

Occasional Paper: **Globalization, Liberalization and Sustainable Human Development: Progress and Challenges in Jamaica**

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This report was prepared for and presented at the National Workshops in Kingston (20 February 2001) and Montego Bay (21 February 2001) on the challenges facing Jamaica as it manages its integration into the global economy in pursuit of sustainable human development. These workshops were organized under the aegis of the UNCTAD/UNDP Global Programme. Participants included government ministers, senior policy-makers from various ministries, representatives of the business community, academics and other members of civil society.

The views expressed by the authors do not necessarily represent those of UNCTAD or UNDP.

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REPORT OF THE JAMAICA NATIONAL WORKSHOP

Kingston and Montego Bay, 20-21 February 2001

Workshops were held in both Kingston and Montego Bay to discuss the findings of the Jamaica country assessment. They were attended by senior government officials and members of civil society, academia and the business community.

The assessment praised Jamaica's success in attracting significant levels of FDI, but noted that real growth rates have only averaged 0.1 per cent over the last decade. This is because interest rates have been kept high by a huge debt burden and fiscal deficit. High interest rates have in turn restricted domestic investment, dampening the island's entrepreneurial energy. Moreover, they have led to an appreciation in the exchange rate, encouraging imports and discouraging exports. Policy makers therefore need to tackle the debt problem and foster macroeconomic stability and fiscal discipline.

At the same time policy-makers should promote the small and informal business sectors, which are ideally placed to bring about economic growth, through increased competition, the development of new products and services, the exploitation of e-commerce opportunities, and the exploration of new sectors. Local entrepreneurs are also seeking policies to assist increasing flows of outward investment.

School enrolment at primary and secondary levels is good relative to other countries in the region. However, higher education enrolment stands at only 4 per cent. With rising global educational rates, Jamaica needs to develop a passion for education to remain competitive. Training workers in customer service and marketing will bring long-term benefits to the tourist trade.

Less competitive sectors are likely to see major job losses, and support nets should be set up to prevent the victims of reform efforts from falling into long-term poverty traps. Demographic changes have led to an unusually large number of workers relative to dependents. However, coupled with a high rate of emigration by the well-qualified, this has resulted in increased urbanisation, fragmented families and a rise in crime. With the potential costs and perceptions of crime so significant as to threaten growth, preventive action in this area is an important first step towards tackling poverty and strengthening Jamaica's image.

However, emigration in itself will not harm the economy. Studies have shown that the remittances, mainly from the US and UK, make up for lost tax revenue. Jamaica needs to sustain its human development achievements. Along with sound macroeconomic management, the island needs to build on its traditional strengths like tourism by seeking out new sectors and business innovations, injecting new skills, such as IT, into the economy, and fostering alliances with international producers and distributors to facilitate these changes. Furthermore, such reforms must be communicated effectively in order to build the necessary political capital to help deliver change.

Overall, the country assessment and national workshops have contributed to raising the capacity of Jamaican people, institutions and enterprises to cope with issues related to globalization. It is intended that the points identified will form an input to Jamaica's action plan.

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OVERVIEW

BACKGROUND

1. This paper presents results from the Jamaica Country Assessment Study, which is part of the UNCTAD/UNDP Programme on Globalisation, Liberalisation, and Sustainable Human Development in Jamaica. It draws together work from country papers, meetings, interviews and other sources to present an overview of Jamaica's current development position; an assessment of how Jamaica should react to globalization; and a discussion of how Jamaica can achieve the ultimate goal of the development process: sustainable human development.
2. The paper analyses Jamaica's position in light of an analytical framework developed for the UNCTAD/UNDP Programme by Agosin and Bloom (2000). This framework identifies three overlapping and interlinked policy spheres. *Sphere One* covers integration into the global economy and the liberalization of markets; *Sphere Two* addresses the needs for economic growth; and *Sphere Three* concerns sustainable human development. The framework argues that only a balanced portfolio of policy interventions in each of these spheres is likely to yield mutually reinforcing and positive results, creating a "virtuous spiral" as growth in one area leads to gains in another.

SPHERE ONE: LIBERALIZATION AND JAMAICA

3. In the 1990s, Jamaica liberalized its economy to a great extent, with both of Jamaica's major political parties advocating basically liberal policies. Significant foreign direct investment (FDI) has been attracted. Jamaica has stepped up its involvement in the Caribbean Community and Common Market (CARICOM), and the proposed Free Trade Area for the Americas (FTAA) offers significant access to new markets. Simultaneously, however, Jamaica is losing its privileged access to European Union markets, and its primary goods (mainly bauxite, sugar and bananas) look increasingly uncompetitive in world markets.
4. Jamaica's macroeconomic policy has made achieving low inflation a priority. However, a fiscal deficit and a huge debt burden have kept real interest rates high, while the exchange rate has tended to appreciate. The result is an economic environment that has encouraged imports and discouraged exports, making it hard for Jamaican business to take advantage of the opportunities liberalization offers.

SPHERE TWO: ECONOMIC GROWTH

5. Following an economic boom in the 1950s and 1960s, Jamaica has struggled to achieve economic growth. Real growth rates averaging 0.1 per cent of gross domestic product (GDP) throughout the 1990s compare poorly with rates among many of Jamaica's Caribbean neighbours, other middle-income countries and the global average. Liberalization has not, as yet, delivered the expected economic benefits.

6. Several decades of consistently poor productivity, particularly in manufacturing and services, lie at the heart of the economy's malaise. This finding is of particular importance given the rapid growth in the importance of these sectors. New products and services need to be developed, and new sectors explored. As well as increases in productivity, economic growth needs competition. "New-breed" enterprises, survivors from the rigorous 1990s economic climate, small businesses and the informal sector can all contribute.

7. Growth requires macroeconomic stability and fiscal discipline. There is little scope for increased tax revenue, although further privatizations are planned. The credibility of Jamaica's policy-makers and institutions will also be crucial in reassuring international and domestic audiences.

SPHERE THREE: SUSTAINABLE HUMAN DEVELOPMENT

8. Jamaica's human development indicators are relatively positive. The population's health is good relative to that of comparison countries. Although spending on public health is static, the area of private health care is growing. HIV/AIDS is currently at relatively low levels in Jamaica and early action in this area now would be highly beneficial, in particular considering the future costs of inaction.

9. In the schools, pass rates in basic English and mathematics are rising from previously poor levels, and enrolments at the primary and secondary levels are good relative to those of comparison countries. Dropout rates after secondary education are extremely high, though, and tertiary enrolment rates are barely 4 per cent among 19- to 24-year-olds. Jamaica has made a number of efforts to support training, although the quality of such training is variable.

10. Demographics offer a potential opportunity to Jamaica as a "baby boom" creates a period with an unusually large number of workers relative to dependents. There are also demographic pressures, including increased urbanization and fragmenting families. Emigration further complicates this picture, as large numbers of often well-qualified Jamaicans leave the island.

11. Poverty levels have improved, but this trend is unlikely to be sustainable as pressure grows on less competitive sectors. Major job losses in the next decade appear likely and will create a demand for improved labour flexibility and possibly contribute to an increased crime rate.

12. Economic growth is needed if a country is to replenish its human and social capital. Jamaica is nearing a point where, in the absence of economic growth, serious questions will be raised about its ability to sustain its human development achievements.

CONCLUSION: STRATEGIC POINTS OF ENTRY

13. Jamaica must develop its own responses to the unique combination of threats and opportunities it faces, and concerted action will be needed across all sectors in order to achieve this. A vision for Jamaica's future needs to be developed and communicated to help build the necessary political capital to deliver change.

14. Increased productivity, especially in manufacturing and services, is vital, as is continued fiscal discipline in managing the debt. Easing interest rates would stimulate domestic investment and help leverage Jamaica's entrepreneurial energy. Jamaica will also want to seek out new sectors and business innovations. Information technology will bring benefits here, in addition to its proven ability to inject new skills and technology into the economy. A pro-growth policy must therefore be the major priority of government.

15. As global educational standards keep rising, Jamaica will need to develop a national passion for education in order to be competitive. For those outside the educational system, high-quality training brings fast gains. In the same vein, in order to build on its undoubted strength as a tourist destination, Jamaica will want to step up a gear, particularly in customer service and marketing.

16. The potential costs of crime, and perceptions of crime, are significant and threaten growth, as does HIV/AIDS. Jamaica's current HIV/AIDS infection rate is under 1 per cent, but keeping the problem in check will demand concerted action.

17. Finally, Jamaica is a small island with high levels of global "brand recognition". Nurturing this asset into a world-class identity and brand will require developing a national vision for a 21st-century Jamaica, and then careful management and marketing to project that image worldwide.

I. INTRODUCTION

A. BACKGROUND: THE UNCTAD/UNDP PROGRAMME

18. This paper has been prepared in connection with the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Development Programme (UNDP) joint Programme on Globalisation, Liberalisation, and Sustainable Human Development. The central objective of this Programme is to explore the connections between globalization, liberalization and human development and their implications for international development policy, strategy and practice. Agosin and Bloom (2000) describe an analytical framework that has helped guide much of the work done as part of the Programme. Country assessment studies apply this framework to individual national policy environments. The aim is to inform debate about the opportunities and threats a country faces within the global economy, and to reflect on the likely impact of policy decisions on citizens' quality of life.¹

19. The Jamaica Country Assessment Study has several elements. Country papers provide an analysis of

- The nature and development of Jamaican trade (King, 2001)
- Foreign direct investment in Jamaica (Mugione and Castillo 2001)
- The state of human development in Jamaica (Henry-Lee and Alleyne 2001).

20. This paper, *Globalisation, Liberalisation and Sustainable Human Development: Progress and Challenges in Jamaica*, draws on the country papers, statistical analysis of economic and social data from a variety of sources, and insights from a number of interviews with senior domestic and international figures from Jamaican government, business and civil society. The paper:

- Provides an overview of Jamaica's current development position;
- Assesses strategies that Jamaica can develop in order to deal more effectively with the adjustments demanded by liberalization; and
- Discusses how Jamaica can manage its integration into the global economy in a way that both enhances human development and uses high standards of human development to facilitate economic growth.

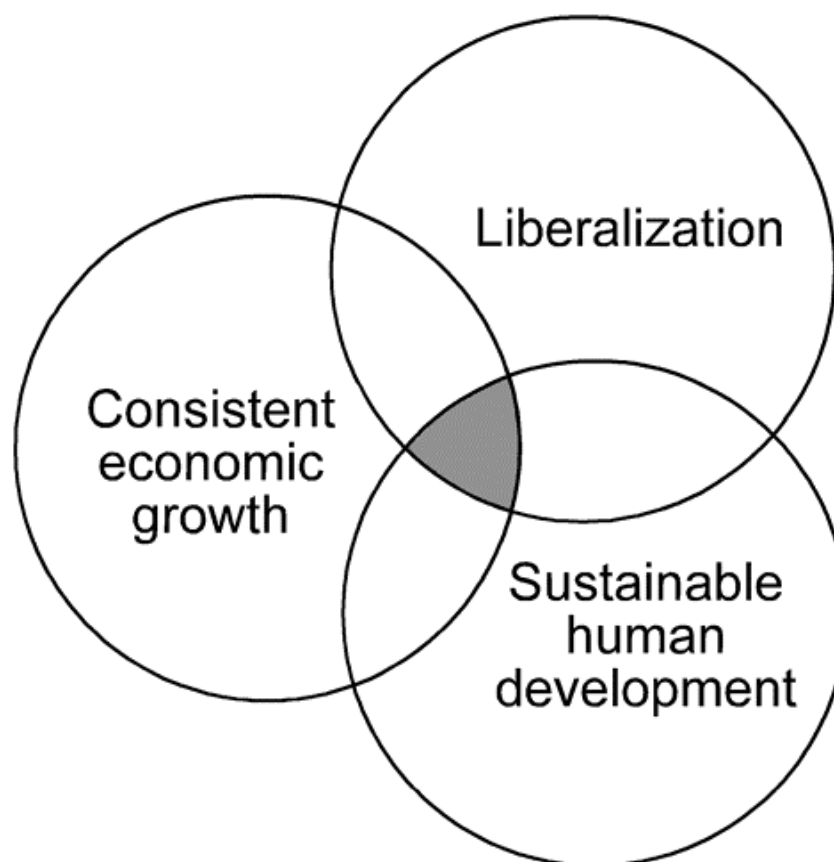
B. BACKGROUND: THE UNCTAD/UNDP FRAMEWORK

21. This study adopts the framework developed in Agosin and Bloom (2000) that links globalization, liberalization and sustainable human development.

22. It is based on the observation that a *passive policy* of liberalization has generally failed developing countries.² While most developing countries have adopted increasingly liberal strategies of economic development, many have failed to experience the benefits that liberalization promised, and, as a result, the gap between rich and poor countries has continued to grow. There is a growing consensus that *active* policies are needed if developing countries are to turn the opportunities of liberalization into tangible, widespread and long-lasting benefits. This consensus reflects the realization that liberalization poses threats to the economic and social development of small and vulnerable economies, at least in the short to medium term. These threats may translate into adverse impacts on the society as a whole, or on particular groups as, for example, an industry proves non-competitive within the global marketplace or poverty rates rise due to a faltering macroeconomy.³ Active policies therefore aim to support and manage the liberalization process in the expectation that rewards will come to those who deliberately work to make the most of globalization, rather than passively waiting for the markets to deliver automatic benefits.

23. The framework consists of three partially overlapping policy spheres (Figure 1).

FIGURE 1: OVERLAPPING POLICY SPHERES



- *Sphere One* covers integration in the global economy and liberalization of markets. It includes policies to facilitate cross-national trade and investment flows, as well as the national macroeconomic policies needed to manage the process by which an economy is integrated into the regional and world economies.
- *Sphere Two* covers the need for economic growth. It includes policies to facilitate capital accumulation, enable the growth of the labour force, and improve total factor productivity.
- *Sphere Three* covers sustainable human development, seen as the fundamental goal of the development process. This concerns both human development, which focuses on the capacities and roles of people within society, and social capital development, which expands human capital's focus on individuals to explore the importance of relationships between people. This sphere includes policies to promote health, education, innovation and enterprise, democracy, environmental protection, human rights, gender relations, and the potential benefits of demographic change.

24. The framework works from the assumption that democratic governments need to pursue a balanced policy portfolio, since confining policy action to a single sphere is likely to deliver disappointing results. It is difficult for small economies to achieve stable and robust economic growth in isolation from global markets for capital, technology and knowledge. Conversely, liberalization policies impose punitive political costs if they fail to deliver economic growth. Sustainable human development, meanwhile, is seen as both an input to and an output from the growth and development process. Wealthy societies can afford more sophisticated health and education systems, for example, but health and education (along with many other facets of human and social capital) are crucial to economic performance, a fact that is now fairly well established in the empirical growth literature (Barro 1990; Bloom and Canning 2000a and 2000b; Task Force on Higher Education and Society 2000). The presence of necessary skills is also important for attracting the technological gains that come with foreign direct investment. As the *World Investment Report* of 1999 noted: "In the absence of rising skills and capabilities generally, it would be too costly (for foreign investors) to import advanced technologies and complex, linkage-intensive operations" (UNCTAD 1999b).

25. The complex relationships between liberalization, economic development and sustainable human development lead to the possibility of *virtuous spirals*, where gains in one sphere create corresponding gains in the others. Conversely, *vicious spirals* are also possible, whereby a society becomes locked into a self-reinforcing decline across multiple economic, human and social development indicators. In less serious conditions, stagnation is also possible – for example, where a lack of skills inhibits a country's competitiveness, or economic mismanagement leaves a country unable to capitalize on positive human development indicators. Policy-makers must therefore aim to trigger virtuous spirals and must act decisively to address serious deterioration in any policy area before it leads to a vicious spiral. They must also be alert to imbalances in their policy portfolio, since neglecting any single policy sphere is likely to compromise long-term gains in the others.

26. However, the need for balance does *not* mean governments should attempt to act on too many fronts. One of the biggest problems for governments is the loss of credibility they suffer when they fail to keep promises, both to electorates and to partners such as the private sector, international organizations and civil society organizations. The liberalization, economic development and sustainable human development framework encourages governments to look instead for “strategic points of entry,” which are likely to push virtuous spirals into action. Such points should be chosen where the government is confident that it has the capacity to act effectively and deliver on promises. When the first benefits are realized, it is then possible for the government to move into other areas of the policy portfolio. According to Agosin and Bloom (2000): “Balance . . . is most practically achieved as a *dynamic* process, rather like the way that a cyclist stays upright by continually adjusting to a permanent state of disequilibrium.”

C. BACKGROUND: THE UNCTAD/UNDP JAMAICA COUNTRY ASSESSMENT STUDY

27. In a world where the forces driving (and opposing) liberalization and global economic integration are increasingly international and beyond the control of all but the most powerful nation states, this framework of interrelated policy spheres offers a fresh perspective from which to understand the challenges faced by Jamaican decision-makers. It places great emphasis on the premise that the benefits of globalization must be delivered to the Jamaican people within a reasonable time-frame, even if costs must be borne in the short term. It also provides justification for the judicious use of “safety nets” to protect people against what can be wrenching economic adjustments, although these safety nets should be structured to open up new opportunities for people, rather than just to support them in near-poverty. For small, vulnerable economies, globalization can proceed as in the old medical joke – “operation success, patient dead” – but it is in no-one’s long-term interest that this should be so.

28. This paper explores each of the three policy spheres in turn. It describes the developing relationship between the Jamaican and the global economy, focusing on the increasingly liberal trade and investment climate. It examines Jamaica’s historical economic performance and asks whether liberalization has delivered the expected economic benefits. Finally, it looks at human development in Jamaica, exploring how policy decisions have affected Jamaican quality of life and examining the impact of human development on Jamaica’s prospects for economic growth and its competitiveness within the modern global economy. In general, the paper treats the global system as exogenous and explores how Jamaica can make the most of its opportunities within the current system, although some discussion is included of Jamaican efforts to lobby for and negotiate reforms to make the system more responsive to its needs.

29. The paper’s descriptive analysis highlights the risky environment in which Jamaica must operate. Although some indicators are positive, many are negative, and the result has been a gradual decline in the country’s economic competitiveness, as evidenced by a stagnant per-capita GDP and productivity levels that often lag substantially behind those of competitors. Lack of economic growth now threatens Jamaica’s human development achievements, while improved human development is vital if the country is to seize higher-value economic opportunities. Failures in both the economic and human development spheres, in other words, have contributed to Jamaica’s failure to reap significant benefits from growing liberalization. As a result, Jamaican policy-makers face limited options as they struggle with a crushing debt burden while attempting to promote growth; improve health and education; tackle deep-rooted social problems such as crime, endemic unemployment and social exclusion; and maintain the confidence of the international financial community.

30. The paper concludes by encouraging policy-makers to maintain a holistic perspective, balancing policy action across the three spheres; while also focusing on the need to increase confidence in the effectiveness of Jamaican policy by “selling” policy interventions to all sectors of society as well as to international audiences. The importance of delivery implies that policy-makers should search hard for the “strategic points of entry” where policies are likely to be successful, and where the fruits of success are likely to open up further options for action. Generally, these strategic points of entry will be in areas that historically have been neglected and are thus acting as a drag on the effectiveness of the rest of the system. Bold action will therefore be needed, with interventions that are not just technically sound but backed by committed leadership. Such leadership will help build confidence and an expectation of success, and, just as stagnation in Jamaica has led to further stagnation, so can success lead to further success.

NOTES

¹ For a more detailed analysis of quality-of-life issues, see David E. Bloom, Patricia Craig and Pia Malaney, *The Quality of Life in Rural Asia*, Oxford University Press, forthcoming 2001.

² Liberalization refers to the lowering of trade barriers and other policies designed to increase connections between a national economy and the global economy.

