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FDI'S LINKAGES WITH ENTERPRISE DEVELOPMENT

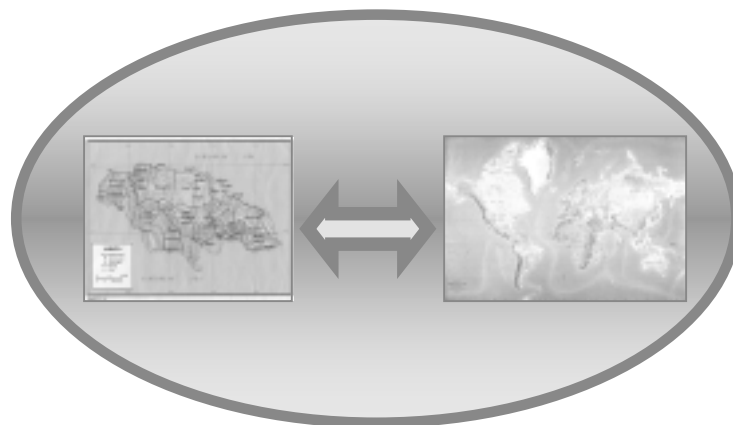
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"FDI'S LINKAGES WITH LOCAL ENTERPRISE DEVELOPMENT"

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Table of Contents

| | |
|---|----|
| <u>LIST OF ABBREVIATIONS</u> | 4 |
| <u>1. INTRODUCTION</u> | 5 |
| <u>2. FORMS OF ECONOMIC LINKAGES</u> | 7 |
| <u>3. BENEFITS OF BACKWARD LINKAGES</u> | 8 |
| <u>4. FACTORS INFLUENCING LINKAGE PROMOTION</u> | 9 |
| <u>5. EFFECTIVE GOVERNMENT INTERVENTION</u> | 10 |
| <u>5.1 POLICIES TO FOSTER GREATER & DEEPER BACKWARD LINKAGES</u> | 10 |
| <u>6. LINKAGES AS A COMPONENT OF JAMAICA’S INVESTMENT STRATEGY</u> | 13 |
| <u>6.1 TNC-LOCAL FIRM BACKWARD LINKAGES IN JAMAICA’S ECONOMIC DEVELOPMENT</u> | 13 |
| <u>6.2 GOVERNMENT INITIATIVES WITH INDIRECT LINKAGE BENEFITS</u> | 14 |
| <u>6.3 TNC INITIATIVES TO HELP JAMAICAN COMPANIES</u> | 15 |
| <u>6.4 JAMAICA’S RECENT FDI ATTRACTION STRATEGY</u> | 15 |
| <u>7. STRATEGIC POLICY DIRECTION FOR JAMAICA</u> | 17 |

LIST OF ABBREVIATIONS

| | |
|----------|--|
| BPO - | Business Process Outsourcing |
| EPZ - | Export Processing Zones |
| FDI - | Foreign Direct Investment |
| FIAS - | Foreign Investment Advisory Service |
| JAMPRO - | Jamaica Promotions Corporation |
| M&As - | Mergers & Acquisitions |
| NIP - | National Industrial Policy |
| SIDS - | Small Island Developing States |
| SME - | Small and Medium Size Enterprise |
| TNC - | Transnational Corporation |
| TRIMS - | Trade Related Investment Measures Agreement |
| UN - | United Nations |
| UNCTAD - | United Nations Conference on Trade & Development |
| UWI - | University of the West Indies |
| WIR - | World Investment Report |
| WTO - | World Trade Organisation |

1. INTRODUCTION

Foreign direct investment in developing countries has increased dramatically in the last ten years. As a result, many developing countries have begun to search for ways to increase the benefits from such investment. One of the ways is through increased backward linkages between foreign controlled companies and local firms. In the process of promoting linkages, many countries have recognized that protectionist policies and local content programs previously used to force foreign companies to buy local inputs do not work well in the changed international environment. Studies have shown that:

- > Economic liberalization helps rather than hurts domestic suppliers, including SMEs;
- > Institutional support focusing on upgrading the capabilities of domestic suppliers is critical; and
- > Promotional programs combining public and private resources can accelerate linkage development.

