government intervention;**

April 5, 2001

Global Policy Changes

- ❖ **Subsidies and incentives now are restricted under the WTO Subsidies and Countervailing Measures Agreement (SCM) whereas previously governments were granted more discretionary power to support investment projects;**
- ❖ **Negotiations amongst the OECD members for The Multilateral Agreement on Investment (MAI) started in May 1995;**
- ❖ **The Multilateral Agreement on Investment (MAI) should have been the paramount vehicle for future liberalization of global regimes but negotiations stalled in 1998;**

April 5, 2001

Global Policy Changes

- ❖ **The objective for the negotiations was to provide a broad multilateral framework for international investment with high standards for the liberalisation of investment regimes;**
- ❖ **The outstanding issues in the MAI include investment definition (whether to include portfolio investment), treatment and exceptions (specifically cultural exceptions), performance requirements and incentives amongst other topics;**
- ❖ **Global policy makes it more competitive particularly for SMEs, which comprise most Jamaican firms, and restricts government support;**

April 5, 2001

CARICOM Investment Policy

- ❖ **However most CARICOM states are also WTO members and are bound by these rules in interfacing with third parties;**
- ❖ **The proposed Caribbean Court of Justice will be the highest court in the Caribbean, and will also be deeply involved in Dispute settlement between investors;**

April 5, 2001

Jamaica's Policy Position and Challenges

- ❖ **Jamaica has always been open to FDI inflows;**
- ❖ **Being open to FDI inflows was a precursor to the various IMF loan programmes in the 1970's and 80's;**
- ❖ **In 1991, the exchange controls act was repealed to allow repatriation of funds;**

Jamaica's Policy Position and Challenges

- ❖ **The country embarked on an aggressive programme of negotiating bilateral investment treaties with mostly developed countries;**
- ❖ **It is much easier for companies to be established under the new companies act;**
- ❖ **Jamaica has recently signed the New York convention on dispute settlement to complement the ICSID convention and strengthen Dispute settlement procedures;**

April 5, 2001

Jamaica's Policy Position and Challenges

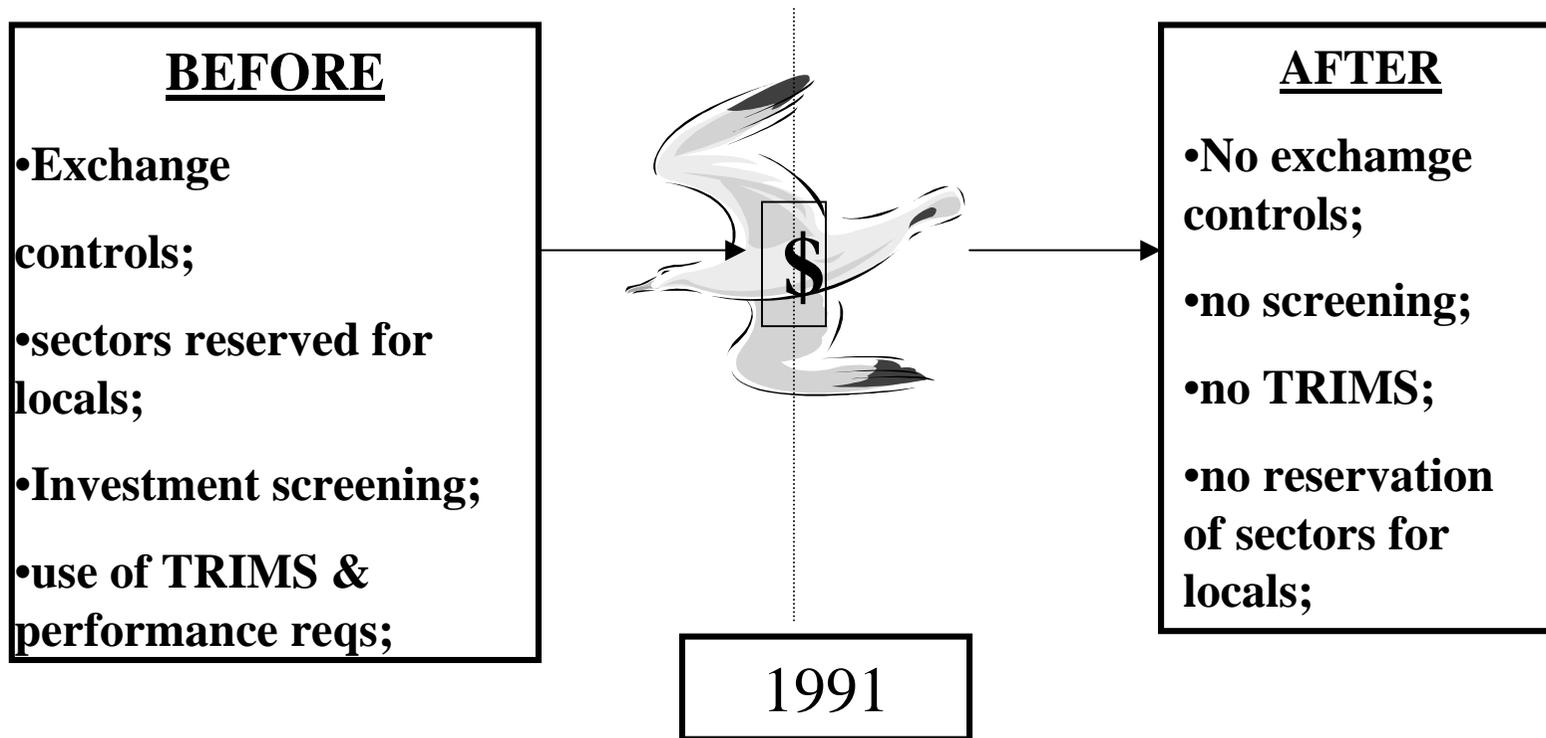
- ❖ **The National Industrial Policy (NIP) (the government's strategic plan for growth and development) recognizes the importance of facilitating and encouraging greater FDI inflows to compliment Local Direct investment flows;**
- ❖ **The emphasis of the NIP is on generating high economic growth and the plan identifies the dilemma of high investment inflows without commensurate growth as a major concern;**