³ Along these lines, Jamaica’s Prime Minister P. J. Patterson is quoted as follows by *The Daily Observer* (February 17, 2001, p. 7): “The impact of globalisation on the lives of people of the developing world must not be ignored. For some countries, market-driven policies have resulted in social upheaval, since they lack the safety nets which were long before in place in the industrialised world. For others, naked competitive market forces will irreparably damage their industries, undermining their economies and destabilising their societies.... The message which was transmitted at Seattle must not be forgotten. People must be at the centre of our thoughts as we negotiate accords which impact on their lives.”

II. LIBERALIZATION: JAMAICA AND THE GLOBAL ECONOMY

A. OVERVIEW: SPHERE ONE

31. According to King (2001), “the idea of a liberal trade and investment climate is meant to suggest the fullest participation in the international economy.” Greater openness to trade is believed to offer smaller economies the chance of achieving fast rates of growth, allowing them to benefit from both increased export earnings and the transfer of technologies that help improve productivity. Policies to achieve openness include:

- *Liberalization of trade*, where tariffs, subsidies and non-tariff barriers to trade are reduced or eliminated;
- *Liberalization of foreign direct investment*, with overseas investors allowed (and encouraged) to acquire long-lasting management interests in domestic enterprises (OECD, 1996);
- *Freeing of non-FDI capital flows*, which permits international investment to supplement limited domestic capital markets; and
- *Macroeconomic adjustment* in order to increase international competitiveness and create conditions conducive to the effective operation of the private sector.

32. In recent years, Jamaica has implemented many policies that have significantly opened its economy. Trade barriers have been lowered, the country has moved towards closer integration with regional trading blocs (such as CARICOM) and the flow of FDI has significantly increased. This section explores these issues and asks what policies are needed to continue the process of managing Jamaica’s relationship with the global economy.

B. TRADE LIBERALIZATION

JAMAICAN TRADE

33. The importance of trade to Jamaica clearly illustrates the strength of Jamaica’s links to the global economy. Over the past decade, its annual trade flows (exports plus imports of goods and services) have typically equalled or exceeded its annual GDP (see Table 1). Indeed, in 1999, the most recent year for which data are available, the ratio of trade flows to GDP was roughly 1.14 (see Table 2).¹ This is significantly higher than the average ratios for low- and middle-income countries, which are 0.59 and 0.56 respectively.²

Traditional exports

34. “Traditional” Jamaican exports are mainly primary goods (see Table 3). Exports of these goods accounted for more than 60 per cent of Jamaica’s merchandise export earnings in 1999. Of these traditional exports, bauxite/aluminium is by some way the most important, accounting for just over half of Jamaica’s exports in 1999. Exports of sugar (7.1 per cent) and bananas (2.4 per cent) are also important. Globally, Jamaica is a major player only in bauxite, with a 9 per cent share of the market. Its global shares for sugar (1 per cent) and bananas (0.6 per cent) are considerably smaller.

Non-traditional exports

35. The share of “non-traditional” exports (i.e. non-primary goods) has increased in recent years and represented about one-third of all merchandise exports in 1999 (compared to about one-fifth in 1990). Much of this increase was initially due to the rapid expansion in exports of stitched garments in the Free Trade Zones (King 2001, Mugione and Castillo 2001). In 1995, apparel exports peaked at 19 per cent of all merchandise exports; by 1999, they had fallen to 13 per cent. Meanwhile, non-traditional non-apparel exports – such as manufactured products, beverages, tobacco, processed foods and the like – have grown from 14 per cent in 1990 to account for a fifth of all merchandise exports in 1999.

Tourism

36. Tourism, another key source of Jamaica’s foreign exchange earnings, is by far the largest foreign-exchange-generating sector in Jamaica, with its gross foreign exchange receipts almost equalling the earnings from all merchandise exports. Table 4 presents data on foreign exchange earnings, tourist arrivals and occupancy rates in Jamaica from 1980 to 1999. Over that period, tourist arrivals more than quadrupled. Moreover, tourism receipts of foreign exchange in the 1990s grew at a much faster rate (67 per cent) than merchandise exports (7 per cent). During this time the tourism sector also kept its share of world tourism (in terms of arrivals) stable, at around 0.3 per cent, and its share among Caribbean tourist destinations at about 6–7 per cent (Planning Institute of Jamaica and Statistical Institute of Jamaica 1999).

Export/import balance

37. Jamaican exports (expressed as a percentage of GDP) have stayed more or less steady for two decades. They stood at 51 per cent in 1980 and 52 per cent in 1999, although they rose to 56 per cent in 1985 and dipped to 43 per cent in 1998 (see Table 1). The level of imports, however, increased in that period, from 53 per cent in 1980 to 62 per cent in 1999, again with some variation (they stood at 67 per cent in 1995).

38. There is some evidence that growing proportions of these imports are for immediate consumption, rather than providing inputs for Jamaican industry. Table 5 shows that consumer goods represented 14 per cent of all imports in 1991 but that this share rose to 31 per cent by 1998. The share of intermediate goods, meanwhile, had fallen from 66 per cent to 50 per cent in the same period, with capital goods showing a smaller decline, from 21 per cent to 19 per cent.

39. Liberalization has allowed consumers access to cheaper goods from abroad, which has undoubtedly exerted some downward pressure on the rate of inflation. To what extent this new competition has benefited Jamaican producers remains unclear, though we will return to the subject of Jamaican productivity in Section IV.

TRADE REGIMES

40. Jamaican trade policy passed through three discrete periods in the last 50 years: the development of industry in the 1950s and 1960s; the import substitution philosophy of the 1970s and 1980s; and the “ad hoc liberalism” of the 1990s. The trade regime was largely liberal during the first period and largely closed during the second. It steadily became more open in the third (King 2001).

41. Recent policies to facilitate openness have formed part of a number of “structural adjustment programs” (Handa and King 1997). Quantitative import restrictions have been dismantled; the state import monopoly Jamaica Commodity Trading Corporation (JCTC) that emerged during Jamaica’s experiments with democratic socialism in the 1970s has been closed down; and tariffs have been reduced (from around 27 per cent in the 1980s to around 16 per cent in 1999).³

42. Jamaica still has some distance to go before it has a genuinely open economy, however. The customs and stamp duties impose an additional tax burden on imports, while domestic consumption taxes are high on foreign products such as automobiles. Vulnerable domestic industries such as agriculture are also protected from imports by tariffs as high as 90 per cent. Nevertheless, the trend toward liberalization is clear, with both of Jamaica’s major political parties advocating basically liberal policies.

43. One of the main drivers behind liberalization has been Jamaica’s membership in CARICOM, which was established in 1973. Many Caribbean countries made a renewed commitment to CARICOM in the 1980s and 1990s, and one outcome was an agreement to gradually reduce the common external tariff (CET) from some 45 per cent in 1993 to 20 per cent in 1998. About half of the Caribbean nations complied with this schedule. Moreover, two protocols in 1997 amended the CARICOM treaty with a view to liberalizing the movement of goods and services and advancing the freer movement of persons. On January 1, 1999, the final phase of the CET for CARICOM was implemented in Jamaica.⁴

44. Table 6 shows a growth in the proportion of Jamaican imports from CARICOM countries (principally Trinidad and Tobago) in the 1990s, alongside a decline in the proportion of exports from 6.2 per cent in 1990 to 3.4 per cent in 1997 (although there was a slight upturn to 3.5 per cent in 1998). Given that 29 per cent of Trinidad and Tobago’s exports are to CARICOM countries, CARICOM appears to offer untapped potential for Jamaican trade.

DIRECTION OF TRADE

45. Jamaica’s move towards a more liberal trade regime has happened at a time when global trade has generally become more open. This is an uneven process, however, and Jamaica faces the problem of how to maximize its opportunities in places where it has better access to certain markets than its competitors, while still managing to trade in markets where it is at a disadvantage. In addition, it must achieve this even as systems of barriers, market preferences and the size and shape of trade blocs change over time.

46. Membership in CARICOM, for example, offers Jamaica the chance to engage in free trade with other Caribbean nations. However, the arrival of the North American Free Trade Agreement (NAFTA) has allowed Mexico to enjoy better access to North American markets than its neighbours have. This is one reason for the stagnation of the Jamaican apparel industry, which depends almost exclusively on short-term contracts from United States apparel manufacturers, assembling cut garments and exporting them under the Caribbean Basin Special Access Program for Apparel (King 2001).⁵ NAFTA has provided low-cost apparel suppliers from Mexico with duty-free access to both the

United States and Canadian markets and has also allowed Mexican suppliers to work free from the operational restrictions that Jamaican producers face under the Caribbean agreement with the United States.

47. Bananas are another important export caught up in changing trade laws. Under the Lomé Convention of 1975, agricultural produce from 70 African, Caribbean and Pacific (ACP) countries had preferential entry into the European Union. The European Union has since replaced the Lomé Convention with the Cotonou Agreement (signed in June 2000), which will maintain the current ACP protocols until 2008, when import preferences will be gradually phased out in favour of “objective, economic partnership agreements.”⁶ As an ACP member, Jamaica could have expected preferential duty-free quota access to the banana markets in the European Union, primarily France and the United Kingdom, until 2008. However, since 1996 the United States and Latin American countries producing bananas at low cost have run a vigorous protest campaign against these “discriminatory” trade practices. In April 1999, the United States won a World Trade Organization (WTO) ruling that the Lomé Convention did not comply with WTO rules and that the United States therefore had the right to retaliate with prohibitive duties on European Union imports. Subsequent efforts by the European Union to provide some sort of protection to ACP banana production have failed, and the European Union therefore faces United States sanctions to the value of US\$200 million per year on unrelated goods such as bed linen and cashmere (Elliott 1999).

48. In December 2000, the Agricultural Council of the European Union announced a new system for banana imports, allowing discriminatory tariffs in favour of ACP producers, albeit for a smaller quota, up until 2005, when common tariffs would hold for all external banana producers. However, the European Union intends to allocate rights to import bananas during this transition period on a “first come, first served” basis. Smaller producers are thought unlikely to beat United States giants like Chiquita and Dole to market, and it is therefore unclear whether, or to what degree, the Jamaican banana industry will benefit. In addition, the United States has not yet indicated whether it will accept the deal. Sugar, which also enjoyed special protection under the Lomé Convention, is also suffering. In the 1960s, it formed nearly 30 per cent of all Jamaican exports. That figure is now down to 7 per cent and seems certain to decline further once the Lomé and Cotonou protections expire.

FUTURE DEVELOPMENTS

49. The future of Jamaican trade seems likely to lie with growing United States and diminishing European influence. In October 2000, the United States extended the period for allowing duty-free and quota-free imports of assembled garments from the Caribbean (cut in the United States) to 2005, in addition to the benefits available under the 1984 Caribbean Basin Economic Recovery Act.⁷ This is seen as a demonstration of the United States’ commitment to revitalizing the economies of the Caribbean Basin, although there has been criticism that such initiatives may be structured to maximize the benefits reaped by United States, rather than Caribbean, businesses.

50. The next step on this road is the potential emergence of the Free Trade Area for the Americas (FTAA). The move towards the FTAA had its beginnings in the 1994 Summit of the Americas in Miami, which resulted in an agreement to set up a free trade area for 34 countries in the Western Hemisphere by the year 2005.⁸ Considerable progress appears to have taken place since then, including four meetings of trade ministers between 1994 to 1998 to advance the FTAA process, and 88 meetings of negotiating groups since then, in nine different areas of concern.⁹ If the FTAA does come to fruition, this will be a significant gain in access to markets, whether measured in terms of population or in terms of national output of the economies involved. Table 7 hints at some of the potential. For example, if the FTAA had been formed in 1999, it would have

offered Jamaica free trade access to an additional 400 million people in North and Central America (with total incomes of US\$1.9 trillion). In addition, the FTAA is likely to act as a stimulus for further development of CARICOM, which will play a key role in the FTAA negotiations. Again, however, questions have been raised as to whether the FTAA will be structured equitably, given the dominance of the United States economy within the region.

51. The opportunities offered by improved access will be counterweighed by the costs of further declines in industries such as sugar and bananas, whose products will soon cease to enjoy preferential access to European markets. The facilitation of imports will also seriously challenge domestic producers, who will not survive unless they are able to compete at international standards. Perhaps most serious is the issue of whether Jamaican business has the flexibility to respond to new opportunities. Market access is necessary, but it is not sufficient. Jamaica must bring competitive products to market if increased access is to create economic growth. There are important obstacles to this happening, as we discuss in Section IV.¹⁰

C. LIBERALIZATION OF FOREIGN DIRECT INVESTMENT

JAMAICAN FDI

52. In recent years Jamaica has been relatively successful in attracting foreign investment. As Table 8 shows, FDI in Jamaica increased substantially in the 1990s compared to previous decades. US\$520 million of FDI flowed into Jamaica in 1999 alone. This enthusiasm for FDI marks a return to the policies of the 1960s, when FDI averaged 7 per cent of GDP, compared to 5 per cent in the 1990s. By contrast, the 1970s and 1980s were hostile to foreign capital, with average FDI 1.7 per cent and 0.7 per cent of GDP respectively.

53. The increase in FDI matches the trend in Latin America and the Caribbean as a whole, which was the only world region to see increasing FDI flows in 1998–99, as Asia recovered from its financial crisis (Mugione and Castillo 2001). On the other hand, it is clear from Table 8 that Jamaican performance has not been as impressive as that of Trinidad and Tobago – or, in terms of absolute magnitude, that of Costa Rica and the Dominican Republic. Jamaican FDI is even less impressive when compared to that of three other comparable small economies – Hong Kong (China), Ireland and Singapore – which had recent annual FDI inflows of US\$23 billion, US\$18 billion and US\$7 billion respectively (UNCTAD 2000).

54. Accurate figures for the distribution or destination of Jamaica's FDI are not available. However, according to JAMPRO, Jamaica's investment promotion agency, the United States accounts for 60 per cent of total inflows, with Canada, the United Kingdom and other European countries making up most of the rest. In the 1960s, most FDI was in the bauxite and tourism industries, both of which grew explosively as a result. However, the bauxite industry has since declined and foreign exchange receipts have fallen, despite substantial increases in export volumes for 1998 (Planning Institute of Jamaica and Statistical Institute of Jamaica 1999). Although foreign investment in bauxite has picked up since 1998, when a number of industrial and labour disputes were resolved, prospects for the industry remain uncertain. However, tourism, an industry that has always been open to intense global competition, continues to be a powerful magnet for investment. FDI has also been important in the development of the apparel industry, the nascent information technology (IT) sector and other "new exports" such as refined agricultural products. In these new industries, the transfer of technology and knowledge offers benefits potentially greater than any financial investment made (Ventura 1999).

THE FDI REGIME

55. Jamaica's improved FDI performance can be ascribed to a number of factors. First, the government's policy towards foreign investors has relaxed considerably. 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 FDI policies transparent and non-discriminatory.¹¹ 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 Jamaica's constitution and via a number of bilateral treaties. Foreign investors are now accorded the same treatment as nationals. 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.¹²

56. Second, government privatization has been an important factor in the growth of FDI, accounting for nearly one-third of all FDI inflows in 1999 (Mugione and Castillo 2001).¹³ There have been significant privatizations in telecommunications, tourism, insurance, banking, manufacturing and minerals. Plans for enhanced privatization of utilities and the infrastructure sectors (telecommunications, energy, transport) are under consideration, with some activities, such as spectrum auctions for mobile telephone services, already undertaken. Air Jamaica is already 75 per cent privately owned, and there have been efforts to divest investment in two major international airports. However, there have been limits to the government's enthusiasm for privatization. Efforts to divest the Donald Sangster International Airport have not yet borne fruit, and there has been some contradiction between the need to divest (and raise funds) and the wish to maintain a measure of government control over privatized assets.

57. Third, government policy has encouraged export-processing zones (EPZs), which provide a means for developing countries to offer their labour to foreign investors and markets free of tariffs and taxation (King 2001). 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 per cent tax holiday in perpetuity.

58. Much of the activity in the free zones has been concentrated in garment production. The Kingston Free Zone, established in 1976, is now the largest free zone in the English-speaking Caribbean, with an 18-hectare site and over 72,000 square metres of factory space. The Montego Bay Free Zone, established in 1985, is situated on a 38.5-hectare site with over 45,000 square metres of factory and office space. A further 1,000 square meters of space is currently being created for IT activities.¹⁴ The Hayes and Garmex free zones have also been developed. Free zones are currently owned and managed by the government, although the private sector is represented on free zone boards. Since 1996, firms outside the free zone have also benefited from free zone status, providing they export at least 85 per cent of their production (Mugione and Castillo 2001).

59. Exports from free zones increased by roughly 40 per cent in the period 1992–99, although, interestingly, foreign exchange earnings increased by only 9 per cent over the same period, and employment fell 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 (Mugione and Castillo 2001). Since 1996, the garment industry has declined, with numerous factory closings leading to huge job losses. Respondents to an UNCTAD survey of garment

manufacturers in the free zones attributed the sector's problems to high labour costs, high interest costs on local borrowing, high shipping costs and poor security. UNCTAD itself has suggested as a major factor the growing United States competition as a result of falling trade barriers (UNCTAD 1999a). In response to this, the Government of Jamaica has targeted IT as a way to revamp the zones and has invested in the zones' communications infrastructure and in IT training. In the Montego Bay Free Zones, half of the 20 companies now operating are in the IT sector.¹⁵

D. FREEING OF NON-FDI CAPITAL FLOWS

PRIVATE CAPITAL FLOWS

60. Like many developing countries, Jamaica now looks to international capital markets to supplement investment from domestic savings. Table 9 provides data on average annual net private capital flows during three periods: 1976–85, 1986–99, and 1996–98. Both total and per-capita capital flows are shown, and a comparison with net FDI flows is included. The table shows dramatic outflows of capital in the latter part of the 1970s and the early 1980s, with an average of US\$32.21 per capita flowing out of the country each year. This capital flight has mostly been stemmed by the middle period, and the balance moves into the black between 1996 and 1998, with an average of US\$91.38 per capita now flowing into the country, attracted by high interest rates, lower inflation and a steadier macroeconomic environment.

61. In comparison, Costa Rica, the Dominican Republic and Honduras show comparatively slight fluctuations, with peaks and troughs below and above Jamaica's. Trinidad and Tobago, however, proves exactly the reverse case of Jamaica, with strong inflows in the first period and almost equally strong outflows in the latter. It is beyond the scope of this paper to break down Trinidad and Tobago's FDI, but the country has become a significant supplier of investment to other CARICOM countries, and it is believed that its FDI figures reflect its willingness to diversify risk across the emerging Caribbean market.

62. Remittances from Jamaicans living abroad provide a significant source of capital flowing into Jamaica. Figure 2 shows remittance inflows to Jamaica and other countries and regions from 1979 to 1997. Having previously been more or less on a par with world and regional trends, Jamaica and the Dominican Republic (which also had high real interest rates) saw a remarkable jump in remittance inflows beginning in the early 1990s. As Table 10 shows, the first year of the jump in remittances coincides with a rise in real interest rates in Jamaica, providing evidence that remittances respond to incentives. Part of this trend can be ascribed to the increase in Jamaica's outward foreign investment, which rose from US\$52.7 million in 1994 to US\$94.9 million in 1999.¹⁶ Jamaican firms such as the resort group SuperClubs, which in 2000 added a resort in Brazil to its Jamaica and Bahamas centres, and the fast-food chain Island Grill, which has opened a branch in Florida and has plans for expansion into the British market, are leading the way in outward investments, which are likely to become more popular as CARICOM further opens up regional markets. Outward FDI has benefits beyond remittances: it creates job opportunities for Jamaicans abroad, increases export opportunities for Jamaican input providers and, as with inward FDI, gives Jamaican firms access to new knowledge and technology. With interest rates in Jamaica higher than in many surrounding countries, firms have a strong incentive to repatriate funds.

EXCHANGE RATE POLICY

63. Jamaica's reliance on trade, FDI and non-FDI capital flows makes the choice of exchange rate regime crucial for the country's prospects and development. According to King (2001), "like many of the economies of Latin America and the Caribbean, Jamaica has experimented with all of the fashions in exchange rate regimes." As we enter the 21st century, the valuation of the Jamaican dollar and the mechanism for deciding that valuation remain among the most controversial issues facing the Jamaican polity.