Much in tandem with the recent wave of cross border investment flows, the Jamaican economy has been attracting increased Foreign Direct Investment Inflows (FDI) in recent years. However these inflows have not been associated with economic growth as shown by the much documented recent economic freeze of the Jamaican economy. This has been the focus of major research in the developing and developed world and has been given high priority in JAMPRO's Research programme since 1999 where the organisation's Investment Review summarised the following;

“Jamaica's major challenge will be the ability to attract investments which will have a higher multiplier effect than those attracted in the past.... Two important reasons for the low multiplier are:

1. *Low structural linkages between foreign investors and the local supply chain; and*
2. *An incentive regime which encourages the import of raw materials for production.*

Imports are a leakage from the circular flow and this leakage reduces the additional impact of investments in the secondary rounds of the multiplier process.”

The report further purported that:

“These leakages can be minimised by the institution of a national linkage programme similar to that operated by Enterprise Ireland. Local investors are encouraged to facilitate foreign ownership in a partnership to bring many previously cash-strapped locally owned firms out of receivership.”

The 2000 Global Investment Overview capitalised on the research done in 1999 to conclude the following:

“Changes in investment cannot in isolation of other injections, generate economic growth. Despite the impressive investment performance, investment generation will only generate growth where it jointly works with labour and capital improvements, and becomes more export oriented. The two major characteristics of FDI inflows in

Jamaica which prove anti developmental are the fact that inflows are less export oriented than in previous years, and they also use less local inputs than imports..."

This research proved to support recent empirical research by showing that where FDI is of an enclave nature, the spillover effects often associated with such investments, including most importantly, technology transfer and the inherent improvements in productivity, does not diffuse throughout the other sectors of the economy, and reinforces the plantation economy dynamic.

Interestingly, the 2001 UNCTAD World Investment Report has focussed on the topic "Promoting Linkages" in its current issue¹. The Report echoes the cry of the developing world on getting the most for the economy out of every project landed by the following comment from the UN Secretary General in the preface:

"There is a need to promote links between foreign affiliates and domestic firms in developing countries, so as to strengthen the domestic enterprise sector. This is the bedrock of economic development, and would go a long way towards giving domestic firms a foothold in international production networks while embedding foreign affiliates more fully in host economies"

Research from the World Bank² indicates that linkages are a precursor to beneficial FDI inflows. Indeed, there are various studies examining the relationship between FDI inflows and growth the majority showing that liberalisation on its own is a necessary but not a sufficient condition for growth from foreign direct investment. A synopsis of various studies reveals that FDI promotion must be seen as part of an Economic Development strategy geared at improving the capacity of local companies, and as such involves a pivotal role for linkage development strategies.

Studies on the Jamaican economy shows that whereas FDI can greatly assist in technology sharing amongst other things, the real adaptation of these technologies is done in large part by local firms who then localise these technologies to improve their efficiency a process known as "innovation"³. Therefore, it is when partnerships are formed between the suppliers of capital (TNCs) and those best able to localise its use (Jamaican Firms) that capital's marginal productivity increases and stimulates company development which places the economy on the optimum growth path. These partnerships also reduce the net cost of capital to both TNCs and Jamaican firms.

Because of the link between capital (sourced mostly through imports and FDI) and technology, in Small Island Developing states, innovation becomes dependent on the ability to procure capital which is in turn a function of the import regime, and the investment policy of the host economy.

From Jamaica's standpoint an economic development strategy promoting linkages both amongst local firms, and between local firms and foreign partners, is essential for our development and economic growth by providing the avenue for the outlet of Jamaica's creativity or innovation. Jamaica is eager to become a part of the global economy, and it is against this background that

¹ Indeed this seems to put the previous issue of the WIR in context, as the 2000 WIR focussed on cross border M&As and Development, and showed that in certain conditions M&As are a form of linkage which can contribute towards economic growth and development. The 2001 WIR builds on this research to show the conditions under which linkages can benefit economies.

² Klein, Aaron, Hadjimichael, 2000. Foreign Direct Investment and Poverty Reduction, FIAS Occasional Paper.