April 5, 2001

Jamaica's Policy Position and Challenges

- ❖ **Studies have indicated that investment have gone into low value added activities;**
- ❖ **Many companies have retooled, but because of the open trade policy, their capital stock is underused;**

Policy Changes in Jamaica



April 5, 2001

Jamaica's Policy Position and Challenges

- ❖ **On the issue of the OECD harmful tax competition initiative, we support any initiative to prevent countries using incentives as their main investment promotion strategy, as this invariably favours larger economies;**
- ❖ **However there should be some room in the OECD Harmful Tax Policy, or any other initiative, for select industry exceptions in smaller island states who have no track record of illegal activities or encouraging tax evasion to attract foreign investors;**

April 5, 2001

Jamaica - Investment Merits

- ❖ **No restriction on the repatriation of dividends for international investors**
- ❖ **No requirement for Bank of Jamaica approval for investments**
- ❖ **No restriction of ownership of land by foreigners**
- ❖ **Free zones which offer income tax relief in perpetuity**
- ❖ **No restrictions on foreigners borrowing from the local banking system**
- ❖ **No capital gains tax**

April 5, 2001

Legislative Frame Work

- ❖ **Hotel Incentives Act (HIA)**
- ❖ **Motion Picture Encouragement Act**
- ❖ **Shipping Incentives Act**
- ❖ **Industrial Incentives Act**
- ❖ **Export Industry Encouragement Act (EIEA)**

Legislative Framework

❖ **Intellectual Property Rights**

- Copyright Act

- Patents and Design Law

Constraints to Development from FDI

- ❖ **Mergers and acquisitions displacing some Greenfield investments (Acquisitions in Jamaica represented 34% of FDI inflows in 1999);**
- ❖ **Low technological innovation;**
- ❖ **FDI projects which are less export oriented (Foreign Investors accounted for only 16% of exporters in 2000)**

April 5, 2001

Future Challenges

- ❖ **Generating economic growth associated with FDI inflows;**
- ❖ **To finalize local competition policy to handle M&As in Jamaica;**
- ❖ **To use IPR protection to assist in maximizing the use of biodiversity and cultural industries;**
- ❖ **JAMPRO will keep a close watch on the discussions on geographical indications which can provide a great locational advantage for Jamaica;**

April 5, 2001

Future Challenges

- ❖ **To grow new firms which will be attractive partners for foreign investors within the new global regime;**
- ❖ **To build new comparative advantages to replace those to be lost under new “no-preference” trading regime cognizant of the increased pressures from particularly the FTAA, and the CARICOM Single Market and Economy;**

April 5, 2001

Closing Points

- ❖ **The global Investment regime is again experiencing metamorphosis in the direction of greater liberalisation;**
- ❖ **Jamaica supports this where the policy framework allows for attraction of high quality investments which contribute towards economic growth for small island economies;**

April 5, 2001

Closing Points

- ❖ **Our history has been one of openness and a strategy of absolute openness is controversial even in the OECD;**
- ❖ **The economic record has been disappointing partly because of the low structural linkages between foreign and local investment projects a direct consequence of the extremely open regime prescribed by the developed world, and historically adopted by Jamaica;**

Closing Points

- ❖ **Global investment policy should allow for strengthening small firms so that larger foreign firms will partner with them for mutual profit making goals;**