64. Until 1961, a currency board managed what was then the Jamaican pound, pegging it to the pound sterling on a one-to-one basis. In 1961, a central bank was formed, but the management of the currency remained unchanged. In 1969, the Jamaican pound was replaced by the Jamaican dollar, although parity with sterling was maintained. In 1972, international currencies were floated, as the Bretton Woods system came to an end, and in 1973 the Jamaican dollar was pegged to the United States dollar, reflecting the growing importance of trade with the United States and the diminishing influence of the United Kingdom. Exchange of the currency was also controlled and limited to those with approved import licenses. Controls were further tightened through the 1970s, and in 1983 an auction system was introduced, with the government controlling the market by determining the amount of currency it bought each day.

65. Liberalization of exchange rates did not come until 1990. The policy took three years to be implemented, and foreign exchange was not widely available until 1993, by which time most controls had been lifted. Throughout the 1990s, however, the central bank continued to actively manage the exchange rate, principally by building up substantial reserves of foreign currency. These reserves give the central bank considerable credibility as a defender of the currency against speculative attack and have enabled the bank to "smooth out" the exchange rate, avoiding short-term peaks and troughs that do not reflect the fundamentals of the currency's value. Central bank policy, combined with high real interest rates, has arguably left the Jamaican dollar overvalued. As Table 10 shows, the "real" exchange rate (which takes inflation into account) has appreciated against the United States dollar since 1990, rising by 45.6 per cent. As Agosin and Bloom (2000) have argued, this is a typical, if unhelpful, pattern for developing economies as they liberalize their economies. "Countries must engage in a continual search for competitive advantage," they write, "and strive to develop capacity in high-productivity sectors. Coherent price signals are therefore needed to steer resources towards promising new export sectors. Exchange rate policies are extremely important in this respect. Often, trade liberalization is accompanied by capital inflows that appreciate the exchange rate. This ends up stimulating the production of non-tradables rather than encouraging nascent exports."

E. MACROECONOMIC ADJUSTMENT

CURBING INFLATION

66. According to Agosin and Bloom (2000), "inflationary conditions discourage investment, weaken the ability of relative prices to act as a guide to resource allocation, and act as serious discouragement to the private sector." It is difficult for businesses to plan investment in environments characterized by high and variable rates of inflation. In addition, high inflation provides a signal of poor economic management. It raises the spectre of hyperinflation and associated economic breakdown. It also tends to increase tensions between labour and employers, as workers aim to win wage increases above the current inflationary rate, effectively charging employers a premium against the risk of further inflation rises. In Jamaica, as in most other countries, controlling inflation has therefore become a key priority as policy-makers aim for a low but positive inflation rate.

67. Following a brief period of price stability in the late 1980s, Jamaica experienced sharp increases in prices in the early 1990s as a result of the liberalization policies of the time. Liberalized controls on credit expansion and deregulation of interest rates, along with a more relaxed exchange rate regime, were quickly followed by a sharp devaluation of the exchange rate – and a significant depreciation in 1991 (see Table 10). Extremely high inflation rates (up to 80 per cent) resulted as devaluation increased the prices of imported goods and goods produced using imports. The policy response was to curb money supply increases, with corresponding increases in *real* interest rates (the true cost of borrowing funds in financial markets). This relationship is illustrated in Table 10.

68. Inflation fell as a result, and Jamaica achieved single-digit inflation from 1997 to 1999, dramatically improving on the annual price increases seen earlier in the decade. According to the Economist Intelligence Unit, strong growth in broad money¹⁷ in 1999 and the first half of 2000, combined with high fuel prices and drought, are pushing inflation upward again. However, the Unit predicts that consumer price inflation will peak at just below 13 per cent in 2001, before lower real interest rates, falling oil prices and fiscal adjustment drive the indicator back to 10 per cent or below in 2002 (EIU 2000).

69. The control of inflation remains a central plank in the government's economic policy. However, although desirable in terms of attracting foreign investment, price stability in Jamaica in the 1990s (see Table 10) exacted significant economic costs. Real interest rates have remained extremely high and have inhibited domestic investment, contributed to crisis in the financial sector, helped push up government debt and spending to service that debt and created upward pressure on the Jamaican currency.

COST OF CONTROLLING INFLATION

70. In 1990, real interest rates, which adjust nominal interests to allow for inflation, were 4.2 per cent. They dipped to -42.9 per cent in 1992 before climbing steadily to 21.1 per cent in 1999. At this level, they have had a number of effects.

71. First, high interest rates have deterred investment by increasing the cost of funds to potential investors. Following sharp increases in the 1980s, gross fixed investment in Jamaica levelled off at around 30 per cent of GDP during the 1990s, declining slightly in 1998 and 1999. Yet this picture of a stable rate of domestic capital formation reflects declining private investment by local entrepreneurs, offset by increasing flows of foreign direct investment of the "greenfield" variety,¹⁸ at roughly 5 per cent of GDP annually during the latter half of the 1990s.

72. Second, high interest rates have had a dramatic effect on the domestic financial sector. The sector acquired many of the same weaknesses that later plagued the East Asian economies, due largely to unsupervised growth. These included poorly diversified loan portfolios, a mismatch of assets and liabilities, real estate investments and loans to related parties (Hilaire 2000). At the height of the crisis in 1996, Jamaican commercial banks had as much as 15 per cent of their asset portfolios in lending towards construction and landholding. Non-banking financial companies had reserve ratios¹⁹ averaging only about 5 per cent from 1988 to 1990, compared to 25 per cent for commercial banks (IMF 2000). Consequently, when real rates of interest went up in a recessionary environment that included stagnant real estate values, many loans became non-performing. Table 11 shows the sector's rapid growth and subsequent contraction. As the crisis deepened, the government felt compelled to rescue insolvent banks in order to protect the uninsured deposits of the Jamaican public. The Government of Jamaica responded by establishing the Financial Sector Adjustment Company (FINSAC) as a publicly owned entity to take on non-performing assets and issue government-backed bonds to serve as a guarantee for the financial sector. By March 31, 1999, FINSAC had accumulated

deficits of nearly J\$67.8 billion (US\$1.6 billion), roughly equivalent to the central government revenues for fiscal year 1998–99.²⁰ FINSAC is now due to be wound up and its debt brought onto the government's books. This intervention is estimated to have cost as much as J\$100 billion (US\$2.3 billion) so far (United States Department of State 2000). As a result, a huge thundercloud hangs over the economy.

73. Third, high interest rates contributed to escalating levels of government debt and the cost of servicing that debt – a problem compounded by FINSAC liabilities. According to King (2001), the government's appropriation of national economic resources declined in the 1980s but rose in the 1990s. Government expenditures, less debt servicing, had remained static in real terms from 1980 to 1993. By 2000, however, it had increased by over 40 per cent. Public expenditures are now 40 per cent of GDP, compared to 35 per cent in 1995. As of 2000, Jamaican public debt stood at US\$7 billion, equivalent to 144 per cent of GDP, per cent indicating that the debt situation is again worsening, having shrunk from 110 per cent of GDP in 1994 to 96 per cent of GDP in 1998.²¹ The composition of the debt itself is changing towards an increase in domestic debt,²² having risen from about one-fifth of all public debt in 1994 to 46 per cent in 1998,²³ to approaching 60 per cent in 2000. The increased cost of domestic borrowing has gradually increased the cost of this debt service burden, with total interest payments expected to be around US\$900 million in 2000, of which 81 per cent is for domestic debt.²⁴ Attempts to shift borrowing to international markets have been hindered by the poor rating on Jamaica's sovereign debt (see Table 12 for a comparative picture of Jamaica's debt rating and that of a set of comparison countries),²⁵ which has led to what the Jamaican Ministry of Finance and Planning has described in its debt strategy as “lower than programmed funds from the international capital market.”²⁶ Jamaica's credit rating with Standard & Poor's did improve slightly in May 2001, but its bonds are still classified as some way short of investment grade.²⁷

74. Fourth, interest rates have placed pressure on the exchange rate. By acting as a magnet for financial capital inflows and remittances, high real interest rates have helped prop up the exchange rate by enhancing the supply of foreign currency in the market. Private transfers, including remittances, continued to increase steadily throughout the 1990s, even during 1996–97, the worst period of the crisis. As was already mentioned, the jump in remittances in the early 1990s coincided with the rise in real interest rates.

75. At a time when prices were increasing more slowly in Jamaica because of a restrictive monetary policy, the immediate consequence of increased financial capital flows was an upward push in both the market (or nominal) exchange rate and the real exchange rate. High real exchange rates have been an important factor in diminishing the competitiveness of Jamaican exports and encouraging the flow of imports. These imports, priced at relatively low levels in Jamaican currency, in turn hold down inflation – but at the expense of domestic industry. Rapid devaluation, meanwhile, would decrease foreign confidence in the Jamaican economy and might lead to capital flight. In addition, devaluation might well trigger inflation, at least in the short term, which would be unpopular within Jamaica and perhaps politically unacceptable for the Government of Jamaica.

F. A LIBERAL ENVIRONMENT

76. In the 1990s, Jamaica took many steps to liberalize its economy. A small island economy with a long tradition of trade, it significantly lowered barriers to imports while encouraging exports. It put in place policies that attracted foreign investors and allowed greater freedom for non-capital flows. The Government also attempted to support these policies by creating a macroeconomic climate conducive to foreign investors and to trade.

77. However, Jamaica faces significant challenges if it chooses to sustain or increase its level of openness to the global economy.

78. First, it has been more successful at encouraging imports than at improving export performance. Many traditional export sectors are undergoing painful restructuring because they are non-competitive against world benchmarks. The economy, traditionally reliant on low-value-added products, has recently started to attempt to enter more modern and more profitable economic sectors.

79. Second, although Jamaica has been successful in attracting FDI, it is as yet unclear what benefit this will offer the economy. As will be discussed later in this paper, much investment has been in low-value-added industries, and it is questionable whether Jamaica is currently attractive to investors with more demanding expectations.

80. Third, there are clear vulnerabilities in the macroeconomic climate. Inflation remains a threat, government debt is unsustainably high, real interest rates are making investment difficult, and the currency has been pushed high by foreign transfers of capital. As a result, macroeconomic adjustment has failed in one of its most important goals: to deliver certainty to the private sector. The Economist Intelligence Unit has warned investors of an increase in “the risk of a sharp uncontrolled adjustment of the exchange rate”, and the Inter-American Development Bank reported “increased volatility” in the exchange rate between August and October 2000.²⁸ The need to cut government debt is likely to lead to austerity budgets, reducing public investment; tax increases to the same end are not inconceivable.

81. Perhaps the most important benchmark by which liberalization will be judged, however, is that of economic growth. Without such growth, there is little incentive for interest groups – or the electorate as a whole – to continue support for liberal policies. Section III, therefore, examines the Jamaican economy – its history, current competitiveness and future prospects.

NOTES

¹The estimates are based on information provided in World Bank 2000b(Tables 3 and 4) and in trade statistics provided at the government Web site www.investjamaica.com.

²The calculations are based on data on exports of goods and services and GDP for 1999 (World Bank 2000b, Tables 3 and 4) and the assumption that the import-export ratio in 1998 for these sets of countries was the same as in 1999.

³These are weighted averages of tariff rates for different commodities where the weights are the respective shares in world trade (see King 2001, Table 8).

⁴For further details on CARICOM), refer to Appendix I.

⁵ The current activity of this sector involves repetitive straight stitching processes, with little skill creation and minimal investment in workers. Fabric from the United States is shipped (cut or uncut) to Jamaica for sewing and packaging and then re-exported to the United States. Jamaica also has the 1994 Canada/Jamaica Bilateral Textile Agreement, but this is limited to a small category of very specific products (see Trade Agreements at www.investjamaica.com).

⁶Jean-Robert Gouloungana (2000): *Together we must take up the challenges of the Cotonou Agreement*. ACP-EU Partnership Agreement, 23 June 2000.

⁷ Within limits, this also applies to certain other categories of textile exports (United States Trade and Development Act 2000, Title II, pp.25–31, www.ita.doc.gov)

⁸The countries are Antigua and Barbuda, Argentina, the Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Vincent and the Grenadines, Saint Lucia, Saint Kitts and Nevis, Suriname, Trinidad and Tobago, the United States, Uruguay and Venezuela (<http://ftaa-alca.org>). Cuba is currently not included.

⁹These include Market Access, Investment Services, Government Procurement, Dispute Settlement, Agriculture, Intellectual Property Rights, Subsidies, Antidumping and Countervailing Duties, and Competition Policy (<http://ftaa-alca.org>).

¹⁰In October 2000, Jamaica's minister of foreign trade, Anthony Hylton, warned that the "risk of being left behind is real if we do not have the skills, capital, flexibility and creativity to seize the opportunities that will open up." (Jamaica Gleaner (2000): Jamaicans urged to exploit free trade area. 24 October 2000)

¹¹Some restrictions relating to concerns for national security, the creditworthiness of investing firms and environmental impact do exist, however.

¹²Additional and substantial benefits are received by firms planning to export some of their output, those focusing on the bauxite/aluminium sector, the entertainment industry and tourism. See, for example, Jamaica Promotions Corporation (2000).

¹³At the time of telecoms privatization in 1987 this figure reached 94 per cent.

¹⁴See www.seaportsofjamaica.com/f_zones.htm.

¹⁵Source: Montego Bay Free Zones Ltd

¹⁶IMF International Financial Statistics 2001.

¹⁷"Broad money" includes all notes and coins in the economy ("narrow money") plus all deposits held by companies and individuals both inside and outside the banking sector,

¹⁸New investments rather than mergers and acquisitions (M&A). The *World Investment Report* (UNCTAD 2000) compared these two forms of FDI and concluded that, contrary to the traditional view that greenfield investment is good and M&A is bad, in the long term their impact is much the same, except in terms of market structure and competition.

¹⁹The proportion of all assets held in liquid form.

²⁰Data from www.finsac.com and from Planning Institute of Jamaica (1999).

²¹Desmond Thomas (2001): Jamaica: Economic Situation and Prospects. IADB. March 2001

²²Jamaica's internal debt ballooned from J\$23.4 billion in 1993 to J\$154.4 in August 1999.

²³Calculations based on Planning Institute of Jamaica (1999) and data in International Financial Statistics.

²⁴Jamaica Ministry of Finance Debt management Unit, cited in Jamaica Gleaner (200): Domestic debt jumps again. 27 October 2000

²⁵An Inter-American Development Bank report stated in October 2000: "It is...to be noted that Jamaica recently issued a bond for US\$225 million at an interest rate of 12.75 per cent. The terms of this loan suggest that while Jamaica continues to enjoy access to international capital markets, it is still at a considerable premium." Desmond Thomas (2000): Jamaica: Economic Situation and Prospects" IDB October 2000. Jamaica ranks 87th out of 143 countries in *Institutional Investor* magazine's March 2001 country credit ratings, down from 79th in September 2000 (www.iimagazine.com/premium/rr/countrycredit/ccr/2001.htm).

²⁶Ministry of Finance & Planning (1999): Ministry paper no. 10: Debt management strategy – 1999/2000. Available at <http://www.mof.gov.jm/papers/ministry/no10.htm>

²⁷ MOFP (2001); News Release: Jamaica's rating upgraded. May 2, 2001.

²⁸ The report suggests that inflation rose from 7 per cent in calendar year 1999 to 9 per cent in the year ending April 2000 as a consequence of exchange rate volatility. Desmond Thomas (2000) *ibid*: 3

III. GROWTH: THE JAMAICAN DOMESTIC ECONOMY

A. OVERVIEW: SPHERE TWO

82. According to Agosin and Bloom (2000), “liberalisation offers great economic opportunities to a country, but *active* policies are needed to ensure these opportunities are taken up. Coherence in policymaking is also needed if fast and sustained economic growth is to be promoted. By establishing growth-friendly policies, policymakers not only increase international confidence in their development prospects, they also enhance domestic confidence that the future can offer rising levels of prosperity.”

83. However, liberalization poses threats as well as opportunities. Alongside pro-growth policies essential for grasping opportunities, policy-makers need to create the breathing space to mitigate or counter these threats. This section looks at Jamaica’s historical growth record, explores the extent to which liberalization has delivered promised levels of growth, analyses some of the reasons for poor rates of growth and explores the context within which Jamaica’s policy-makers must manoeuvre.

B. THE JAMAICAN ECONOMY

84. Jamaica experienced a remarkable boom throughout the 1950s and 1960s. According to Stone and Wellisz (1993), “Real GDP grew more than 6 per cent a year, one of the best growth records in the world. By 1972 the former colony had evolved into a fully independent member of the British Commonwealth with a stable, democratic, two-party system. It had become the leading producer of bauxite, tourism was booming, and there was a significant manufacturing industry.” Although there was great inequality and persistent unemployment, several human development indicators had made a positive step forward: “living conditions had improved, and much progress was made in health and education.”

85. Much of this growth was funded by foreign investment, which financed 30 per cent of all domestic capital formation and provided almost all the capital for the bauxite industry. According to Davies (1994), there were concerns in manufacturing about the quality of investment attracted, with many new industries depending on imported inputs and capital: “many of these entities were simply repackaging operations, benefiting from the low wages which obtained in Jamaica as well as the high tariff regime.” Harris (1994) argues that the growth masked structural problems in the economy. Output increased only in some sectors, and across the economy productivity remained sluggish.

86. This “golden age” was followed by an extended period of stagnation, with growth confined to brief periods in the late 1980s and early 1990s. Tables 13 and 14, which present trends in real GDP and GDP per capita from 1970 to 1998, demonstrate this

clearly. Table 13 shows that for the last 30 years, GDP per capita has hovered at around J\$60–80,000 (measured in constant 1995 Jamaican dollars). Even more remarkably, this table suggests that Jamaica had higher incomes per capita in the early 1970s than it did nearly 30 years later in 1998. Indeed, during this entire period, Jamaica experienced an average annual rate of growth in real GDP of only 0.65 per cent alongside real per-capita GDP declines at an average of 0.43 per cent (see Table 14).

87. To put these observations in perspective, in 1965 Jamaica's GDP was about 40 per cent of Singapore's per-capita GDP, a ratio that had shrunk by 1999 to under 10 per cent. Table 14 compares Jamaica's growth performance with that of four other countries in the region – Costa Rica, the Dominican Republic, Honduras and Trinidad and Tobago. Although the comparison group has performed poorly by the standards of the East Asian “tiger” economies, Jamaica's performance has been, by some way, the most disappointing.

88. Many factors contributed to Jamaica's poor economic performance in the 1970s: some were exogenous shocks while others were internal policy decisions. Of the former, rapidly escalating oil prices and a deteriorating market for aluminium were the most important. Internally, Jamaica's experiment with democratic socialism proved ill timed and poorly conceived. Government expenditure soared, a levy was placed on bauxite and imports of goods were restricted. Although initially real wages rose and unemployment fell, growth occurred only in government services, and the overall competitiveness of the economy declined sharply. The results were massive capital flight and a damaging exodus of skilled Jamaicans. Tourism also suffered badly as crime and political violence shook the industry. Austerity measures followed, with an inevitable effect on the quality of life of ordinary Jamaicans. Unemployment topped 30 per cent and real wages fell by over 26 per cent between April 1974 and November 1980 (Stone and Wellisz 1993). GDP in 1980 was no higher than it had been in 1964.

89. The 1980s and 1990s have seen repeated attempts to recover from the dramatic reversals of the 1970s, with policy-makers tending to adopt increasingly liberal policies as discussed in Section III. However, Jamaica's high level of exposure to the global economy does not yet seem to have yielded commensurate returns. Jamaica saw real GDP grow at an annual rate of about 0.1 per cent in the 1990s – well below that of the Dominican Republic, Honduras and Trinidad and Tobago. This growth rate compares poorly with average annual growth rates of 2.4 per cent in middle-income countries, or 2.5 per cent in the world, over the same period (World Bank 2000b). It is also much lower than those of other island economies that have previously been compared to Jamaica by researchers, such as Sri Lanka and Ireland, which enjoyed an average annual growth rate of 5.3 per cent and 9 per cent respectively in the 1990s.