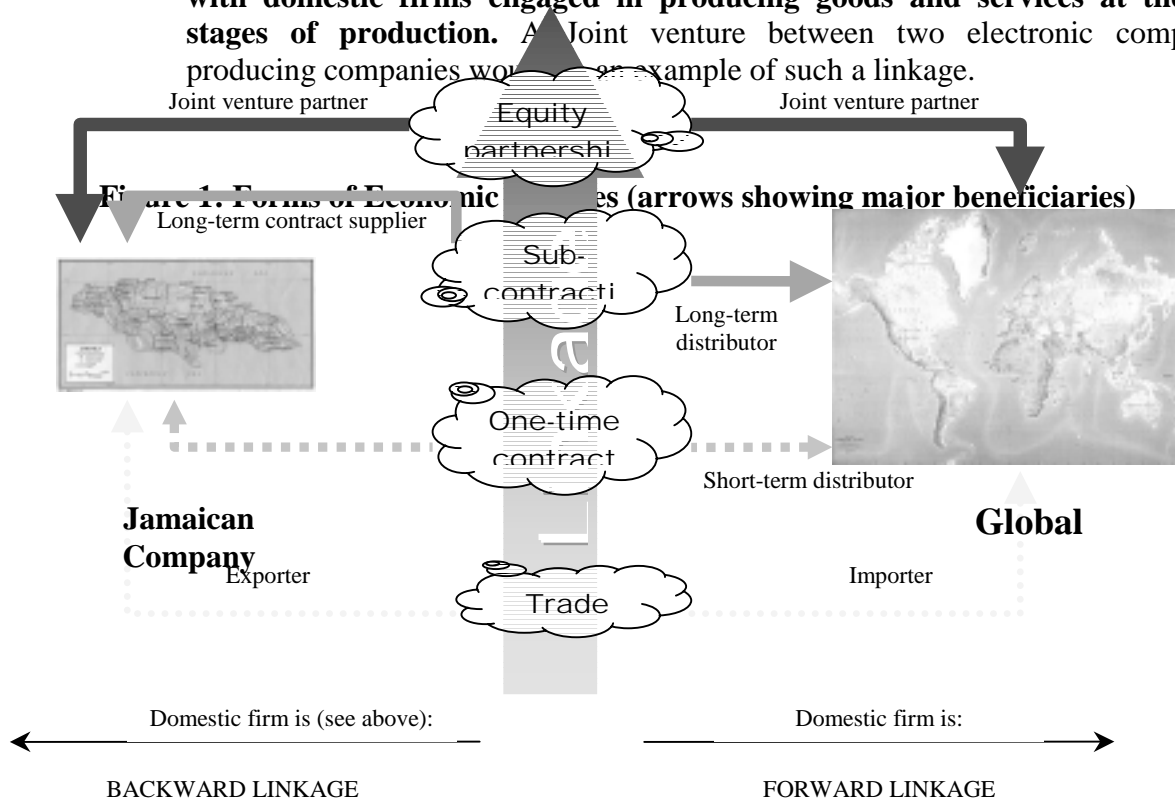
³ Dillon Alleyne, James, Vanus. 2001 Unpublished paper, Department of Economics, UWI

backward linkage development strategies are superior to a strategy of seeking Special and Differential treatment geared at maintaining trade preferences⁴.

2. FORMS OF ECONOMIC LINKAGES

There are three basic forms of economic linkages. These linkages which will be described in a cross border sense, are equally applicable between firms in one country. They are:

- > *Backward linkages* (“sourcing”) - Linkages created where the **local firm supplies raw material/intermediate products/services to the foreign affiliate**. Or as the WIR puts it, when foreign affiliates acquire goods or services from domestic firms;
- > *Forward Linkages* (“distribution”) - When **foreign affiliates sell goods or services to domestic firms** or where domestic firms use the final products of the foreign affiliates as raw materials in the local production process;
- > *Horizontal linkages* (“co-operation in production”) – Where **foreign firms interact with domestic firms engaged in producing goods and services at the same stages of production**. A Joint venture between two electronic components producing companies would be an example of such a linkage.



⁴ It is however recognised, that trade preferences are a form of linkage promotion.

