



Jamaica Manufacturers' Association

# Becoming a Global Logistics Gateway: Opportunities for Jamaican Businesses

**Creating Opportunities Through Non-Equity Modes (NEMS) and Joint Ventures**

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# Background



- ❑ Changes in global manufacturing, shipping and trading, along with the expansion of the Panama Canal offer a unique opportunity for Jamaica to benefit from global logistics.
- ❑ The Global Logistics Hub Initiative (GLHI) has a fundamental purpose of both integrating and expanding Jamaica's role in the global supply chain and value production system.
- ❑ The GLHI will attract multinational corporations that are outsourcing their international production as part of the global value chain.
- ❑ Tapping into the existing global fragmentation should lead to the clustering in Jamaica of major manufacturing and distributing companies involved in the processing of raw materials and intermediate goods.

# Background Cont'd



- ❑ Benefits derived could be a substantial contributor in the transformation of the Jamaican economy.
- ❑ There exist great potential for:
  - Career Development
  - Job Creation
  - Business Opportunities
  - Technology transfer between multinational corporations and local operators.
- ❑ Ideally, a logistics hub requires a centralized location that provides access to all transport points and this is Jamaica's advantage.
  - Jamaica sits astride the trade routes in the Windward Passage and has access to the over 800 million-person market in North, Central and South America and growing in affluence.

# Benefits of the GLHI

- Greater access to more goods and services
- Increase opportunities for employment
- Greater access to international markets
- Reduction in transportation costs
- Reduction in the cost of inputs
- Increase in trade activities for Jamaica

# Opportunities for manufactures in the Global Logistics Hub?



- ❑ The GLHI provides the framework for developing stronger professional partnerships between individuals and groups, and also great opportunities for backward and forward linkages.
- ❑ The establishment of sustainable business linkages is crucial to the Industrial Cluster Development Program and will contribute to increased access to international markets and enhance the levels of competitiveness among businesses operating in the clusters.
- ❑ For the purposes of the presentation, focus will be placed on:
  1. **Non-equity Modes (NEMs)**
  2. **Joint Ventures**

# Non-Equity Modes



- ❑ Efforts must be made to integrate local manufacturing operations into the global value chains through the creation of non-equity modes (NEMs) of international production.
- ❑ NEMs are alliances in which two or more firms develop a contractual relationship to share some of their unique resources and capabilities to create a competitive advantage.
- ❑ They include **contract manufacturing**, services outsourcing, contract farming, franchising, licensing, management contracts, and other types of contractual relationship through which TNCs and MNCs can coordinate activities with businesses operating in the cluster.

# Non-Equity Modes Cont'd



- Cross-border NEM activity worldwide is estimated to have generated over \$2 trillion of sales in 2010.
  - Contract manufacturing and services outsourcing accounted for \$1.1–1.3 trillion.
  - Franchising accounted for \$330–350 billion.
  - Management contracts accounted for approximately \$100 billion.

(World Investment Report, 2011)

# Non-Equity Modes- Contract Manufacturing

- ❑ Contract manufacturing is the outsourcing of part of the manufacturing process of a product to a third-party. More specifically, it is outsourcing certain production activities that were previously performed by the manufacturer to a third-party.
- ❑ A company may outsource the manufacture of certain components for the product or outsource the assembly of the product.
- ❑ This is currently being done by several manufacturers in Jamaica such as Grace Kennedy, Blue Power, Yono Industries, Jamaican Teas, King Pepper Products and VAP Ltd, who are counted among the membership of the JMA.

# How can we benefit from Contract Manufacturing with the GLHI ?



- ❑ The establishment of Special Economics Zones (SEZs) should enable integration of local businesses into the global value chains (GVCs) and allow for economic linkages with our manufacturers.
- ❑ Companies with thin margins and variable cost including transportation rates and fuel expenses are likely to outsource particular activities to reduce logistics expenses.
- ❑ New businesses will require large quantities of products. Contract manufacturing can be utilized by companies that do not have the capacity to satisfy the demand.
- ❑ Opportunities for greater production and efficiency.
- ❑ Increased access to the worlds leading airlines and shipping lines.
- ❑ Provides access to the use of world-class technology to effectively move goods from supplier to producer to market.

# Non-Equity Modes-Vertical Integration

- ❑ Vertical integration creates a secure means for manufacturers to consistently have access to raw materials and also have a market for finished goods.
- ❑ Creates opportunities for companies to supply to the Special Economic Zones (SEZs)
- ❑ This is normally done through contractual arrangements with suppliers and/or distributors.

# How can we benefit from Vertical Integration with the GLHI ?



- ❑ With the increased movement of products via the logistics hub, producers will have greater access to suppliers of raw materials and will be able to establish relationships with these suppliers. This will also be the case for distributors.
- ❑ The increased business activities from vertical integration also opens the door for new market entrants such as suppliers, manufacturers and distributors.
- ❑ The GLHI will also push stakeholders to become more efficient and competitive through specialization.

# How can we benefit from Joint Ventures with the GLHI ?



- ❑ A joint venture exists when two or more firms create a legally independent company to share resources and capabilities to develop a competitive advantage.
- ❑ The opportunity to join forces with other companies will increase their capacity to produce and ultimately lead to increased efficiency of production.
- ❑ The prospect for companies to collaborate with international entities will also become an available and ready option.

# The Way Forward



- ❑ To benefit from the opportunities the Global Logistics Hub will provide, we must equip ourselves with the necessary skills, knowledge and business support development.
- ❑ Manufacturers must produce at acceptable international standards and build capacity to act as contract manufacturers.
- ❑ Policy support to manufacturers and implementation is critical to exploiting the benefits presented in the GLHI, particularly for MSMEs, so they are able to effectively integrate into the global supply chains.
- ❑ Match foreign direct investors with local companies that can help to strengthen their supply chain.