90. Two important questions therefore arise: (i) Why has the Jamaican economy failed to take advantage of liberalization? (ii) Are these factors amenable to change in the future or are they beyond Jamaica's control, dooming the country to remain non-competitive within the global economy?

C. JAMAICAN COMPETITIVENESS

ACCESS TO CAPITAL

91. Economic growth depends on the accumulation of factors of production, physical and human, as well as on productivity gains. Increases in physical capital require domestic savings or funds from abroad. The experience of East Asia shows that domestic savings levels are one of the most important determinants of economic growth. Although domestic savings rates are positively influenced by markets' ability to give competitive returns and to protect savers' funds from future inflation and risk, the transformation of those savings into increased investments depends on whether the financial system rewards good investments, and on the cost at which potential investors obtain funds.¹ A liberal market environment, along with the necessary regulation, effective contract enforcement mechanisms, and a stable macroeconomic environment appear most likely to deliver high savings and investment rates (Agosin and Bloom 2000).

92. In Jamaica, saving rates in the period 1960–98 peaked in the 1960s when the average annual gross domestic savings rate (expressed as a percentage of GDP) was 26 per cent. This figure declined to around 17–18 per cent in the 1970s and 1980s. High real interest rates saw this figure rebound to an average of 24 per cent in the 1990s (Table 15). Table 15 also provides data for a comparison group, showing that Jamaica's savings rates are considerably higher than those in Sri Lanka and Malta, practically identical to those of Trinidad and Tobago and Mauritius, but much lower than those in Ireland, Hong Kong (China) (both around 30 per cent) or Singapore (approaching 50 per cent).

93. More worrying for Jamaica, however, is that the average savings rate achieved in the 1990s masks a significant decline in the latter half of the decade, when the rate fell from a 1992 peak of 32 per cent to just 18 per cent by 1998. This slide indicates a substantial loss of confidence in the financial sector after the financial crisis, despite the fact that depositors now receive limited insurance for their funds, alongside greater consumption of imported consumer goods, which are cheaper due to the appreciation of the currency. In sum, then, savings rates were historically low, recovered briefly, and have fallen once again. Only remittances and other private capital flows mask this trend.

94. In addition to low levels of savings, the high level of internally funded government debt is pushing up interest rates and consequently crowding out domestic borrowers. This pattern can be measured as a ratio of the government's internal debt to the total liabilities of the financial sector. This ratio was 88 per cent in 1980 and fell to 25 per cent in 1991, as the financial sector contracted while the government's domestic debt remained static. However, as government debt (most of which is financed domestically) increased, the ratio too rose again to stand at 68 per cent by the end of 1999 (King 2001). High interest rates are also contributing to an exchange rate that favours imports over exports, inhibiting growth within Jamaica.

JAMAICAN PRODUCTIVITY

95. While Jamaican industry is starved of investment, its ability to grow is also hampered by low levels of total factor productivity. Quite simply, and most strikingly, its labour force is not competitive enough to enable industry to thrive in competition with the best producers in the global market.

96. Real wages increased in the 1990s. Table 16 shows that the real wage index rose from 63 in 1990 to 96 in 1998. In this period, as discussed, the Jamaican economy did not grow. Nevertheless, Jamaicans were paid more, even though they were not producing more collectively. The effects on the labour productivity index are predictable: stand-

ing at 107 in 1972, this fell below 70 in the mid-1980s and rose slightly, to 73 by 1998 (Henry-Lee and Alleyne 2001). As Table 17 shows, the average value each worker added in Jamaican agriculture and manufacturing in 1998 was much lower than the values in Mexico, a natural competitor (World Bank 2000a). Another recent study shows that Jamaica is uncompetitive in apparel assembly not only with respect to Mexico, in comparison with which its unit costs were 14 per cent higher, but even more so compared to other countries in the region, such as Nicaragua, Honduras, and Guatemala, in comparison to which its unit costs were 30 per cent higher. Falling price inflation, it seems, has not been matched by moderation in wage inflation rises and/or by productivity gains (Henry-Lee and Alleyne 2001). The high costs of goods still protected by tariffs, mostly food products, may also fuel demand for higher wages (King 2001).

97. The role of low productivity levels in Jamaica's disappointing economic performance is reinforced by an analysis of the reasons behind Jamaica's fall in per-capita income over the period 1970–95 and the contrasting sharp rise in output from a composite group of eight small island economies.² For this paper, the per-capita difference for Jamaica and the comparison group was “decomposed” into three main categories, with effects ascribed to differences in (i) output per worker; (ii) the proportion of the population belonging to the working-age group and (iii) the proportion of the working-age population that actually works. Table 17 presents the results alongside a further breakdown of effects resulting from differences in output per worker by sector and differences in the share of the total number of workers in each sector. The results demonstrate that the single most important factor influencing changes in per-capita income – and the resulting difference between Jamaican performance and that of the comparison group in 1995 – lies in the difference in output per worker.

98. Further analysis of the changing nature of worker productivity highlights a second set of factors. In short, although Jamaica's agricultural productivity has grown slightly faster than that of the comparison group, productivity in its service and manufacturing sectors has lagged significantly. Table 18 highlights this finding using a scenario analysis that explores how Jamaica's economy might have developed if worker productivity in manufacturing and service had improved more rapidly. There are three scenarios, each compared to the baseline of Jamaica's actual performance. In the baseline, Jamaican productivity fell between 1970 and 1995, with GDP per capita falling to US\$1,658 by the end of the period. In scenario 1, it is assumed that Jamaica's productivity instead stayed constant between 1970 and 1995, and that all other factors remained unchanged. Under this scenario, per-capita income would have been 27 per cent higher in 1995 than it was in actual fact. Scenario 2 assumes that Jamaica's productivity rose at the same rate as that of the comparison group, with other factors still unchanged. Here, Jamaican incomes would have been over twice as high as they in fact were. Finally, scenario 3 assumes that Jamaica's productivity was exactly the same as that of the more productive comparison group throughout this period. In this scenario, Jamaican income in 1995 would have been almost four times higher than it actually was.

99. This significant lag in productivity in manufacturing and services – areas both crucial for competing in the global economy – has been the factor most closely associated with Jamaica's virtually stagnant income position. It offers a stark picture in which the threat of a dwindling share of wealth must be countered by active policies designed to boost productivity.

D. ACHIEVING GROWTH IN JAMAICA

GAINS FROM TRADE

100. The importance of trade and FDI to Jamaica's economy suggests that the answer to the challenge of promoting productivity growth is likely to emerge from increased activity and effectiveness in manufacturing and services (PSOJ 2000). Such productivity growth is unlikely to come through reliance on exports of primary goods, however. Producers of these commodities are confined to a narrow set of markets in the European Union and the United States and are vulnerable to price fluctuations and competition from lower-cost producers with better access to the NAFTA zone and the European Union. Additionally, as Table 19 shows, Jamaica has already succeeded in raising its agricultural productivity faster than the comparison group of small island economies (albeit from a low base), but this has had little impact on the country's overall rate of growth.

101. Quite simply, low-value goods are of dwindling importance to competitive advantage in the modern world. Indeed, Jamaica's historical reliance on natural resources may have harmed rather than helped its economy, as human and physical capital has been focused on a sector with only limited possibilities. The trade in bauxite, for example, may have led to so-called "Dutch disease,"³ whereby a country receives a windfall gain that does not translate into increased prosperity. So the increasing demand for bauxite also increased demand for the Jamaican dollar, contributing to currency appreciation and thus diminishing the competitiveness of other export sectors with greater long-run potential to improve living standards in Jamaica. In addition, the profitable bauxite sector pushed up wages and monopolized talent, diverting scarce human resources from the rest of the economy.

102. Increasing productivity levels will also require finding other, less protected markets as well as developing new lines of goods and services for export. Productivity increases always require investment, however. To consider one example, the information industry in Jamaica focuses primarily on data entry/capture, which accounts for between 80 and 90 per cent of the employment in this sector (Ash et al. 1994). This work lacks a high skill component and offers low added value, exposing the industry to international competition from low-wage economies and offering little promise as an avenue for improving productivity.⁴ However, Jamaica currently lacks higher-end technical skills, and investment in human capital will be needed if the IT sector is to contribute to significant gains to the economy.⁵ Equally, attracting higher-quality FDI will require more active policies to enhance Jamaica's attractiveness as a destination for investment. A more highly skilled workforce will be essential for this to happen, as will be discussed in Section V.

GOVERNMENT POLICY

103. Enhancing FDI and promoting exports require a stable macroeconomic environment. Achieving this will involve controlling the fiscal deficit and thereby allowing interest rates to fall. A devaluation of the exchange rate would also be helpful to exporters, though an uncontrolled devaluation could be risky for the economy as a whole.

104. Cutting the deficit is an urgent policy need. Action to reduce the debt burden is therefore a clear priority. Jamaica's debt management strategy, which seems to enjoy a reasonable level of support from the International Monetary Fund (IMF),⁶ aims to reduce debt-servicing costs and extend the maturity profile of the debt by shifting as much debt as possible onto the international market and issuing new local and international bonds with long repayment periods. Better management, however, is likely to

have only limited success if confidence in the Jamaican economy remains low, while the prospects for debt forgiveness currently seem limited. Jamaica is not included in the Debt Initiative for Heavily Indebted Poor Countries (HIPC), a process sponsored by the IMF and the International Development Association (IDA) and backed by the World Bank; nor is it due to be considered, as it is not considered sufficiently poor and its debt burden is not judged “unsustainable.”

105. Jamaica has received some more piecemeal assistance in controlling debt from international agencies. The World Bank’s Base Case Assistance Program, for example, proposed a US\$220 million loan to Jamaica in 2001–2, providing “the macroeconomic and financial sector restructuring program remains on track, and the Bank portfolio implementation remains satisfactory.” US\$150 million of this money is earmarked for a bank restructuring and debt management program. The Inter-American Development Bank approved a similar US\$150 million package and the Caribbean Development Bank a US\$25 million one.⁷ There have also been bilateral agreements – for example, with the United Kingdom’s Department for International Development, which agreed to a debt relief program worth UK£11.4 million in September 2000. This agreement is tied specifically to poverty reduction through the Commonwealth Debt Initiative, which provides relief to countries showing “commitment to achieving internationally agreed poverty reduction targets, and towards the pursuit of policies which are aimed at supporting the poorest people in society, and encouraging sustainable development.”⁸

106. Aside from rescheduling debt or securing borrowing on more advantageous terms, cutting the deficit involves raising more tax revenue, selling state-owned assets, cutting government expenditures or a combination of the three. Table 20 presents data indicating that the tax revenues of the central government hovered between 26- and 30 per cent of GDP during the past decade. Jamaica appears to have collected higher levels of tax revenue than Costa Rica and the Dominican Republic, whose ratios of tax revenues to GDP are 23 per cent and 16 per cent respectively. Indeed, Jamaica’s tax-revenue-to-GDP ratio is also high when compared to those of other island countries such as Ireland and Sri Lanka, which have ratios from 15 per cent to 20 per cent.

107. Table 21 presents information on recent trends in the major types of taxes, tax rates and the tax base of various taxes in Jamaica. The major taxes, their coverage and rates have remained more or less unchanged since 1997. The major sources of tax revenue are the General (and the Special) Consumption Tax that accounted for 43 per cent of all estimated tax revenues during 1999–2000 and income and profits taxes, which accounted for a further third of tax revenues (IMF 2000). In the absence of economic growth, there appears to be little room to raise revenues from direct taxes. Jamaica’s regional neighbours, such as Costa Rica and the Dominican Republic, have their highest marginal income tax rates at 25 per cent and corporate taxes at around 25 to 30 per cent. It would be difficult to visualize higher rates in these areas without worrying about relative profitability and competitiveness. Nor is it possible to envisage raising import duties (currently about 10 per cent of all tax revenues) without jeopardizing the incipient gains from the CARICOM agreement to cut tariffs. The general consumption tax could be raised, but this might increase production costs, reduce the competitiveness of Jamaica’s exports and fuel domestic inflation. Another alternative is to grow the tax base by drawing workers and enterprises in the informal sector into the tax system. Clearly, this could only be done quickly at the expense of dramatically shrinking the income informal workers earn. However, a more gradual approach may have potential in the future and will be discussed in Section V.

108. Although there is limited scope to raise taxes, further privatization does offer the chance to reduce recurrent expenditures, if loss-making enterprises can be sold, and to raise capital when more profitable enterprises are privatized. Further, privatization – especially if a number of assets are sold simultaneously – enhances credibility by sending

powerful signals to the international business community regarding the government's underlying agenda for economic reform as well as its long-term commitment to operate by the rules of the free market. This would enhance the government's ability to attract long-term strategic investment that in turn would bring expertise and technological change. This boost to credibility might also lower the risk premium Jamaica pays on its debt.

109. It is critical, of course, to ensure that the interests of the Jamaican people are balanced with the need for rapid and comprehensive return of assets to the private sector. Governments clearly need to maintain a regulatory interest in key public sectors, but the Government of Jamaica cannot currently afford to use this as an excuse to retain partial control. Half-hearted privatizations are rarely successful and usually indicate that a government should either have kept the asset in public hands or have been more thorough in its divestment.

110. Privatization will raise only limited revenue, however, which means that spending cuts are inevitable. Reductions in government spending are, however, needed at a time when Jamaica also needs to invest in human capital and infrastructure in order to achieve the growth in productivity discussed earlier. The country must simultaneously impose austerity measures and protect and enhance human development – a balancing act discussed in Section V.

PRO-GROWTH?

111. Jamaica's economic policy is not currently delivering growth, so it is natural to re-examine the mix. In the past decade, Jamaica's macroeconomic policy has been relatively conservative. It has yielded low inflation, but at the expense of high interest rates and a real exchange rate favouring imports over exports. The fiscal deficit, meanwhile, has not been controlled, and this has dramatically reduced the government's room for manoeuvring.

112. By acting to cut the deficit, the government may be able to ease the current squeeze on domestic industry. However, the need to pay for restructuring the financial sector, along with poor prospects for raising tax revenue, makes achieving fiscal discipline a difficult goal that will not be achieved immediately. Indeed, economic growth, which will widen and deepen the tax base, may be needed *before* sustainable fiscal discipline can be achieved. It is therefore necessary to consider whether the Jamaican currency should be set by market forces and not defended by the Central Bank, a move most commentators believe would lead to a sizeable depreciation.

113. Currency depreciation does not automatically translate into higher growth, but there are positive signs that in Jamaica's case it may do so. Enterprises that survived the rigorous climate of the 1990s may be ready to expand rapidly. They would therefore be in a position to look for volume growth domestically, rather than raising prices for goods that compete with imports, while also looking for new markets for exports as Jamaican products became cheaper on the world market. These "new breed" enterprises would be expected to be in the vanguard of a shift away from imports to domestically produced goods. This movement would create jobs, absorbing unemployed and underemployed individuals, promoting income growth and easing the pain felt by consumers facing higher-priced imports. Any depreciation must therefore be complemented by strict competition policies combined with a set of policies designed to increase business flexibility and cut regulation. If the government adopted a more neutral policy vis-à-vis the exchange rate, it could concentrate on reducing real interest rates, which in turn would help facilitate growth in the Jamaican economy and reduce the interest element of the

fiscal deficit. At present, while economic growth is desperately needed in Jamaica, macro-economic policy seems primarily contractionary in its focus. This makes Jamaica like a boat whose rowers are pulling in different directions, one towards growth and one away from it.

114. Depreciation can, however, be a risky strategy for a small economy. In his review of the current global macroeconomic climate, Paul Krugman notes that, although some countries, such as Australia and the United Kingdom, have succeeded in achieving the kind of controlled devaluation that boosts economic growth, others have faced a situation where an “initial decline sets in motion a vicious circle where expectations of ever-greater devaluation become self-fulfilling prophecies” (Krugman 1999). Such uncontrolled depreciation was a factor in the Asian crisis (from which Australia escaped unharmed) and also in Mexico, where the peso lost half its value in 1994 and was stabilized only after a US\$50 billion rescue package and massive interest rises, which persisted for a year. Krugman points to a triple bind (which will be familiar to Jamaican policy-makers) where the currency is overvalued but controlled depreciation presents problems; interest rates must be kept high to prevent capital flight; and fiscal austerity must be imposed in order to control budget deficits and maintain the confidence of the markets. As a result, he notes that some Washington policy-makers have adopted the slogan “For developing countries, there are no small devaluations” (Krugman 1999).

115. It is essential to realize, therefore, that reaction to movements in the Jamaican currency, and to Jamaica’s macroeconomic management more generally, is strongly dependent on the credibility of policy-makers. It also relies on perceptions of the long-term sustainability of the Jamaican economy. Is the Jamaican workforce likely to be more productive over the next decade? Is Jamaican business becoming more or less entrepreneurial? Are today’s young people acquiring the skills that will be in demand tomorrow? Is Jamaican society going to grow stronger, or will crime levels rise still further as social capital continues to erode? The answers to these questions show why sustainable human development must be considered as an intrinsic part of economic development, as well as an end product of economic growth. In Section V, therefore, we review the third policy sphere and ask how active policy interventions in this area can help drive growth.

NOTES

¹The spread between the rates that credit institutions pay their depositors and the rates that they charge their borrowers is crucial here and depends on the efficiency with which the financial markets operate.

²The countries in this composite comparison group are the Dominican Republic, Hong Kong (China), Ireland, Mauritius, Malta, Singapore, Sri Lanka and Trinidad and Tobago.

³“The de-industrialization of an economy as a result of the discovery of a natural resource. So named because it occurred in Holland after the discovery of North Sea gas; it has also been applied to the UK since the discovery of North Sea oil. The discovery of such a resource lifts the value of the country’s currency, making manufactured goods less competitive; exports therefore decline and imports rise” (Pallister and Isaacs 1996).

⁴High-skill activities relate to areas such as telecommunications, system development and telemarketing.

⁵India has demonstrated that it is possible to move up the IT “value chain”, building on its early experience with inputting/data capture to develop a booming software industry that accounted for \$US2.65 billion by 2000, and with the Indian government expecting exports to grow to US\$50 billion by 2008. Attitudes towards entrepreneurship and education, combined with the extensive involvement of networks of overseas Indians, particularly those in the United States, also played an important part in this process (Bloom and River Path Associates, 2000).

⁶ Jamaica Gleaner (24 October 2000) *ibid*

⁷ World Bank (2000): Jamaica Country Assistance Strategy November 2000. Available at: <http://wbln0018.worldbank.org/External/lac/lac.nsf/Countries/Jamaica/7ADBBC06C89BC5F8852569B30055319E?OpenDocument>

⁸ <http://www.parliament.the-stationery-office.co.uk/pa/cm200001/cmselect/cmintdev/82/8225.htm>

IV. HUMAN DEVELOPMENT IN JAMAICA

A. OVERVIEW: SPHERE THREE

116. Agosin and Bloom (2000) cite UNDP's first human development report, which opened with the statement that "the real wealth of a nation is its people. And the purpose of development is to create an enabling environment for people to enjoy long, healthy and creative lives. This simple but powerful truth is often forgotten in the pursuit of material and financial wealth."

117. This section explores Jamaica's human development, placing special emphasis on those areas where human development interacts with the other spheres in the Agosin/Bloom framework: liberalization and economic growth. On the one hand, the section explores the potential effects on human development of policy decisions made in the other spheres. On the other, it explores how human and social capital can *contribute* to the economic growth Jamaica so badly needs.