3. BENEFITS OF BACKWARD LINKAGES

Clearly, the focus of linkage development for SIDS has to be on backward linkages. These linkages offer benefits to foreign affiliates and domestic firms, as well as to the economy in which they are forged. For developing countries, the formation of backward linkages with foreign affiliates assumes particular importance. From the standpoint of foreign affiliates, local procurement can:

- T Lower production costs in host economies; and
- T Allow greater specialization and flexibility, with better adaptation of technologies and products to local conditions.

The presence of technologically advanced suppliers can provide affiliates with access to external technological and skill resources, feeding into their own innovative efforts.

From the domestic suppliers' side, the direct effect of linkages is generally a rise in their output and employment. Linkages can also transmit knowledge and skills between the linked firms. A dense network of linkages can:

- T Promote production efficiency;
- T Productivity growth,
- T Technological and managerial capabilities and
- T Market diversification for the firms involved.

For the host economy as a whole, linkages can:

- T Stimulate economic activity and,
- T Where local inputs substitute for imported ones, benefit the balance of payments.

The strengthening of suppliers can in turn lead to spillovers to the rest of the host economy, contributing to a vibrant enterprise sector and making foreign affiliates less "footloose". According to the 2001 WIR, the benefits provided through linkages with foreign affiliates tend to be of greater significance than those among domestic firms because of the stronger knowledge and skills base of many foreign affiliates.

Linkages can improve the competitiveness of domestic firms and through outsourcing, allow the foreign affiliate to reduce production costs and specialize on core operations.

The current trends among Transnational Corporations (TNCs) of focusing more on their core business and relying more on outsourcing represent new opportunities for firms to link up to the global production systems of TNCs. An average manufacturing firm may spend more than 50% of its revenues on purchased inputs. But becoming a supplier to a leading TNC is no easy task.

Increased competitive pressure is forcing firms on all points of the supply chain to select suppliers that can meet stringent demands in terms of cost, quality and timely delivery. This often leads foreign affiliates in globally oriented industries (such as electronics and automobiles) to use other TNCs as suppliers rather than to rely on domestic sources.

4. FACTORS INFLUENCING LINKAGE PROMOTION

The 2001 WIR stresses that the extent to which foreign affiliates forge linkages with domestic suppliers depends on the costs and benefits involved, as well as on differences in firm-level perceptions and strategies. Probably the most important factor affecting the degree of local sourcing in developing countries is related to the availability of supply capacity. The lack of efficient domestic suppliers is a common obstacle to the creation of linkages, particularly in developing countries. Therefore, the decision to source locally depends mainly on the:

- > Cost/Price;
- > Quality;
- > Reliability; and
- > Flexibility of local suppliers

relative to overseas suppliers. Outside of these main factors, there are other secondary motives for linkages which can include:

- > *Investment motives and strategies of the TNC* - Domestic market oriented affiliates generally purchase more locally than do export oriented firms;
- > *Technology and market position of the TNC* – Foreign affiliates producing standardised products tend to outsource more to local companies whilst companies making extremely specialised products tend to outsource less to local companies;
- > *Sourcing flexibility of the local affiliates of the TNC* – Affiliates considered to be “centres of excellence”, with regional or global mandates for complete products, services or technology, tend to be more integrated with local suppliers;
- > *Age of foreign affiliates* - The more experience a TNC gathers in a foreign country, the more managers are recruited locally and the more knowledge it gains about sourcing locally, thus lowering the cost to sourcing locally;
- > *Mode of establishment* – Affiliates established through M&As are likely to have stronger links to local suppliers as they have already established sourcing networks embodied in the acquired firm;
- > *Size of affiliate* – large affiliates tend not to source from local suppliers because amongst other reasons, the local suppliers cannot easily supply large volumes in a consistent basis to quality specs; and
- > *Sector in which affiliate operates* – It is easier to outsource when the technology is divisible into discrete stages and services than when it is a continuous process. Therefore the most viable sectors for outsourcing, are those in which products are standardised such as low value added textiles, some electronic components, some automobile components⁵, mining, and back-office service operations.

⁵ In Mpumalanga Province, RSA, Automobile factories have been established which simply attach the bumpers to automobiles.

5. EFFECTIVE GOVERNMENT INTERVENTION

Linkages naturally occur in the corporate world, however these initiatives are motivated by individual company interest and in many cases are dominated by the sub-contractors with the loudest voices. Recognizing the mutual benefits that linkages can provide, both TNC affiliates and host governments have set up supplier development and linkage programmes, as discussed in the 2001 WIR.

Among the success stories are Saint Gobain's supplier development efforts in India, the Irish linkage development programme and the Local Industry Upgrading Programme of Singapore.

While TNCs have a self-interest in forging links with domestic suppliers, governments can play an important role in promoting linkages, notes the WIR. The willingness of firms to use local suppliers can be influenced by government policies addressing various obstacles to the linkage formation process in order to raise the benefits and/or reduce the costs of using domestic suppliers. For example, TNCs may be unaware of the availability of viable suppliers, or they may find it too costly to use them as sources of inputs.

Drawing on the experience of a wide range of countries, the 2001 WIR presents a menu of specific measures that have been used to promote linkages. These include:

- > The provision of information and matchmaking;
- > Encouraging foreign affiliates to participate in programmes aimed at upgrading domestic suppliers' technological capabilities;
- > Establishing training programmes in partnership with foreign affiliates for the benefit of domestic suppliers; and
- > Various schemes to enhance domestic suppliers' access to financing.

A few countries – such as Costa Rica, the Czech Republic, Ireland, Malaysia, Singapore and the United Kingdom – have set up comprehensive linkage development programmes involving a combination of different policy measures and targeting selected industries and firms. Such programmes have often met with considerable success.

Well-targeted government intervention can tilt the balance in favour of more linkages and thereby contribute to knowledge transfers from TNCs that can feed into the development of a vibrant domestic enterprise sector.

Of course, like other development policies, linkage promotion efforts need to be adapted to the circumstances prevailing in each host country and should be undertaken in close collaboration with the private sector and other stakeholders. ***The more linkage promotion policies go hand-in-hand with small and medium enterprise (SME) development and targeted FDI promotion policies, the more they are likely to be successful.***

5.1 POLICIES TO FOSTER GREATER & DEEPER BACKWARD LINKAGES

To deliberately facilitate and promote linkage development both amongst local firms, and amongst domestic and foreign firms, governments globally have used:

- > High tariffs on imports;
- > Strict rules of origin with high local content requirements for preferential market access;
- > Local Content Requirements (LCRs) for entry and establishment;
- > Joint venture requirements for incentives or entry and establishment;
- > Export performance requirement; and
- > Technology transfer requirements

These have worked in varying degrees to stimulate initial partnerships, however due to the fact that these all tend to increase production costs for the TNCs, particularly in SIDS, these partnerships have tended to be short lived. Of the above policies/measures, LCRs are now contraband (TRIMS Article 2), whilst WTO member countries have agreed not to increase tariffs above bound rates. However, all WTO members are allowed to use the following measures in investment promotion⁶:

- T *Local equity requirements* – Specify that a certain percentage of a firm's equity should be held by local investors;
- T *Technology transfer requirements* – Require specified technologies to be transferred on non-commercial terms and/or specific levels and types of research and development to be conducted locally; and
- T *Licensing requirements* – Oblige the investor to license technologies similar or unrelated to those it uses in the home country to host country firms;

However, whilst recognising that the above policies can generate some initial linkage development between TNCs and the local supply chain, the host country's best policy in developing and deepening these links for long term partnerships is one in which the local supply chain is upgraded to be able to seamlessly fit into the TNCs production processes.

As stated above (see section 5), there have been four main measures to achieve a well-developed local supply chain (see Table 1).

⁶ Certainly, SIDs such as Jamaica are not as highly leveraged as other larger developing countries to be able to effectively negotiate with TNCs for the use of these measures.