B. HUMAN DEVELOPMENT OR SUSTAINABLE HUMAN DEVELOPMENT?

118. Sustainable human development is the fundamental end of the development process. Income growth is a means to that end. However, the Agosin/Bloom framework identifies fundamental two-way links between human development and economic growth, suggesting that human development can be promoted directly or indirectly via policies and programmes that promote income growth. In addition, because of the potential for negative feedback between the three spheres in the framework, it is quite possible for the absence of economic growth to steadily erode standards of human development. Ramirez, Ranis and Stewart (1997) discuss policy "lopsidedness", where countries focus on economic growth to the exclusion of investment in human development, or vice versa. According to their analysis, around a third of countries displaying "human development lopsidedness" moved towards virtuous spirals, with positive feedback between economic and human development indicators. For the rest, economic failure began to chip away at the human development gains. In contrast, however, none of the cases of "economic growth lopsidedness" moved to virtuous spirals. Quite clearly, without human development, growth is not sustainable and offers only temporary gains.

119. Table 22 offers one way to estimate the relative pace of Jamaica's human and economic development. It provides a comparison between economic and human development indicators for Jamaica and the composite group of small island economies defined earlier. The historical contrast between Jamaica's economic achievement and that

of the comparison group is marked. In 1970, the ratio of Jamaica's per-capita income to the comparison group's per-capita income was roughly 75 per cent, but by 1995 it had fallen sharply to one-fifth of the comparison group's income. Over the 25-year period, Jamaica's per-capita income fell by about 8 per cent while the comparison group saw an increase of 224 per cent. An examination of eight human development indicators, on the other hand, shows that Jamaica's performance has roughly matched that of the comparison group. In other words, its social performance has been much more satisfactory than its economic achievements.

120. There are some signs, however, that more recently Jamaica's human development has begun to stagnate. While Jamaica's UNDP Human Development Index (HDI) remained relatively stable between 1990 and 1998 (Jamaica has remained a medium human development country), its ranking compared to its neighbours has suffered. In 1990 Jamaica was ranked 69th out of the 173 countries assessed, below Barbados, Antigua and Trinidad and Tobago but above Saint Lucia and Saint Vincent and the Grenadines. In 1998, however, Jamaica had been overtaken by the latter three countries and had fallen to 82nd in the world. Of the seventeen CARICOM countries, only Cuba, the Dominican Republic, Haiti and Guyana are now ranked lower than Jamaica in human development (Planning Institute of Jamaica 2000).¹ These figures are supported by some of the indicators of the *supply* of services that are intended to encourage human development. For example, the ratio of public health nurses to patients did not increase between 1975 and 1997, while the number of doctors and public health inspectors declined from 1979 to 1992. Illiteracy, which fell dramatically from 1911 to 1981, has now steadied, and employment, which rose at the end of the 1980s, stagnated around 84 per cent throughout the 1990s.

121. If human development is to be revitalized in Jamaica, the country must build on its tradition of high standards in the field. Although the country has not progressed lately, its indicators compared to other island economies remain respectable, as Table 22 shows. The Jamaican population has enjoyed relatively high levels of schooling for some time now. The country does not suffer from the debilitating disease burden borne by many developing countries, and life expectancy at birth is now 73 years (Planning Institute of Jamaica 1999). Moreover, the country is English-speaking, a growing advantage in the information age, especially given Jamaica's proximity to North American markets.

123. There are significant human and social deficits, however. Jamaica lacks sufficient technical and tertiary-level education to provide skilled workers, and there are questions about the quality of its education system at all levels. Crime is a persistent problem, discouraging investment and growth, and standards of governance are problematic. Lack of confidence in Jamaican institutions is the natural result of a number of scandals and incidents of mismanagement, negligence, or worse (the financial sector crisis provides an excellent example). The growth of the informal sector is also problematic. On the one hand, many informal enterprises are dynamic and entrepreneurial, thriving in the absence of regulation. On the other, informal businesses are poorly placed to access investment needed to improve productivity and grow; have little incentive to provide training for employees; and pay no taxes, thus minimizing a potentially vital contribution to Jamaican society.

124. All these problems can be seen as stemming from the absence of economic growth and from Jamaica's "human development lopsidedness". Education, for example, relies on the extent to which families and, as they grow older, students are motivated by the belief that investing in education will lead to a better standard of living later in life. Crime and the loss of social capital have clear links to unemployment – and are a key ingredient in a vicious spiral of lawlessness and economic decline that can affect a community and, in some cases, a whole economy. An absence of opportunities has also led to the emigration of some of Jamaica's most ambitious, talented and highly trained people

– a brain drain that has resulted in there being approximately as many Jamaicans living outside the country as within it. As the Private Sector Organization of Jamaica argues, “the lack of growth in the economy has led to a situation where new job opportunities are not being created at a pace that can absorb those who are being made redundant and this is no doubt contributing to the very unsettled social situation that prevails at present” (PSOJ, 2000).

125. This paper takes the position that, while lack of human and social capital has become a *contributory* factor to Jamaica’s problems, it is not the root cause. Jamaica’s human development *was* conducive to economic growth and, to a certain extent, continues to be so. However, economic stagnation has not provided Jamaicans with sufficient opportunities to exploit, and this has led to a gradual weakening of human and social capital. Unless growth is delivered soon, this effect is likely to intensify as government is progressively forced to cut spending on social programmes. In the worst-case scenario, this trend could lead to strongly negative feedback between economic growth, human development and, potentially, liberalization, with, for example, civil unrest weakening the fabric of Jamaican society. More likely, however, is a “slow bleed” scenario, where economic stagnation and continuing underperformance within the regional and world economies lead to the ongoing erosion of human and social capital. This will in turn contribute to the Jamaican economy’s falling further and further behind. In other words, over the last 30 years, Jamaica has enjoyed some degree of human development, but unless growth occurs soon, that human development is unlikely to be *sustainable* – and it is sustainable human development that the Jamaican people need.

C. JAMAICA’S HUMAN DEVELOPMENT

HEALTH

126. Health is the most fundamental component of human development. Without good health, individuals are able to capitalize on few of their other opportunities. The burden of ill health invariably falls disproportionately on the poorest in any society, who rely most heavily on their labour and have least access to health services. Health is also critical to the level of security a population feels. As their chance of becoming sick decreases – and as the availability of services to care for them if they do fall ill increases – people are able to invest in the future with greater confidence, whether by purchasing education, setting up a business or saving for retirement. Lowering the risk of ill health, in other words, enables people to take other forms of risk that have greater benefit to society (Bloom and Williamson 1998; Bloom and Canning 2000; WHO 2000).²

127. Table 23 presents a comparative view of Jamaica’s performance in terms of key indicators and determinants of health. These indicators suggest that Jamaicans’ health is comparable to that in the selected set of countries. Jamaica appears slightly better placed than Honduras and the Dominican Republic, though its indicators are not as strong as those of Costa Rica or Trinidad and Tobago. In addition, as suggested by Table 24, Jamaica has experienced continuous increases in inputs to good health, such as access to water and sanitation, as well as improvements in health outcomes such as infant mortality rates and life expectancy at birth. Data on immunizations among infants under 12 months also suggest a high completion rate – over 85 per cent as of 1998 – comparable to those in the four countries discussed above and not much below levels seen in developed countries (UNDP 2000). Jamaica has a relatively low burden of infectious diseases such as malaria, cholera and tuberculosis, and, although the incidence of HIV/AIDS is growing, the epidemic can certainly be controlled if action is taken now. As a result, Jamaica has an epidemiological profile very similar to those of most rich countries, with chronic diseases such as heart disease, cancer and diabetes the most serious problems (Henry-Lee and Alleyne 2001).

128. There are still causes for concern, however. Jamaica is some way from the life expectancy rates (at birth) of 78 to 80 years and infant mortality rates of 5 to 6 per 1,000 live births typical of developed countries. Immunization rates are also tapering off and may be starting to decline (Planning Institute of Jamaica 1999, Planning Institute of Jamaica and Statistical Institute of Jamaica 1999). Most importantly, in the absence of sustained economic growth, further cutbacks in state contributions and subsidies to the health sector seem likely as the government attempts to control its fiscal deficit. This is especially worrying given that the chronic diseases that most trouble Jamaicans are particularly costly to treat. Table 25 demonstrates a real-term fall in government spending on health in the 1990s compared to the 1980s.³ Although the Government of Jamaica managed to keep the share of total government spending on health fairly stable during the 1990s – at about 3 per cent of GDP and 6 to 7 per cent of total government spending – even these shares may be untenable in a stagnant economy. Since 1984, the government has also sought to raise at least some resources through user charges, although the amounts currently being raised are small.

129. One consequence of more or less static government health spending has been increasing reliance on private health providers. This is indicated in Table 25 by the sharply declining share of public health expenditures in aggregate health spending. Apart from a direct impact on the average person's health status, increasing reliance on out-of-pocket spending is likely to have serious consequences for health equity, given that the poor rely greatly on public services for care (Gertler and Sturm 1997, Planning Institute of Jamaica and Statistical Institute of Jamaica 1999). Private health insurance currently covers only about 12 per cent of the population – mostly in the top quintiles. Data from the 1999 Jamaica Survey of Living Conditions show that 0.4 per cent of the population in the lowest expenditure quintiles have private health insurance, compared with 32.6 per cent in the top quintile (Planning Institute of Jamaica and Statistical Institute of Jamaica 2000).

130. So while Jamaica faces health problems similar to those of the developed world, it does not have developed-world budgets to spend on solutions. In this situation, the first priority must be to counter new health threats that, if allowed to develop unchecked, could quickly overwhelm the system. HIV/AIDS, for example, is already the leading cause of death for people in the Caribbean aged 14–44. And, although Jamaica's HIV prevalence rate among adults is, at 0.71 per cent, lower than the Caribbean average of 1.96 per cent (UNAIDS 2001), this is no cause for complacency. The disease is expected to have significant impacts on the CARICOM economy, with one study estimating losses equivalent to 4.2 per cent of GDP per year by 2005. By that time, HIV/AIDS will account for 15 to 28 per cent of all Jamaican health spending, depending on the severity of the epidemic (Theodore 2000). HIV/AIDS can be successfully combated, however, if a society acts in concert to protect itself. Indeed, the ability of a society to mobilize successfully against a disease such as AIDS is an excellent indicator of its health and potential. The new Pan-Caribbean Partnership Against HIV/AIDS, launched on Valentine's Day 2001 at the CARICOM Inter-sessional Heads of Government Meeting, is an opportunity for CARICOM to show it can further human development as well as economic goals (UNAIDS 2001).

131. Beyond facing new health threats, Jamaica must continue to explore innovative ways of providing cost-effective health care, especially to its poorest people. Investment in the health of the poor is often a low priority, but the long-term cost of this neglect is great. Epidemics such as HIV/AIDS and tuberculosis thrive in pockets of poverty, gaining strength before “emerging” to threaten the wider society (Farmer 1999, Bloom and Canning 2000b). Poor standards of health among the poor are also a powerful cause of social exclusion, locking individuals and even whole communities into a vicious spiral of sickness, unemployment and inadequate schooling.

EDUCATION

132. *The vital importance of education to development is well understood. Table 26 compares Jamaica's educational achievements with those of other countries in the region. As with health, Jamaica appears to have done well, at least in the quantity of basic education offered. Enrolment rates are high in the 6-to-11-year-old group and comparable to those observed in developed countries. At about 75 per cent and above, the secondary school net enrolment rate is also high relative to those of the comparison countries. This figure is still much lower than the rates observed in developed countries, however, where enrolments in the range of 90 to 95 per cent are typical.*

133. Again, as with health, there are a number of challenges. Policy-makers worldwide are increasingly focusing their attention on the *quality* of education offered, not just the quantity. As one Jamaican labour market assessment study observes: "Basic literacy and numeracy . . . are very poor among new labour force entrants and older workers . . . making the training of technical skills all the more difficult" (Ash et al. 1994). The same study estimates that 30 to 40 per cent of grade 6 students are functionally illiterate, an assertion supported by anecdotal evidence from employers and employers' associations. CXC (Caribbean Examination Council secondary exams) pass rates in English language and mathematics have also been poor. In a ranking of average pass rate performance in both English and mathematics from 1991 to 1997, Jamaica came 15th out of 17 countries. Its average pass rates of 27 per cent in English and 25 per cent in mathematics compares unfavourably with those of the Cayman Islands, which leads both tables with 82 per cent and 88 per cent respectively (Government Statistics Department, Saint Lucia, 1998). However, there are signs that the pass rate is now improving. In 2000, thirty-eight per cent of students gained a pass in mathematics and 48 per cent in English language. Nevertheless, there is still considerable need for improvement before Jamaica can be said to meet the ever-rising standard needed to deploy a truly competitive workforce.

134. Given these figures, it is perhaps unsurprising that historically there has been an extremely high dropout rate among students following secondary school, with barely 4 per cent of students aged 19 to 24 enrolling in tertiary institutions. Gross tertiary enrolment⁴ stands at 8 per cent, with Jamaica lagging considerably behind regional neighbours Costa Rica and the Dominican Republic, and even further behind countries like Ireland (44 per cent) and Singapore (27 per cent).⁵ Access to higher education in Jamaica is also heavily skewed to richer students. The tertiary enrolment rate is under 2 per cent in the poorest fifth of the population, compared to 13 per cent in the richest fifth.

135. Deficiencies in an education system can only be corrected for future generations. For those who have already passed through the system, training in skills demanded by the labour market provides an answer. Such training emphasizes the concept of "lifelong learning" and makes a contribution to enhanced labour market flexibility. Investment in training can also create much quicker returns than investment in schooling. Sometimes these returns are practically instantaneous, as, for example, where workplace training provides new skills, improves morale, increases team effectiveness and leads to immediate productivity gains.

136. In Jamaica, there have been a number of efforts to train workers for the labour market. Among the leading formal institutes are the University of Technology and the University of the West Indies. Other institutes include the Caribbean Institute of Technology and those operated by the HEART Trust (Planning Institute of Jamaica 1999). There are some weaknesses in the current Jamaican training system, however. Existing training institutions seem to focus on classroom-based learning instead of being driven by the needs of potential employers (see, for example, Planning Institute of Jamaica 1994). Trainers are themselves often very junior and with relatively little experience or skills. The training system, therefore, does not currently address industry's need for highly

qualified technicians and supervisory personnel. In-house training, meanwhile, is inhibited by the common perception that trained workers will quickly be “poached” by other employers, making training a cost rather than a benefit for a firm. “Self-training”, or adult education programmes, provide a powerful solution to this problem but again rely on a competitive and flexible labour force. People will go to great effort and expense to acquire new skills, but only if they have clear evidence that such investments are likely to be rewarded.

137. In recent years, the government has attempted to improve the education system and has substantially increased, in real terms, the resources available to education (see Table 27). As with health, the pressure to reduce the fiscal deficit is likely to threaten education budgets, though education is the area most likely to be protected from cuts. It is therefore important that Jamaica have – and publicize to parents – clear standards for how it expects its educational results to improve year by year. As with efforts to combat health epidemics such as HIV/AIDS, raising educational standards requires not only resources but also widespread social mobilization. In the global economy, where only up-to-date skills attract a consistent premium, a national obsession with education is justified – and perhaps essential.

SOCIAL EXCLUSION

138. Health and education enable people to create and seize opportunities and give them the security they need to take risks. In every society, however, certain groups of people are excluded from most social and economic opportunities and therefore unable to contribute to the society’s growth. Social exclusion tends to be mutually reinforcing, frustrating the often extraordinary efforts of people to break free from their many disadvantages. Unhealthy and uneducated people are more likely to be poor and unemployed, while poverty and unemployment lead to further ill health and are obstacles to those trying to achieve a good education. Communities excluded from the economic mainstream tend to lose the services that others in the society take for granted. The breakdown of those communities further exacerbates the problem. Policies to tackle social exclusion, therefore, aim to break the downward cycle and to provide opportunities for people to succeed on their own terms. Poverty is always a terrible burden, but the burden is much heavier if the condition seems permanent, rather than a temporary setback from which to recover. With social mobility, despair can quickly turn to hope, hope to enterprise, and enterprise to profound change affecting individuals, families and even whole communities.

139. Table 28 provides some figures for poverty in Jamaica. It indicates that in 1996 nearly one-quarter of Jamaica’s population lived under the international poverty line (defined as an income of US\$1 per person per day).⁶ This rate is similar to that of Costa Rica and much lower than that found in Honduras, but much higher than the rate in the Dominican Republic. Income distribution, meanwhile, is generally more equitable in Jamaica than in the comparison countries. Since 1992, when the poverty rates was 34 per cent, poverty has declined steadily to 20 per cent in 1997, 16 per cent in 1998 and 17 per cent in 1999 (Planning Institute of Jamaica 2000; Henry-Lee and Alleyne 2001). This may seem surprising given Jamaica’s poor economic performance in this period, but high remittances and rising real wages have pulled many people out of poverty, despite the lack of economic growth.

140. As with many other human development gains in Jamaica, there are serious questions about the sustainability of this improvement. In other words, Table 28 may demonstrate a fall in short-term poverty, but this could be due to the very economic factors that could increase long-term social exclusion. High interest rates, while attracting record levels of remittances, are a key factor keeping Jamaica in recession. Meanwhile, rising

real wages, without corresponding gains in productivity, are eroding Jamaican competitiveness and threatening the chance of recovery if interest rates fall. In addition, the expected decline in primary exports such as sugar and bananas may quickly remove many of these uncompetitive jobs. Jamaica currently offers some safety nets for the poor, spending 1.4 per cent of GDP and 3.7 per cent of public funds on these programmes.⁷ However, the programmes are likely to come under increased pressure as the government acts to cut the fiscal deficit. In addition, demand could increase sharply if real wages slip due to inflation and uncompetitive industries begin to shed large numbers of workers. With cuts also possible in health and public schooling, the short term looks bleak for Jamaica's poor.

141. Perhaps the key social exclusion indicator for Jamaican policy-makers to watch is the employment level. In the 1990s, while poverty fell, unemployment figures, which were at 15.7 per cent as of 1999, did not (Planning Institute of Jamaica 1993, 1999).⁸ Although this rate is comparable to those of economies elsewhere in the region, such as the Dominican Republic (15.9 per cent) and Trinidad and Tobago (16.2 per cent), it is much higher than those of Costa Rica (5.7 per cent) and Honduras (3.2 per cent) (World Bank 2000a). It seems inevitable – and, for the sake of Jamaica's long-term competitiveness, even desirable – that many jobs will be lost over the next decade. The most important question, therefore, is how many new jobs will be *created* and how many people will have the skills and flexibility to accept new job opportunities as they arise.

142. Much of Jamaica's poverty seems to be long-term and difficult to escape. The informal sector in Jamaica, for example, accounts for over 50 per cent of housing units. As the UNDP's *Human Development Report* (2000) points out in its discussion of Jamaica, living in informal sector housing can have extremely deleterious effects on a household attempting to escape poverty. Access to public transport is often non-existent in such areas, making travel to work or to job interviews difficult; the stigma associated with such housing can hinder employment prospects; and building maintenance and sanitation are often poor, leading to health risks which can put an end to a career or a job search. Entrepreneurs can also be affected by the side effects of living in informal housing: crime is rife in many of these areas, threatening the security of cottage industries and their customers and deterring credit companies from entering (Planning Institute of Jamaica 2000). Although not all people living in informal sector housing are affected by these ills, it is likely that at least some households in the sector are locked into a long-term downward cycle.

143. The poor and unemployed are often incredibly resourceful. They need to be in order to survive. Policies to fight social exclusion, therefore, must focus not on trying to keep people just above the breadline but on providing channels enabling people to use their ingenuity to thrive.

JAMAICAN ENTERPRISE

144. The dominance of the Jamaican public sector, coupled with a private sector that traditionally prospered behind tariff walls and in protected export markets, has tended to dampen entrepreneurship. However, the entrepreneurial spirit is now resurgent in Jamaica. This is reflected in the country's new breed of medium- and large-scale companies, many of which have benefited from the access offered by globalization to overseas capital, technology, knowledge and skills. Such energies can also be seen in Jamaica's burgeoning informal sector, which the government sees as a powerful tool in the fight against poverty, a vehicle for growth and part of the process of making Jamaica a more entrepreneurial society (MICT 2000).