Table 1: Specific Government measures to create and deepen linkages

| Information /matchmaking | Technology Upgrading | Training | Finance |
|---|---|--|---|
| Provision of information: T Handouts and brochures; Ω Constantly updated electronic database; T Seminars and missions; | Ω Technology transfer as a performance requirement; Ω Partnership with foreign affiliate; T R&D incentives; T Technology modernisation programmes/incentives | T Promoting supplier associations; T One-stop training service; T Support for private training; T Collaboration with int'l agencies | T Protection against unfair business practices; T Encouraging on time payments; T Indirect financing to suppliers through buyers; T Co-financing development programmes; T Finance windows to local firms Ω Mandatory transfer of funds from foreign affiliates to local suppliers |
| Matchmaking: T Broker; Ω Supporting supplier audits; Ω Advisor in subcontracting deals; T Fairs/exhibitions; T Missions planning | | | |

Notes: ✓ in place in Jamaica; ✗ Not in place in Jamaica

Source: World Investment Report 2001, amended with information for Jamaica.

From global experiences documented in the 2001 WIR, where TNCs see profit-making opportunities, they have been prepared to offer assistance for local companies, and have engaged in the following activities:

- > Finding new suppliers through public announcements and supplier visits/quality audits;
- > Transferring technology via- provision of proprietary product know how, produce designs/technical specs, consultants, joint R&D, provision of machinery, tech support, quality audits, cooperation clubs, self employment assistance, inventory management assistance, quality assurance assistance;
- > Providing training via- training courses, in house/plant training;
- > Sharing information via- informal exchange, consultations, annual purchase orders, provision of market information, encouraging suppliers to join supplier associations; and
- > Extending financial support via- guaranteed pricing, advances and prompt payments, medium and long term financing.

6. LINKAGES AS A COMPONENT OF JAMAICA'S INVESTMENT STRATEGY

6.1 TNC-LOCAL FIRM BACKWARD LINKAGES IN JAMAICA'S ECONOMIC DEVELOPMENT

In Jamaica's immediate Post-1940's economy, sugar was the main industrial commodity, and because of its capital-intensive nature and the fact that there was a very underdeveloped "private sector" at that time, very little linkages existed.

As the economy developed, linkages were forged between the ex-slaves who did not work on the plantation, and those ex-slaves who still worked on the plantation. Farmers⁷ provided agricultural products mainly ground provisions to plantation workers, hereby forming some of the initial linkages in the Jamaican economy.

It would not be until the rise of Banana production that greater linkages would be formed between the domestic cooperatives of banana growers and the major banana TNCs, Standard and United Fruit Ltd. During the "Golden years" when Bauxite, and Tourism were booming in the 50's and 60's, underdeveloped linkages between the local and foreign private sector operating in Jamaica still persisted.

Again the main linkage between local firms and TNCs was through trade, as there were little joint ventures. At that time, subcontracting or more appropriately, Business Process Outsourcing (BPO) was not the global reality it is today.

In the 70's and 80's, economic policies were hostile towards FDI inflows, and even though high tariffs, and various LCRs, Trade Balancing requirements and other TRIMS were imposed, linkages weren't developed as TNCs simply went to other locations which weren't as hostile.

In recent times, linkage development in Jamaica has been intensified with the increased inflows of In-Franchise operations mainly in the restaurant/fast food, car rental and Courier services sub sectors. In addition, Jamaica strategy to attract telemarketing agencies and companies who wish to outsource back office operations has also yielded positive results with linkages being developed in the Information and Communications Technology (ICT) industry as well.

In the sub sectors in which these backward/sourcing linkages have been developed, there have been some dynamism. The fast food sub-sector has been increasingly sourcing local dairy products, beef, poultry, seafood, fresh produce, sauces/condiments, fibreglass furniture and janitorial services from Jamaican companies. With the boom in fast food services, there has been an increase in the number of local companies in the supply chain. ***This open competition to supply franchises has resulted in greater efficiencies in these Jamaican companies, certainly an economic dynamic encouraging company development.***

⁷ In some cases, plantation workers were more than subsistence farmers and sold at the markets as well.

The hotel sector has also been an important source of demand for local suppliers of entertainment services, food, construction services, janitorial services, specialty apparel for spas as well as furniture.