145. How important are small firms (defined as having fewer than 10 employees [Planning Institute of Jamaica 1999]) to the Jamaican economy? One indicator is the steady increase in the numbers of non-agricultural small businesses over the years, from 37,000 in 1983 to 89,000 in 1990 and 93,100 in 1996 (Planning Institute of Jamaica 1999). Moreover, this sector accounted for nearly 18 per cent of the total employed labour force in 1996, a share estimated to have risen to 25 per cent by 1998 (Planning Institute of Jamaica 1999). Another indicator is the number of “own-account” workers, estimated at some 350,000 in labour surveys, both in agricultural and in non-agricultural activities (Planning Institute of Jamaica 2000). Most small businesses in the non-agricultural sector (97 per cent) are micro-businesses (i.e. employing less than four persons). Sixty-three per cent of all small businesses are in wholesale/retail trade, an activity that also accounted for nearly three-quarters of all small-business employment in 1996 (Planning Institute of Jamaica 1999). Data from 1996 show that other sectors with a strong small-business presence include the restaurant and hotel industries (9.7 per cent of small businesses), personal services (11.2 per cent) and manufacturing (6.7 per cent) (Planning Institute of Jamaica 1999). While precise data about the agricultural sector are unavailable, it is known that employment in this sector was nearly 200,000 in 1999 and consisted largely of small farmers (Planning Institute of Jamaica 1991).

146. Small business, therefore, has a vital role to play in renewing the Jamaican economy (especially when one remembers that a handful of small businesses will eventually become very big businesses). In high technology, for example, small businesses have the flexibility to exploit a rapidly changing commercial environment. The government is supporting this sector through its Information Technology and Employment Creation Project (INTEC), which will use funds from the sale of cellular phone licenses to promote firms and attempt to create 40,000 jobs over the next two years.⁹

147. Small businesses can also be used to help modernize another sector that is undergoing rapid change: tourism. Jamaica has a clear competitive advantage here, but as the market expands, global tourists are becoming increasingly knowledgeable and demanding about the products and services they buy (Goodwin and River Path Associates, 1998). Jamaican tourism currently suffers from inadequate management, which, according to one study of the sector, has “little vision of how to improve quality of work force or services that are provided” (Ash et al. 1994). There is also little focus on consumer satisfaction – an absolutely crucial ingredient for tourist destinations hoping to stay competitive in the world market. This problem is compounded by high rates of worker turnover, a poor or absent work ethic and a relative absence of in-house training, partly as a result of employers’ fear that workers might find better jobs elsewhere once they have been trained (Ash et al. 1994). Jamaican tourism therefore needs strong destination management, including a coherent package of business support for small tourism or tourism-supply businesses, using models of proven efficacy from resorts such as those developed by the Calvià municipality in Majorca, Obergurgl in Austria, or the Whistler resort in Canada (Tourism Resources Company 1999).¹⁰ Other key sectors include agriculture and wholesale/retail trade, which accounts for the majority of non-agricultural small businesses.

148. Support for small businesses requires improved financing; action to facilitate technological change, appropriate skills training and increased opportunities for links between businesses (e.g. through the development of enterprise clusters or shared supply chains). Often, the delivery of these services is linked. Jamaica’s 15 credit unions provide members with loans from deposits (often supplemented by money from international donors). Interest rates currently range from 24 per cent to 31 per cent. Through their membership structure, however, credit unions also facilitate business networking and the transfer of skills from one business to another. This service can be as vital to the entrepreneur as access to financing. Similarly, community development funds offer a mechanism for investing in communities and businesses, improving skills and introduc-

ing new technologies. Skills 2000, for example, is a community-based development project that has enrolled over 4,000 people from 150 communities and is able to provide both skills development and access to funding. According to the Planning Institute of Jamaica, “A total of 1,010 projects were funded during the year [1999] through Community Development Funds and Credit Unions; of which 48.5 per cent were to women. Services and vending accounted for the largest share of the projects with 64.4 per cent, followed by Agriculture with 24.1 per cent, and Manufacturing with 11.5 per cent. These projects generated employment for 2,340 individuals” (Planning Institute of Jamaica 1999).

149. It is possible to view the informal sector as a continuum, with clear illegal activity, such as drug trafficking, at the bottom, various ad hoc businesses in the middle, and prosperous and growing businesses at its top. The informal sector flourishes when opportunities in the formal sector are lacking or access is artificially blocked by red tape, with more serious exclusion tending to push greater numbers of people from “not fully legitimate” enterprises towards unambiguously illegal activity. The sector therefore presents a paradox for policy-makers. On the one hand, it is often a source of considerable entrepreneurial energy. On the other, even “benign” informality has costs – for society in the form of lost tax revenue; for employees, who are unprotected by regulatory structures; and for the informal businesses themselves, which face barriers to growth because of their lack of legitimacy. Government policy must therefore act to increase the productivity of this sector and foster its entrepreneurial spirit, while removing barriers to firms that are ready to make the jump into the formal sector. Informal businesses, in other words, offer a good strategy for combating social exclusion, but only for businesses that keep progressing towards eventual legitimacy.

D. SOCIAL CAPITAL

THE IMPORTANCE OF SOCIAL CAPITAL

150. If the strength of Jamaica’s human capital has over the years offered opportunities (some of which the country has been unable to exploit fully), then Jamaica’s social capital has played a more problematic role in its development. This issue also arises in connection with human capital insofar as its accumulation takes place within a social context. Actions against health problems need social mobilization. Education systems thrive when a nation values learning. Poverty is rooted in social exclusion, which can be escaped by groups of people working together in innovative and entrepreneurial ways. The nature and structure of Jamaican society, the strength of the nation’s communities and the way that it is governed and regulated are therefore critical to its human development and will, in turn, largely determine whether its economy thrives.

151. Social capital refers to the relationships between people and the effect of these relations on the ability of groups to accomplish productive tasks (Coleman 1999). It involves the formal and informal relationships within a society, encompassing both the nature and functioning of its communities and the effective governance of its organizations. This section first discusses demography, however, which has a significant, if hidden, effect on social capital. As the balance of a population’s age structure alters over time, so does the fabric of society. This change can be traumatic, but there are also great opportunities for societies that are able to collect the dividend that demographic change offers.

An introduction to the demographic dividend

152. In the developing world, improvements in health in the latter half of the 20th century have led to rapid demographic change. Typically, this “demographic transition” is a two-step process. The first step involves rapidly declining death rates, with infant mortality falling particularly fast. As a result, the population begins to grow explosively. After a lag, the second step follows, whereby birth rates start to fall as families act to limit family sizes. Population growth therefore slows, leaving countries with a bulge in their age structure, a “baby boom” generation that leaves a country first with disproportionate numbers of children, then with disproportionate numbers of adults, and finally with a growing population of old people. The demographic transition has a profound impact on a society, through a large number of effects, some of which can be briefly described.

153. First, there are pure “accounting effects”. When the baby boom generation is young, the ratio of dependants to those of working age is high. A small number of workers must pay for many children to be educated, fed, housed and otherwise cared for. Once the baby boomers become adults, this dependency ratio reverses, offering a country a vast productive potential if these growing numbers of workers can be productively absorbed into the labour force. Finally, the dependency ratio flips back again as growing numbers of retired people need care.

154. Second, there are a number of subtler effects. As infant mortality falls, parents have greater certainty that their children will survive to maturity. It therefore makes sense to invest more in the education of fewer children. The baby boom generation is therefore likely to be much more skilled than its predecessors, which adds to its potential when it reaches working age. Smaller families are also likely to be quite different from large families. Greater gender balance is likely, as women are more likely to work, increasing their control over household resources and increasing returns on their education. These families are also likely to be more mobile. Population growth increases pressure on scarce rural resources, so many families are likely to move to cities. Urbanization, in turn, has further effects. The fragmentation of extended families leads adults to devote more resources to saving for old age. Higher rates of saving, in turn, increase the flow of investment into the economy.

155. From an economic point of view, the demographic transition offers countries access to a one-time “demographic dividend” as the baby boom generation reaches working age and begins to save intensively for retirement. In East Asia, this demographic dividend is now thought to account for as much as one-third of the East Asian “economic miracle” (Bloom and Williamson 1998; Bloom, Canning and Malaney 2000). However, there is no guarantee that this dividend will be collected. In Latin America, for example, similar demographic conditions have not led to growth as inflexible labour market policies, lack of openness to world markets and poor economic management left the dividend uncollected (Bloom et al. 1999; Bloom, Canning and Sevilla 2001). In the worst case, the demographic opportunity can turn into a demographic threat: if growing numbers of young baby boomers cannot find jobs, then declining social capital and rising levels of crime are likely. Such a development can interact explosively with the rapid urbanization and changes in family structure that the demographic transition causes.

The Jamaican demographic dividend

156. **Figures 3–8** illustrate Jamaica’s demographic transition, which started around 40 years ago. **Figures 3 and 4** show that death and infant mortality rates in Jamaica started to fall around 1950. **Figure 5** shows that birth rates began declining around 1960, and total fertility rate (the number of children that a woman will have during her lifetime) began falling after 1965 (Figure 6). Current fertility rates in Jamaica are around two children per woman, similar to those in Costa Rica and the Dominican Republic, and substantially below those in Honduras (Agosin, Bloom and Gitli 2000). As a result,

Jamaica experienced a period of population growth followed by declining growth rates beginning in the 1980s. The annual population growth rate currently hovers around 1 per cent, again similar to the rates in Costa Rica and the Dominican Republic, but well below Honduras's annual rate of nearly 3 per cent (**Figure 7**; see also Agosin, Bloom and Gitli 2000).

157. The onset of demographic transition translates into a later bulge in the working-age population. This is apparent both from **Figure 8**, which shows the ratio of the working-age population (15–64 years) to the non-working-age population (<15 years and 65+ years). The ratio has consistently increased since 1970 and is currently around 1.7 for Jamaica, somewhat similar to those for Costa Rica and the Dominican Republic, but much higher than that of Honduras (about 1.25) and somewhat lower than that of Trinidad and Tobago (World Bank 2000b). The Jamaican ratio is expected to peak in 2020, after which it will begin to fall.

158. Jamaica's window of opportunity for collecting its demographic dividend therefore opened in the 1970s and will close in less than 20 years' time. Over the last 30 years, extended periods of slow growth and high levels of unemployment have left much of the dividend uncollected – but there is still a substantial opportunity as Jamaica moves ahead.

159. Emigration complicates this demographic picture and has been especially important for Jamaica, with the annual number of emigrants, bound mainly for the United States, 10 times the number of immigrants to Jamaica (Planning Institute of Jamaica 1999). From 1960 to 1991, net outward migration totalled nearly 700,000, while population growth over that period was about 756,000.¹¹ In other words, without emigration, Jamaica's population would have grown twice as fast as it did. During the 1990s, rates of migration have slowed somewhat, but the loss of human capital is still significant. Available statistics indicate that, in any given recent year, the proportion of professionals and executives migrating to other countries may be at least a third (if not much more) of the total annual output from tertiary-sector institutions in Jamaica.¹² According to United States census data from 1990, nearly 73 per cent of all persons of Jamaican origin in the United States migrated in the 1980s, and 53 per cent of Jamaican migrants identified themselves as belonging to professional, managerial or administrative categories.¹³ In other words, the talents of a large number of the most skilled and highly educated Jamaican baby boomers are currently being used abroad rather than at home.

Jamaican communities

160. An understanding of Jamaican demography provides a context for understanding the development of its communities. The country has experienced rapid urbanization, with the Kingston metropolitan area accounting for over one quarter of Jamaica's population and growing 2.3 per cent a year. The country's population density is now 4,760 persons per square kilometre – high for the Caribbean and eight times the average for lower-middle-income countries (Jamaica Country Profile, Jamaica Sustainable Development Network Programme, undated, www.jsdnp.org.jm/japrofile.htm). On average, family sizes are smaller in urban than in rural areas, supporting the thesis that urbanization is associated with significant changes in family structures. However, there are clear signs of stress in the new urban family. Typically, when a society is prospering, the age at which women have children rises as they balance the need to start families with the opportunities open to them through education and work. In Jamaica, however, the number of children born to women under 20 years of age is rising, and it reached 24 per cent of all births by 1994, higher than the corresponding figures for Costa Rica and Trinidad and Tobago. In addition, suicide rates – a reasonable indicator of general anomie – are now rising rapidly, albeit from a low base, with an eightfold increase from 1990 to 1998.

161. Perhaps the most striking indicator of social breakdown, however, is crime, a serious and persistent problem in Jamaica. The structural adjustment of the economy undertaken by the Government of Jamaica in the 1980s left the state with limited resources to invest in social welfare, education, health and housing. Civil unrest resulted, with the country descending into “virtual civil war” in the run-up to the 1980 elections, when 800 people were murdered. Since then, political violence has declined but gang warfare, violent crime and vigilante killings have all increased (Planning Institute of Jamaica 2000).

162. The number of recorded crimes per 100,000 people was 1,606 in 1999, somewhat lower than the recorded level in 1994 but still among the highest in the developing world (UNDP 2000, Henry-Lee and Alleyne 2001). At 62.4 homicides per 100,000 residents in 1994, Kingston was second only to Bogota in the ratio of homicides to total population in 40 large cities for which such data were available for that year (UNDP 2000). Table 29 provides more details about Jamaican crime rates. The high crime rate is partly the result of increased drug trafficking in Caribbean countries owing to heightened surveillance of Mexico by United States authorities. It is also likely linked to the lack of sufficient employment opportunities for new (and younger) members of the labour force. Indeed, 49 per cent of the approximately 3,600 arrests for “serious” crimes reported in 1998 concerned people between the ages of 15 and 25, mostly young men (Planning Institute of Jamaica 1999). This age group also experienced the highest rate of male unemployment, roughly 25 per cent, well above the average rate of around 10 per cent unemployment among men of all ages (Planning Institute of Jamaica 1999).

163. Crime is a scourge not just because of the number of victims it directly affects but also because of the many people who experience a reduced quality of life because of their fear of crime. In some cases, perceptions can be as significant as reality.¹⁴ For example, although the number of tourists affected by crime is low (in Jamaica, as elsewhere, the least privileged bear the heaviest burden from crime), fear of crime undoubtedly affects the Jamaican tourism industry. According to one recent survey, nearly 70 per cent of hotel owners sampled mentioned crime as an important problem for their business (Mugione and Castillo 2001).

164. There are some signs that communities are trying to protect themselves against crime. There are now over 500 neighbourhood watch groups (Planning Institute of Jamaica 2000), and the “Crime Stop” programme, where people anonymously call the police when they suspect criminal activity or criminals in their neighbourhood, also appears to be successful (Planning Institute of Jamaica 1999). These initiatives point to the vital role that civil society can play in regenerating Jamaican communities, especially as the

need for fiscal discipline limits the role of the state. Civil society in Jamaica, however, is still struggling to find its role in the 21st century. While reciprocity is a strong feature of life in rural settings, the emergence of modern civil society organizations seems to have been hampered by the dominance of the state (UNDP 2000 i.e. HDR 2000). While there is clearly much activity, co-ordination at the national level and a strategic focus are lacking – and the relationship between the civil, state and private sectors continues to be problematic.

165. The problems of Jamaican communities are also reflected in the governance of Jamaican organizations. Good governance is increasingly recognized as a key element of development, whether the objective is to promote growth at home or to attract foreign investment.¹⁵ Good governance has several elements, including the accountability of public officials, the timely and fair resolution of disputes and an absence of crime and corruption. Public confidence in the political system is also a critical indicator.

166. As a parliamentary democracy, Jamaica holds regular elections, with more than 60 per cent of eligible voters voting in the 1997 election (UNDP 2000 i.e. HDR 2000). According to the Freedom House index of civil and political liberties, Jamaica is considered “free” and has been since the ratings started in 1972. However, recent Stone public opinion polls seem to suggest a general public disillusionment with political parties,¹⁶ and the 1999 Corruption Perceptions Index, published by Transparency International, places Jamaica 50th of the 99 countries surveyed.¹⁷ This would suggest that the degree of accountability enforced by Jamaican political institutions is insufficient. Indeed, Ryan (1996) notes that, despite being democratic in the sense that “free and fair” elections are held regularly, the Caribbean states appear to be experiencing a governance crisis largely stemming from their small size. One element highlighted is the tendency of parties in power to appoint their own supporters to posts in order “to capture . . . the spoils” (Ryan 1996). This practice excludes many talented people from government and promotes strong rivalries, often along ethnic lines. It is also inefficient, given the shortage of skilled people in these countries. The Jamaica election process has also been associated with a high level of political violence, with 20,000 people abandoning their homes in 1980 and 500 deaths. To a certain extent, the recent decline in political violence can be read as a further disengagement from the political process, as “garrison constituencies” controlled by political overlords give way to communities ruled by “Dons” with fewer connections to the national political process.

167. Another area of concern is the judicial system, since speedy resolution of contractual and other disputes lies at the heart of a successful market economy. Unfortunately, case backlogs create serious problems, and further delays result from the fact that the final court of appeal is the Privy Council of the House of Lords in the United Kingdom (Ryan 1996). Efforts have been made to improve judicial efficiency and reduce the crime rate. Recent attempts to address large case backlogs have included increased computerization of case data and the institution of night courts. Initiatives to check crime have included a money-laundering bill to address the problem of financial transfers linked to drug transactions and increased emphasis on training law enforcement officials. The financial crisis has also awoken concerns about the possibly dramatic effects of a regulatory breakdown in a fast-moving, modern economy.

168. It is possible, using the World Bank’s Governance Research Indicator Country Snapshot (GRICS), to gain an impression of the governance problems that Jamaica faces and how serious these problems are compared to those of other countries.¹⁸ GRICS measures six governance indicators for over 160 countries. The indicators are:

- voice and accountability;
- political stability/lack of violence;
- government effectiveness;
- regulatory framework;
- rule of law; and
- corruption control.

Jamaica performs best in the area of regulatory frameworks, where it outranks over 75 per cent of other countries, reflecting the longevity of its democratic institutions. It scores nearly as well on voice and accountability. The results with regard to corruption control are less encouraging – Jamaica sits squarely in the middle, and the strengths of Jamaican democracy have not translated into a favourable ranking for the political stability/lack of violence dimension. Here Jamaica ranks in the bottom third, reflecting declining public confidence in the democratic process. This lack of trust may well be associated with the failure of government to keep its promises: Jamaica also ranks in the bottom third for government effectiveness. In the background, weak rule of law overshadows the whole process, with only 25 per cent of countries ranking below Jamaica.

E. GAINING FROM SOCIAL AND HUMAN CAPITAL

169. The global market is becoming increasingly competitive as growing numbers of countries open their economies and strive for competitive advantage. The search for differentiators therefore becomes ever more important. Jamaica has adopted liberal policies, but these are not exceptional by global standards, and the country must work hard to exploit those advantages it has, such as its English-speaking population and its advantageous location for North American markets. Currently, however, exchange and interest rates, worker productivity and skill levels, crime and social breakdown all offer disincentives to potential investors in Jamaica and detract from the enterprise shown by Jamaicans themselves.

170. According to Mugione and Castillo (2001), worrying weaknesses in the Jamaican private sector leave firms unable to compete as successfully as they might: “Many of the foreign firms exploring outsourcing options are seeking long-term, multi-year contracts, typically entering in subcontracting agreements, or joint ventures. Therefore, they look for a thriving local breed of firms that should provide managerial and a broad range of technical capabilities. Firms able to meet these requirements are few in Jamaica.” Mugione and Castillo distinguish between the “inner ring” and the “outer ring” of the policy environment needed to encourage economic growth. The inner ring acts directly to liberalize the economy, through investment and trade policies – actions that Jamaica has generally taken. Its focus must now move to the outer ring, which includes macroeconomic policies, pro-investment fiscal policies, exchange rate policies and, crucially, issues of human development. For in a modern globalized world, what matters to investors is a “world-class infrastructure, skilled and productive labour, and an agglomeration of . . . support institutions and services” (UNCTAD 1999b).

171. Formal analysis points to the gains that Jamaica will enjoy if it continues to invest in its people while maintaining its openness to the global economy, as measured by the degree of openness to trade. The analysis borrows an empirical model developed to explain differences in growth rates by Bloom, Canning, Graham and Sevilla (2000), and uses it to explore the effect on Jamaica’s GDP in 2015 if Jamaica experiences improvements in (i) openness; (ii) demography; (iii) health; (iv) demography and openness; and (v) health, demography and openness.¹⁹ The results of the simulations for Jamaica, Trinidad and Tobago and Honduras are presented in Table 30. According to these calculations, improvements in demography would lead to a 5 per cent gain in Jamaica’s GDP in 2015 over the baseline figure; better health would lead to a 7 per cent boost; and more openness would result in an 11 per cent gain. As the Agosin and Bloom (2000) framework suggests, gains in two or three areas, however, would lead to greater increases in GDP than the sum of their parts. Thus improvements in demography and openness would lead to a 19 per cent improvement in GDP, while better health, demography and openness would lead to a 27 per cent increase. In other words, sustainable human development is capable of providing support for Jamaica’s liberalization – and could lead to substantial improvements in economic growth.²⁰

172. The problem facing Jamaican policy-makers is clear: In a situation where confidence in government is low, and where difficult short-term choices must be made, what “strategic points of entry” can be used to initiate a virtuous spiral where economic and sustainable human development reinforce each other?

NOTES

¹ The HDI is based on the following factors: school enrolment; adult literacy; life expectancy; GDP per capita; employment; doctor/patient ratio; nurse/patient ratio; and income distribution (Planning Institute of Jamaica 2000).

² These effects of health on the economy can be formally estimated. Analysis suggests that, in a comparison of two countries that are identical in every respect except that one has a five-year advantage in life expectancy, the healthier country will experience growth in per-capita income that is 0.3–0.5 per cent faster than that of its counterpart. Health improvements, meanwhile, combined with good policies, are now thought to account for as much as a third of East Asia’s “economic miracle”.

³ This holds true whether the comparison is in terms of per-capita expenditure, as a proportion of gross domestic product or as a proportion of total government spending.

⁴ The ratio of all those, of whatever age, enrolled in higher education to the total population in the 19–24 age category.

⁵ Enrolment rates for Ireland and Singapore have been calculated using information on tertiary enrolments from the UNESCO Database (www.unesco.org) and population data in the 19–to-24 -year age group from the International Database (IDB) of the United States Bureau of the Census. The figures for Jamaica are taken from UNESCO data.

⁶ The poverty line is defined at 1993 prices and adjusted for purchasing power parity. It is based on the United Nations definition of absolute poverty as subsistence on less than US\$1 per day (Bloom et al. 2000; World Bank 2000b).

⁷ Safety nets include the National Poverty Eradication Policy and Programme (NPEP) implemented in 1998, food subsidies for the poor and unemployed (Food Security Program, School Feeding Program), direct income transfers to the indigent and the elderly (The Poor Relief Program, The Social and Economic Support Program) and the “Lift Up Jamaica Project”, a public works program set up in 1999. In addition, there are a National Insurance Scheme (for old age and disability pensions) and support schemes for needy schoolchildren, for pharmaceutical drugs and for housing.

⁸ 15.7 per cent is the average of the (four) rates recorded during surveys in 1999, as provided by the Statistical Institute of Jamaica. The unemployment rate during October 1999 was 16 per cent (www.statinja.com).

⁹ www.mct.gov.jm.

¹⁰ According to Tourism Resources Company, the “ultimate resort model” would include a clear vision and a positioning policy for the destination agreed by all stakeholders, leading to a development policy that is driven by market needs; design guidelines, environmental policies and a well-planned landscape that support rather than detract from a resort’s brand; a well-resourced and evaluated marketing and promotional strategy that has been agreed on by all stakeholders and that supports and creates a clear brand image; ongoing monitoring of market success, market conditions and economic, social and environmental impacts; and continual product development and diversification. The emphasis, throughout, is on using the energies of all commercial players, big and small, and placing the local community at the centre of the development.

¹¹ See Statistical Institute of Jamaica at www.statinja.com.

¹² These include only the migrants to the United States (Planning Institute of Jamaica 1999).

¹³Communication with David Beede (United States Bureau of the Census).

¹⁴Sometimes this perception can be extreme. Consider, for example, statements such as: “in Jamaica, the stock of social capital, on the whole, seems to be meager... A society in which 84 per cent of all births are out of wedlock, while the fathers of close to 80 per cent of these children do not even bother to claim them. A people troubled by an unusually high incidence of violence and one of the highest murder rates in the world” (Brewster 1996, p.3). The American Embassy, meanwhile, advises tourists: “Crime is a serious problem in Jamaica, particularly in Kingston. In several cases, robberies of Americans have turned violent after the victim resisted handing over valuables. The U.S. Embassy advises its staff to exercise caution when travelling to and from Kingston’s Norman Manley Airport via Mountain View and Windward Road, especially after dark, because of the crime threat in the neighbourhoods that they traverse. The U.S. Embassy also advises its staff not to use buses, which are often overcrowded and have proven to be a frequent venue for crime. Visitors should exercise care walking outside after dark and should avoid neighbourhoods known for high crime rates.” See travel.state.gov/travel_warnings.html.

¹⁵ In her comprehensive study “Growth and Institutions: A Review of the Evidence”, Janine Aron concludes that “the quality of institutions has a robust and significant indirect relationship to growth via its effect on the volume of investment.” Aron also notes “the importance of the state in facilitating the development and enforcement of an independent and effective judiciary, in refraining from predatory actions that discourage saving, investment and production, and in extending civil and political rights that promote the development of social capital” (Aron 2000).

¹⁶ In one recent poll, when asked, “Which of the political parties would you say is best capable of running the country at this time?” more people answered “none of them” than chose the JLP or PNP.

¹⁷ Transparency International (1999): New Poll Shows Many Leading Exporters Using Bribes: Transparency International releases new indexes – brand new Bribe Payers Index, largest ever Corruption Perceptions Index. 26 October 1999.

¹⁸ See www.worldbank.org/wbi/governance/bycountry.htm.

¹⁹ This model explains growth rates in the period 1965–90 by the following variables: (a) the log of per-capita GDP in 1960 (in 1985 dollars of internationally comparable purchasing power); (b) the log of the share of the working-age population in the total population in 1965; (c) the percentage of area in the tropics; (d) the log of the secondary-school gross enrolment rate in 1965; (e) a measure of openness to trade over the period from 1965–90; (f) a measure of institutional quality in 1980; (g) life expectancy in 1965; (h) the difference in the growth rate between the working-age population and the total population (GDIF); and (i) the interaction between openness and GDIF. For deriving benchmark estimates of per-capita GDP in 2015 (in 1985 international dollars), we use parameters from the growth regression and the 1990 values of the independent variables. The simulations of per-capita GDP in 2015 labelled “Improvements in demography”, “Improvements in openness” and “Improvements in demography and openness” use, respectively, data values for Chile in 1990 for GDIF only, for openness only, and for GDIF and openness together. The simulations labelled “Improvements in health” measure the effect on per-capita GDP in 2015 of life expectancies in 1990 that were counterfactually 10 per cent higher than they actually were.

²⁰ Because Jamaica is a relatively open economy, with a healthy population that is well along in its demographic transition, these estimated gains are not as large as the potential gains that many other countries could experience from demographic change, investments in human development and the adoption of a liberal policy environment. It is also worth remembering that other vital human demographic indicators, such as access to tertiary education, are not included in this simulation. If they had been, even more dramatic results would likely have been found.

V. CONCLUSION: STRATEGIC POINTS OF ENTRY

A. POLICY FRAMEWORK REVIEW

173. The development framework developed by Agosin and Bloom describes three policy spheres: (i) integration into the global economy and liberalization of markets; (ii) the promotion of fast economic growth; and (iii) sustainable human development. Policy needs to be balanced and co-ordinated across these spheres, since each area relies on the others and, consequently, anything other than a balanced policy portfolio is likely to deliver disappointing results. In the absence of economic development, people's lives will deteriorate. Equally, investment in people and the growth of strong societies and communities are vital determinants of economic growth. This paper has reviewed each sphere in the light of Jamaica's history, its current situation and its future prospects.

174. The paper has argued that in the 1990s Jamaica became increasingly open to the global economy as tariffs fell, flows of FDI and non-FDI capital increased, links with CARICOM became stronger and a Free Trade Area for the Americas appeared on the policy horizon. However, globalization has not delivered prosperity. The Jamaican economy has remained stagnant except for brief bursts of growth. Jamaica is no wealthier in 2001 than it was in 1970. Human development indicators, meanwhile, have historically been quite strong, reflecting the priority placed on human development by Jamaican society. However, the "human development lopsidedness" of Jamaica's policy now threatens the sustainability of the country's human development gains. Without growth, human development in Jamaica is unlikely to keep pace with that of its competitors, an increasingly serious situation given that the quality of human development is becoming increasingly critical for economic success. Lack of growth also threatens liberalization. While the Jamaican economy should see long-term benefits from being open to the global economy, the electorate will demand results in the medium term – and may support a return to protectionist policies if growth is not delivered. In other words, the weakness in the growth sphere must be corrected in order to deliver ongoing investment in truly sustainable human development and create a climate where future growth will be possible.

175. The management of the Jamaican economy continues to be paradoxical. Inflation is low by historical standards for Jamaica, though not when compared to rates currently prevailing in developed countries. Unemployment, at around 16 per cent, is steady. Real wages have been rising. Growth has been negative. Cheap imports, many of them consumer goods, have poured into the country. Meanwhile exporters are struggling, and all Jamaican businesses face the problem of high real interest rates. Many people are enjoying higher wages, and imports are keeping down the prices of consumer goods. On the other hand, the competitiveness of the Jamaican economy continues to decline. Now, as inflation ceases to fall and real wages begin to decline, it is possible that growth will hit or exceed the government's modest targets. But the results will be mixed as poverty levels increase even as the size of the economy increases.

176. Currently, therefore, Jamaicans are borrowing from the future as they earn more without corresponding gains in productivity. In addition, the government has accumulated a mammoth deficit, now swollen by the cost of the financial crisis, which will need to be paid for by future generations. This fiscal deficit has helped keep interest rates high. As a result, the currency has appreciated, with the Central Bank holding significant currency reserves to protect the Jamaican dollar against speculators. Allowing the currency to lose value would be very risky, as it would lead to an inflationary spike, if not ongoing price inflation. Jamaican consumers and businesses are highly dependent on imports, so such a policy could prove unpopular. However, it is hard to see how Jamaican business can compete effectively unless interest rates fall and the currency loses value.

177. In short, Jamaica desperately needs growth. However, even if there is growth (barring growth levels many times greater than those predicted by the government), many people are likely to suffer a falling standard of living, at least in the short term, as Jamaican business battles to become more competitive. Policy-makers therefore need to tread a particularly complex path as they try to deliver growth, improve Jamaica's competitiveness, help displaced workers find new jobs in more productive sectors and provide some kind of security for those who lose out. Politically, the job will be exceptionally difficult, especially within a political system not greatly trusted by the general public, business or civil society.

B. THE THREATS FACING JAMAICA

178. Jamaica's fragile situation reflects a number of factors that have inhibited economic growth and prevented the country from taking advantage of increased openness to global markets.

179. First, the high levels of debt continue to block economic and human development. Economically, they are responsible for keeping interest rates high and starving many businesses of access to capital from investment. Socially, they will inevitably lead to cuts in government expenditures, which will affect education, health and other priority expenditure areas. A series of austerity budgets seems inevitable – though the general election may loosen the restrictions on government spending.

180. Second, crime continues to be a pressing problem. Although tourists and foreign business people are seldom the victims of violent crime, the perceived association of Jamaica with crime is strong and undoubtedly keeps some tourists away. The effect of violent crime on foreign investment may not be as pronounced, but crime increases business costs in other ways – for example, the opportunity cost of higher investments in security, the cost of corruption, absenteeism due to violent crime, and so on. The greatest impact from crime is, of course, felt domestically – and, within Jamaica, the burden is disproportionately borne by those businesses and individuals who occupy the most marginal position in society. Crime therefore significantly impedes human development, especially when some areas become “no go” zones for outsiders. Crime is also an indicator of social breakdown. In addition to combating crime directly, strong efforts must be made to fight crime indirectly by building social capital. These efforts will combat the social exclusion that is currently obliging Jamaica to face the challenges of the future without the full participation of many of its people.

181. Third, Jamaica faces serious quality problems in its education system. Although many children attend school, levels of achievement are low compared to those in other countries in the region, and the region's performance is poor compared to that of the world's leading countries. In the knowledge economy, the value of education is rising rapidly, and the divide of the future is likely to be between the knowledge-rich and the knowledge-poor. In addition, Jamaica faces the problem of brain drain as the country's most successful graduates are lured abroad. As countries such as Ireland have found,

brain drain can have a positive effect if émigrés return home with new skills and experience. This phenomenon, however, relies on policies designed to attract émigrés back, and, with a stagnant economy and high levels of crime, Jamaica is currently poorly positioned to appeal even to those who long to return. Nor is education the only human capital issue Jamaica faces. Its reasonable health standards must be carefully monitored. HIV/AIDS in particular poses a threat, one which society as a whole needs to unite to combat.

182. Fourth, Jamaica is suffering from general institutional weakness, something that is becoming increasingly clear as the country opens itself further to global competition. The financial crisis was at least partly caused by weakness in regulation. That the private sector has been poorly placed to respond to new opportunities is partly the result of bad management. Meanwhile the low levels of trust in government are a reflection of the failure of successive administrations to make – and fulfil – achievable promises. At its broadest, general institutional weakness is reflected in a crisis of trust within Jamaican society. Within and between organizations, as well as within communities, the country has depleted its stock of social capital. Many of its problems, and crime in particular, result from this.

C. JAMAICA'S OPPORTUNITIES

183. Despite these obstacles, Jamaica enjoys many advantages, which suggest a potentially brighter outlook.

184. Despite weaknesses in the education system, the country has seen relatively high levels of investment in human development over the years. Health indicators are relatively positive, reflecting successes within the health system and the country's natural advantages in having a relatively clean water supply and a low level of infectious disease. These human development successes are goals in themselves, but they also affect prospects for economic development. A fit population is better able to receive education and do productive work, offering Jamaica a source of competitive advantage for the future.

185. A related asset is Jamaica's demographic opportunity. For the next 20 years, Jamaica's dependency ratio will continue to decrease as its population ages. This will lead to declining school rolls, providing an opportunity to concentrate on the quality rather than the quantity of education. There will also be a rising number of potential workers, a real economic boon if they can be drawn into productive work. Savings levels will also rise as workers hit the peak savings ages, provided that there is sufficient confidence in the financial markets to make saving attractive. Demography is not destiny – and collecting the demographic dividend depends on a sympathetic policy environment. Nevertheless, the opportunity underlines the importance of policies to stimulate the expansion of the labour market, encourage education and retraining, and make saving attractive. Policy-makers should understand that the dividend represents a one-time opportunity. A failure to collect it will result in adverse effects such as rising unemployment, social breakdown and rising crime levels, as well as an inability to meet the costs of demographic change as the baby boom generation retires and the dependency ratio again increases. The opportunity to collect the dividend will also be lost if emigration continues to take some of Jamaica's best and brightest young people out of the country.

186. Jamaica also has a number of assets that are significant advantages as it becomes more connected to the global economy. Its location allows good access to the American markets – an advantage that will be emphasized as CARICOM becomes effective, and by membership in Free Trade of the Americas. In addition, the English language offers advantages, especially in science and information technology. There are also other industries where Jamaica enjoys a strong global profile, such as music (and other forms of intellectual property) and tourism, where it has a unique product. These high-value

products can form the core of future competitive advantage. Other products, such as food, could be developed in ways that make them more than mere commodities by increasing the importance of “knowledge” within the basic product. This knowledge can be tangible and intangible – the use of technology to produce a flavouring, for example, or the use of branding and marketing to emphasize the wholesome, premium nature of Jamaican agricultural products, such as its renowned Blue Mountain coffee.

187. Finally, Jamaica has the chance to turn its diaspora from a weakness into a strength. Jamaica is a nation of 2.5 million people, with a further estimated 2.5 million Jamaicans and their descendants living overseas. Remittances make a vital and growing contribution to the economy, and the growth of Jamaican communities abroad should provide an expanded base for Jamaican exports. However, as the experience of other emigrant communities has shown, the flow of knowledge back to the home country can be at least as important as the flow of income. Joint ventures with Jamaican nationals living abroad offer one low-cost route for medium-sized Jamaican companies to expand into global markets, and returning émigrés will enhance Jamaica’s skills and knowledge base. There is particular potential in fields where Jamaica already has a competitive advantage, such as IT, music and tourism. Many companies in India, for example, have found this a rapid way to both expand and move up the value chain.

D. STRATEGIC POINTS OF ENTRY

188. The UNDP/UNCTAD country assessment studies are not meant to dictate policy to the governments of the concerned countries. However, the present analysis reveals a number of policy options for discussion by relevant actors within Jamaican society. Some of these are briefly outlined below.

1. Concerted action.: The so-called “Washington consensus”, or what George Soros has dubbed “market fundamentalism”, sees a minimal role for the state and a fundamental one for global markets and would prescribe a laissez-faire attitude on the part of Jamaican policy-makers.¹ However, it is clear that Jamaica cannot and should not sit passively waiting for the benefits of liberalization to arrive. The three-sphere framework provides a model for developing a concerted plan of action that can be carried out by public, private and civil sectors. Government can only do so much – and the need to increase public trust in the state suggests that it should attempt to “under-promise and over-deliver” rather than vice versa.² There is room for civil society, in particular, to play an expanded role in many areas of Jamaican life. The government will wish to ensure that all its objectives are realistic and time-bound. Measuring progress against international benchmarks for key indicators, such as governance, would be helpful.

2. The economy: This is obviously a pressing priority. Timely, well-delivered and well-structured privatizations will help, in addition to sending strong signals to the international market. An audit of all government assets would help create a road map for future privatizations, while the government will have to work hard to explain the need for significant austerity measures. Action to reduce interest rates will, in turn, help reduce deficits by scaling back interest payments on Jamaica’s crushing debt burden. Lower interest rates will also demonstrate that economic growth is now the government’s first priority. The debt management program must clearly be pursued, but the Government of Jamaica should join with other indebted countries to continue to argue for a more radical approach to debt forgiveness.³

3. Productivity: The analysis undertaken for this paper has highlighted the Jamaican economy's biggest challenge: to rapidly improve productivity levels in the crucially important manufacturing and service sectors. Productivity improvements are especially important if the currency begins to lose value. Linked to greater productivity in the manufacturing and service sectors is a need to seek out new market opportunities and develop new products and services that can compete in the global market. Jamaica has several core competitive advantages to build on, including its English-speaking population, its geographical location, and its unique offerings derived from its culture and landscape. Jamaican music, for example, is world-renowned and offers great economic possibilities. This is an area where Jamaica could benefit from more effective exploitation of its intellectual property.

4. Information technology: Information technology has transformed the planet and will continue to do so. Jamaica has started⁴ to focus on this sector, but it has some distance to go if it is to emulate other countries, such as Ireland and India, that have converted their human capital into a globally competitive asset in this sector. In addition to offering a wide range of new opportunities for economic growth, IT exerts pressure to improve the overall skills base, and generates sideways benefits as technological improvements and benefits flow into other economic areas of activity. IT is therefore clearly important both as a priority industry to be recognized in the government's economic plan and as a tool for facilitating greater productivity – not just in business, but in government and civil society.