JAMPRO working with Cable and Wireless Jamaica and IMEX Technologies has developed a website to allow local farmers to form linkages with hotels (locally or foreign owned), agro processors and agricultural fresh produce exporters, thus deepening the linkages by providing more complete information on trading opportunities.

The constraints on farming however are more binding than those on other local companies particularly as irrigation and other water provision services increase in cost expense. Therefore small farmers have not been able to grow and benefit from the linkages which have been formed.

SIDS such as Jamaica cannot exert any influence on TNCs to form partnerships with local companies. The only lever that Jamaica can use is the competitiveness and creativity of Jamaican firms as a starting point for linkage development.

There are significant costs for both parties involved in partnerships, ***as local companies who have been involved in former failed partnerships complain of the TNCs refusal to provide prompt payment, and the TNCs complain of the inability of the local firm to meet their volumes consistently and to the required technical specifications.***

6.2 GOVERNMENT INITIATIVES WITH INDIRECT LINKAGE BENEFITS

Against the background mentioned in section 6.1, Jamaica has embarked on various strategies including:

- > Significant *Modernisation of Industry programme* which relieves companies through a tax waiver, of general consumption tax on machinery purchased as part of a modernisation programme. Jamaica Promotions Corporation (JAMPRO), the Export and investment facilitation arm of the Jamaican government, supplies engineers, quality assurance officers and other experts to supervise this process.
- > Technical assistance programmes, chief of which is the *Trade Development Programme funded by the European Union (EU)*, which assists companies in Research and Development Initiatives.
- > *R&D incentive* through the National Commission on Science and Technology (NCST), which provides for duty free entry of equipment imported for use in Research initiatives.
- > Also recently, the British Government through the British High Commission recently launched the *Linkage Development Fund*, which allows for financing for select projects under strict guidelines involving Joint ventures between Jamaican Companies and an overseas affiliate.

These Government initiatives are not a component of any deliberate Linkage strategy, but are part of a Micro-Enterprise development strategy geared at improving their competitiveness and productivity. The clear link between both a linkage strategy and a general competitiveness strategy provides some hope for future backward linkages which will facilitate the development of Jamaican firms in the new Global environment.

6.3 TNC INITIATIVES TO HELP JAMAICAN COMPANIES

There are also instances where TNCs operating in Jamaica have:

- T Provided Training for local firms (e.g. in the ICT industry);
- T Infrastructure investment (e.g. in the Bauxite Industry);
- T Employed guaranteed pricing schemes (e.g. Fresh produce industry); and
- T Shared information with local suppliers (e.g. Restaurant Franchise sub sector)

Certainly this contribution to the Development of Jamaican firms is recognised and greatly appreciated. However in reaction to the fact that the Jamaican supply chain in most cases of commodity production, is underdeveloped and uncompetitive, these initiatives have mainly been unstructured, and as such unable to provide the long-term consistent push to domestic firms to enable their development.

What these initiatives from TNCs have been able to do, have in some instances, provided local firms with windfall profits which in some cases have been inappropriately used.

It is believed, and seen in other countries, that TNCs are willing to invest in the supply chain, where it is seen to be competitive to do so in the short run. This not the general case for the Jamaican supply chain.

6.4 JAMAICA'S RECENT FDI ATTRACTION STRATEGY

The main economic strategy geared at investment maintenance and stimulation has been that of keeping inflation in single digit, reducing fiscal crowding out", and ensuring exchange rate stability. The strategy has also included improvements in Human resources capabilities, Intellectual property rights protection and infrastructure. Jamaica's Investment strategy as articulated in the NIP involves three components:

1. A system of incentives based on performance based criteria;
2. A broad based strategy geared at dealing with the productive disincentives in the Jamaican economy; and
3. An activist strategy of Investment packaging based on target sectors

Included in the criterion for selection of target opportunities/sectors are *inter alia*:

1. Export performance/potential;
2. Enhancing the level of skill and technical experience of the Jamaican workforce; and
3. Strengthening linkages;

This strategy has not been implemented to the fullest, as the incentive system is still under review, and the programme to address the various productive disincentives still has some way to go in addressing these constraints.

However, against this background, Jamaica has been able to attract a significantly increased level of inflows into the economy. This improved FDI inflow performance⁸ can be ascribed to a number of factors:

1. *The government's policy towards foreign investors has relaxed considerably*⁹;
2. *The government privatisation programme accounting for nearly one-third of all FDI inflows in 1999*¹⁰;
3. *Third, government policy encouraging investments through export-processing zones (EPZs)*¹¹; and
4. *Independent acquisitions by intra regional investors from Trinidad and Barbados*

⁸ According to the 2001 WIR, FDI inflows into Jamaica increased from US\$147mn in 1995, to US\$456mn in 2000.

⁹ Since the 1980s, a number of restrictive measures have been phased out, including the Foreign Exchange Control Act, which made it difficult for investors to take capital out of the country, and the long list of "prohibited sectors", which kept foreign firms out of certain industries, has been abolished. Foreign investors can now invest in almost any area of the economy, with policies towards FDI transparent and non-discriminatory.⁹ There is now no regulation of foreign exchange transactions, imports of technology and other inputs, or loans raised in the domestic markets by foreign investors. Moreover, property rights are protected under the Jamaican Constitution and via a number of bilateral treaties. Foreign investors are now accorded national treatment. Dispute resolution mechanisms also exist. In addition, depending on the nature of the proposed investment and export potential, there are tax holidays, duty exemptions, and other benefits to investing companies.

¹⁰ There have been significant privatisations in telecommunications, tourism, insurance, banking, manufacturing and minerals. Plans for enhanced privatisation in the utilities and the infrastructure sectors (telecommunications, energy, transport) are under consideration, with some activities, such as spectrum auctions for mobile phone services, already undertaken. Air Jamaica is already 75 percent privately owned, and there have been efforts in the direction of divesting investment in two major international airports.

¹¹ Under the 1982 Jamaican Free Zones Act, investors are allowed to operate in foreign exchange across a range of activities including warehousing and storing, manufacturing, redistribution, processing, refining, assembling, packaging and service operations like insurance, banking, and professional services. Incentives include a 100 percent tax holiday in perpetuity. Since 1996, firms outside the free zone can also benefit from free zone status, providing they export at least 85 percent of their production. Exports from free zones increased by roughly 40 percent in the period 1992-1999, though interestingly, foreign exchange earnings have only increased by 9 percent over the same period and employment has fallen from 14,220 to only 9,991 jobs. The middle of the decade seems to have been the most successful for free zones, with foreign exchange earnings and employment peaking in 1995 and gross exports in 1996.

7. STRATEGIC POLICY DIRECTION FOR JAMAICA

Globally, in every instance where linkage programmes have been used, there have been positive spin-offs. Jamaica does not have a structured programme to assist in Linkage development, however as stated earlier, the National Industrial Policy (NIP), recognises the importance of developing strategic alliances in the general investment promotion and development strategy.

There are technical Cooperation programmes in place which can assist in developing linkages, however the main deterrents continue to be:

- > The **uncompetitive cost structure** which Jamaican supplier companies face;
- > The **small size and inflexibility** of the average Jamaican company constraining exploitation of economies of scale; and
- > The inherent problems caused by the **non-use of joint production** between local firms.

Certainly, as the world now refocuses on the topic of building partnerships with TNCs, rather than attempting to compete with them, Jamaica now has to do the same, and even investigate the feasibility of implementing a structured programme for linkage development in a manner which leads to the development of our small local companies.

However as the Developed world applies diplomatic and economic pressures for creative and eager countries like Jamaica to become more fully integrated in the world economy, **our companies high innovative quotient can only be utilised where TNCs partner with us for the long run.**

Jamaican companies have much to offer to the world in a unique way. Mutually beneficial long-term partnerships which foster SME development will enable them effectively participate in the global economy. **Negotiations in Qatar, and beyond will be the strategic focus, and the intention will be to use a menu of the appropriate allowed TRIMS, and other provisions, to fashion an Investment regime which will encourage TNCs to form partnerships with Jamaican companies.**

Therefore the policy direction for Jamaica to maximise the contribution of Investment flows will involve:

1. Improving the local supply chain; and
2. Fashioning a policy environment which stimulates/motivates TNCs to partner with Jamaican Companies