5. Tourism: Jamaica's unique combination of location, landscape and culture makes for an enormously valuable and attractive set of tourism assets – and tourism is the sector with the most experience dealing with global competition. Yet tourism, like other industries, is undergoing rapid change as the market grows and matures, and as trends and expectations change. Tourists can also be notoriously fickle. Therefore, by virtue of the tourism sector's structure, and its contribution of an estimated 15 per cent to the country's GDP, Jamaica needs vigorous, effective, consistent and, above all, professional marketing of its tourist attractions. This will have to occur alongside a sector-wide upgrade in skills, customer service and individual product offerings if Jamaica is to protect its slice of what is now the world's largest industry.

6. Education: As Simon Bolivar once observed, "Nations march toward their greatness at the same pace as their educational systems evolve." Globalization has intensified competition for knowledge-rich labour, and a degree is fast becoming the default educational entry requirement for active participation in the global economy. Jamaica must expand its higher education system but will be able to afford to do that only by reducing subsidies for students. The current system favours a tiny elite. A system of fees, supported by means-tested grants, loans or differential taxes, is needed to make mass higher education a reality. Distance learning facilities, which are of particular help to women, should also be considered. An expanded higher education sector can only be built on the foundation of major improvements at the primary and secondary levels. This may involve setting clear targets for what students should achieve – and by what age – and devising innovative curricula with a focus (even at the primary level) on subjects, such as IT, which are relevant to today's global economy.

7. **Training:** Alongside enhanced levels of tertiary education, training provides an effective route to “upskilling” among those who have already left the educational system and entered the workforce, as well as for those who are under- or unemployed. A training standard rewarding those companies that are actively “investing in people” is a low-cost way of promoting “learning organizations” to their customers, suppliers and investors. Such an effort would help publicize best practices and provide a mechanism for the government to encourage a growing number of companies to see training as a route to improved productivity. Joint public- and private-sector training programmes might be a good way of introducing firms to the benefits of ongoing training. An initiative to pull *all* government services aimed at small businesses into a single, semi-autonomous organization would also be helpful. This could provide a comprehensive program of business development, offering basic training in book-keeping, financial planning, marketing, technology and recruitment. It could also work to remove regulation and red-tape issues that inhibit growing informal businesses from making the transition into the formal sector.

8. **Crime:** Reducing crime is clearly a priority, given the economic, social and human costs of crime. Inaccurate perceptions of crime need to be strongly countered, but a wide range of action to actually reduce crime is needed as well. Crime is often practiced by those for whom other opportunities are absent, which is why active policies in other areas can make a difference by drawing individuals into the informal and formal economies. The costs of crime are often underestimated, not least because the impact on victims (including victims merely of fear) is rarely properly accounted for. Crime also devastates poor communities, making the fight against crime a key component of any anti-poverty strategy.

9. **The diaspora:** Jamaicans abroad offer a vital resource of money, ideas and energy. Globalization has also made it possible to develop much stronger links between Jamaica and its overseas communities.⁵ The Government of Jamaica could consider appointing an ambassador to represent émigrés within Jamaica and explore ways of more effectively exploiting this valuable asset. It should also consider reversing the brain drain for key posts, pinpointing Jamaicans or non-Jamaicans for their track record in driving economic and social renewal.⁶

10. **The Jamaican “brand”:** As a small island, Jamaica is unique in the level of global brand recognition it has built up. However, its brand and identity has been taken for granted and have deteriorated dramatically. Jamaican music receives less exposure internationally than it did 20 years ago, and, despite growing number of visitors, a holiday in Jamaica does not have the cachet it once did. Dispiritingly, Jamaica is increasingly associated with crime in the minds of many foreigners. There is now growing recognition internationally that brands and identities are as important to countries as they are to corporations (Olins, 1999). The Jamaican government should therefore lead a consensus-building process to determine what the Jamaican brand stands for and then work hard to market this image abroad. The return on this investment, in terms of increased FDI and higher-value tourism, would be immense.

E. TOMORROW'S JAMAICA

189. Jamaica is not alone in facing a wide range of new challenges and opportunities in response to liberalization and globalization. Indeed, it has much to gain if it continues to join with countries in a similar position to argue for fairer treatment within the global economy. Debt forgiveness could make an immense difference to the country's prospects, especially if the government can demonstrate that it is spending the resulting extra revenue effectively. Jamaica must also continue to negotiate hard for fair treatment in global trade agreements and for a FTAA that is structured to meet the needs of small economies, while at the same time remaining a prominent and active member of CARICOM.

190. However, many of the factors that have led to Jamaica's long economic stagnation are internal, not external, and it is this economic stagnation that has reduced opportunities for the Jamaican people and left many of them unable to fulfil their potential.

191. Given that Jamaica's demographic dividend is available for only another 20 years – a single generation – now is the time to develop a bold vision for a 21st-century Jamaica. Jamaica can benefit from globalization, but achieving this will require enormous efforts by Jamaica's policy-makers and inhabitants.

192. Out of many policies, one future grows.

NOTES

¹ Interestingly, John Williamson, the inventor of the term "Washington consensus", has made it clear that he believes the term has two quite different meanings. First is the meaning he gave the term, which involved consensus around a set of 10 policy reforms which he believed were widely accepted as beneficial by economists. In the original formulation, these were (i) fiscal discipline; (ii) a redirection of public expenditure priorities towards fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education and infrastructure; (iii) tax reform (to lower marginal rates and broaden the tax base); (iv) interest rate liberalization; (v) a competitive exchange rate; (vi) trade liberalization; (vii) liberalization of FDI inflows; (viii) privatization; (ix) deregulation (in the sense of abolishing barriers to entry and exit); and (x) secure property rights. Second is the meaning the term has acquired: "market fundamentalism or neo-liberalism: laissez-faire, Reaganomics, let's bash the state, the markets will resolve everything." We use the term in the latter, now more common, usage. (What Should The Bank Think About The Washington Consensus? John Williamson, background paper for the World Bank's World Development Report 2000, July 1999, <http://www.iie.com/TESTMONY/Bankwc.htm>)

² There are signs of the private sector and government working more closely together; see, for example, Memorandum of Understanding Between the Government of Jamaica and the Private Sector Organization of Jamaica Regarding the Removal of Certain Obstacles Affecting Business, February 2000

³ The Jubilee 2000 UK Coalition, for example, has argued that "eligibility for debt cancellation should be assessed on a case-by-case basis, but using fair and objective criteria we find that around 11 other countries in addition to the 41 HIPC's are likely to be in need of urgent and substantial debt cancellation. These extra 11 countries are: Bangladesh, Cambodia, Gambia, Haiti, Jamaica, Morocco, Nepal, Nigeria, Peru, the Philippines and Zimbabwe." John Garrett and Angela Travis (1999): Unfinished business – the world's leaders and the millennium debt challenge. Jubilee 2000 Coalition, September 1999.

⁴ In the introduction to Jamaica's thoughtful and comprehensive National Strategic Information Technology Plan, Prime Minister Patterson comments, "As we approach the turn of the century, and come to grips with the Digital Age, Jamaica has the opportunity to embrace the new concept of a 'knowledge-based society' for social and economic development. We must, therefore, seize the initiative and build on the foundation that we have already laid, to establish new partnerships, develop new industries, to become more competitive in this new century."

⁵ The Returning Residents Facilitation Unit – Jobs and Skills Data-bank created by the Ministry of Foreign Affairs and Foreign Trade is a good example of outward-facing action. It offers Jamaican employers free help in finding expatriate Jamaican professionals with key knowledge and skills for employment or consultancies in Jamaica.

⁶ The mayor of London, for example, recently recruited Bob Kiley, former chief executive of New York City's Metropolitan Transportation Authority, on the basis of his success in rebuilding that city's public transport system.

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ANNEXES

Responsibility	Member State	Date of Joining	Status
Single market and economy (including monetary union)	Barbados	August 1, 1973	More developed
External negotiations	- Jamaica	August 1, 1973	More developed
Agriculture and agricultural diversification and food security (including the RTP)	- Guyana	August 1, 1973	More developed
Security (drugs and illicit arms)	Trinidad and Tobago	August 1, 1973	More developed
Services (including information technology and telecommunications)	Antigua and Barbuda	1974	Less developed
Sustainable development (including environment and disaster management*)	Belize	1974	Less developed
Labour (including intra-community movement of skills)	Dominica	1974	Less developed
Transport (maritime and aviation)	Haiti	1974	Less developed
Justice and governance	Saint Lucia	1974	Less developed
Health (including HIV/AIDS) and human resource development	Saint Kitts and Nevis	1974	Less developed
Science and technology	Grenada	1974	Less developed
Bananas	Saint Vincent and the Grenadines	1974	Less developed
Work closely with Belize given its special interest in disaster management	Montserrat	1974	Less developed
Tourism (including land, cruise, Suva Partnership Agreement Provisions, etc.)	The Bahamas	July 4, 1983	None
Community development and cultural cooperation (including culture, gender, youth and sports)	Suriname	July 4, 1995	More developed

Source: Single Market Update at www.caricom.org .

Milestones

1962	The West Indies Federation came to an end	
July 1963	First Heads of Government Conference in Trinidad and Tobago	Concept of a Caribbean Community mooted
December 1965	Heads of Government of Antigua, Barbados and British Guiana signed an Agreement at Dickenson Bay, Antigua	Caribbean Free Trade Association (CARIFTA)
May 1, 1968,	Participation of Antigua, Barbados, Trinidad and Tobago and Guyana	The new CARIFTA agreement
August 1, 1968	Entry of Dominica, Grenada, Saint Kitts and Nevis/Anguilla, Saint Lucia and Saint Vincent and the Grenadines in July and of Jamaica and Montserrat	
May 1971	British Honduras (Belize) became a member	
May 1, 1968	Commonwealth Caribbean Regional Secretariat	Georgetown, Guyana
October 1969	Caribbean Development Bank (CDB)	Bridgetown, Barbados
October 1972	Seventh Heads of Government Conference	Transform CARIFTA into a Common Market
April 1973	Eighth Heads of Government Conference	Establish the Caribbean Community Draft legal instruments and with the signing by 11 members of CARIFTA
July 4, 1983	The Bahamas become a member of CARICOM	
1987	Eighth CARICOM Heads of Government Meeting	Establishing a representative and deliberate institution
1989	10th Conference of Heads of Government in Grenada, Barbados	
March 1990		Draft Inter-Governmental Agreement
July 4, 1991	Associated members and Observers included into CARICOM	
December 1992	The Bureau came into operation	
May 27–29, 1996	Assembly of Caribbean Community Parliamentarians (ACCP)	
July 4, 1997	Protocol I for amendment signed	

Some of the principal issues currently on the regional agenda include:

- Restructuring of regional organs and institutions;
- Analysis of the impact of NAFTA on existing arrangements such as the Caribbean-Canada Trade Agreement, CARIBCAN and the Caribbean Basin Initiative (CBI);
- Resolution of the Haitian crisis;
- Strengthening of relations with the wider Caribbean through the establishment of trade and economic agreements with Venezuela, Colombia and the wider Caribbean, the Association of Caribbean States; and
- Deepening the integration process in the Community through the formation of a single market and economy.

Partners	Achievements
FTAA	Support to Member States in developing and articulating the Region's priorities and positions at the FTAA Vice Ministerial and at Ministerial Meetings as well as at the Second Summit of the Americas
Colombia	Negotiations concluded on a Protocol Amending the Agreement on Trade, Economic and Technical Cooperation between the Caribbean Community and Colombia
Dominican Republic	Conclusion of a Framework Agreement establishing a free trade area between the Caribbean Community and the Dominican Republic
United States	Agreement with USAID on a CARICOM Economic Diversification Programme for US\$3 million
South African Development Community	Established the basis for strengthening relations with the Southern African Development Community (SADC) including agreement on the modalities for institutionalizing future cooperation
Cuba	Strengthened trade and economic relations with Cuba through the Agreement to establish a trade facilitation office in Cuba as of January 1999
World Trade Organization	Conducted a regionwide survey to determine the status of the implementation of the Uruguay Round Agreements in Member States
European Union	Cotonou Agreement, February 2000 – a follow-up to Lome IV

ELEMENTS	STATUS	ACTION REQUIRED
Treaty Revision		Member States to put in place the necessary legislation to give effect to Protocols II to VII.
Protocol I providing for the Organs and Institutions of the Community	All 14 Member States have signed and declared Provisional Application. Nine Member States have deposited their Instruments of Ratification.	
Protocol II on the Right of Establishment, Provision of Services and Movement of Capital	The 13 Member States have signed and declared Provisional Application. Two Member States have deposited their Instruments of Ratification.	Member States to not introduce new restrictions, to immediately begin notifying existing restrictions and to immediately remove those restrictions which they can remove.
Protocol III – Industrial Policy	The 13 Member States have signed and declared Provisional Application. One Member State has deposited its Instrument of Ratification.	Requires the declaration of provisional application by Montserrat.
Protocol IV – Trade Policy	The 13 Member States have signed and declared Provisional Application.	
Protocol V – Agricultural Policy	The 13 Member States have signed and declared Provisional Application. One Member State has deposited its Instrument of Ratification.	Requires the declaration of provisional application by Montserrat.
Protocol VI – Transportation Policy	12 Member States have signed and declared Provisional Application.	Requires signature and declaration of provisional application by Montserrat
Protocol VII – Disadvantaged Countries, Regions and Sectors	The 13 Member States have signed and declared Provisional Application.	Montserrat to sign and declare Provisional Application
Protocol VIII – Competition Policy, Dumping of Subsidies, and Consumer Protection	11 Member States have signed.	Belize and Suriname to sign. All Member States to declare Provisional Application.
Protocol IX – Dispute Settlement	11 Member States have signed.	Belize and Suriname to sign. All Member States to declare Provisional Application.

Source: Single Market Update at www.caricom.org.

Appendix II: Decomposition of Differences in Per-Capita Income

In this appendix we describe the basis for our calculations and the decompositions presented in Tables IV.

Real per capita in country 'k' ($k = I, II$) at time 't' is denoted by Y_{kt} . y_{kwt} denotes the real GDP per worker in country 'k', an indicator of productivity per worker. Let A_{kt} be the ratio of workers to working-age population in country k at time t. Finally, let W_{kt} be the ratio of the working-age population to the total population in country k.

By definition,

$$(1) \quad Y_{kt} = y_{kwt} * A_{kt} * W_{kt} \quad k = I, II.$$

Moreover, the following is also true.

$$(2) \quad (Y_{It}/Y_{IIt}) = (y_{Iwt}/y_{IIt}) * (A_{It}/A_{IIt}) * (W_{It}/W_{IIt})$$

Rewriting (2) in logarithmic form, we get:

$$(3A) \quad \ln(Y_{It}/Y_{IIt}) = \ln(y_{Iwt}/y_{IIt}) + \ln(A_{It}/A_{IIt}) + \ln(W_{It}/W_{IIt})$$

Thus, the natural log of the ratio of real per-capita incomes in the two countries can be expressed as the sum of the natural logs of their respective ratios of (a) output (real GDP) per worker; (b) the proportion of workers to the working-age population, and (c) the proportion of the population belonging to the working-age group.

This is the first step in the derivation of the decompositions presented in Tables 18 and 19.

If the various ratios are "not too different" from unity, the above decomposition can also be expressed in the following form by totally differentiating equation (1).

$$(3B) \quad dY/Y = dy_w/y_w + dA/A + dW/W$$

That is, the percentage difference in income per capita between the two countries is the sum of the percentage difference in output per worker, the percentage difference in the ratio of workers to the working-age population and the percentage difference in the ratio of the working-age population to the total population.

The next step is to examine the composition of the ratio of output per worker (y_{Iwt}/y_{IIt}) in the two countries.

We know that for each country 'k' the GDP per worker can be shown to be

$$(4) \quad y_{wkt} = y_{wakt} * q_{akt} + y_{wmkt} * q_{mkt} + y_{wskt} * q_{skt} \quad k = I, II.$$

Where, y_{wak} , y_{wmk} and y_{wsk} are the output per worker in the agricultural, manufacturing and services sectors, respectively; and q_{ak} , q_{mk} and q_{sk} are the respective shares of each of the three main sectors (agriculture, industry, and services) in the total number of workers.

Totally differentiating (4), we can write

$$(5A) \quad dy_w/y_w = [(y_{wa}q_a/y_w)(dy_{wa}/y_{wa}) + (dq_a/q_a)] \\ + [(y_{wm}q_m/y_w)(dy_{wm}/y_{wm}) + (dq_m/q_m)] \\ + [(y_{ws}q_s/y_w)(dy_{ws}/y_{ws}) + (dq_s/q_s)]$$

That is, percentage differences in output per worker between the two countries can be shown to be the weighted sum of percentage differences in output per worker and percentage differences in the respective worker shares of the sectors. The weights in question are the productivity of the sector, relative to overall worker productivity (defined as GDP per worker), further weighted by the share of that sector in total employment.

Equation (5) denotes a further decomposition of differences in the national level indicator of worker productivity into differences in worker productivity by sector, and differences in the sector-wise distribution of workers.

Equation (5) requires the assumption that the intercountry differences are “small”. If that is not the case, the following formulae prove useful (we have suppressed the time subscript ‘t’ for ease of notation):

$$(5B) \quad (y_{Iw}/y_{IIw}) = 1 + (y_{Iw} - y_{IIw})/y_{IIw}$$

Moreover, it is the case that:

$$(5C) \quad (y_{Iw} - y_{IIw})/y_{Iw} = \begin{aligned} & [(y_{IIwa} q_{Ia}/y_{IIw}) \{ (y_{Iwa} - y_{IIwa})/y_{IIwa} \} + (q_{Ia} - q_{IIa})/q_{Ia}] \\ & + [(y_{IIwm} q_{Im}/y_{IIw}) \{ (y_{Iwm} - y_{IIwm})/y_{IIwm} \} + (q_{Im} - q_{IIIm})/q_{Im}] \\ & + [(y_{IIws} q_{Is}/y_{IIw}) \{ (y_{Iws} - y_{IIws})/y_{IIws} \} + (q_{Is} - q_{IIIs})/q_{Is}] \end{aligned}$$

Substitute (5B) and (5C) into equation (3A). This yields the necessary break-down of country differences in real GDP per capita into differences in productivity in different sectors, differences in labour share across sectors, differences in the proportion of working-age groups who work, and differences in the proportion of the population that belongs to the working-age group. However, from 5B it follows that the sum of these effects cannot equal the entire change in output per worker for the economy. This results in a residual term.

Note that the analysis can be carried over to a comparison of a country at two points in time, instead of two countries at a given point in time.

TABLES

Table 1. Trade in goods and services in Jamaica, 1980–99

Year	Exports/GDP (per cent)	Imports/GDP (per cent)	Exports/Imports (per cent)
1980	50.8	52.9	96.1
1985	55.9	65.7	85.0
1990	52.0	56.1	92.6
1995	56.1	67.4	83.1
1998	42.7	56.0	76.2
1999	52.0	62.0	83.9

Source: For data through 1998: International Financial Statistics Database. For 1999 data: World Bank 2000b and trade statistics presented at <http://www.investjamaica.com>.

Table 2. Foreign direct investment (FDI), financial capital and trade flows: a comparison of Jamaica and its neighbours, circa 1999

Country	Gross FDI [*] /GDP (%)	(X+M)/GDP (%)	Gross Private Capital Flows ^{**} /GDP (%)
Jamaica	10.0	99 (114)	17.7
Costa Rica	4.1	93	8.8
Dominican Republic	7.9	103	6.7
Honduras	4.3	97	7.0
Trinidad and Tobago	15.8	108	13.3

^{*}Gross FDI = FDI inflows + FDI outflows.

^{**}Gross private capital flows = sum of the absolute values of direct, portfolio and other investment inflows and outflows.

Source: Data are from World Bank (2000a), UNDP (2000) and the International Financial Statistics Database of the International Monetary Fund.

Table 3. Share of major merchandise export items in Jamaica's total merchandise exports, 1980–99

Year	Total Exports (US\$ millions)	Bauxite/ Alumina	Bananas	Sugar	Other Traditional	Apparel [†]	Other Non-Traditional
1980	963	71.0	n.a.	9.0	n.a.	3.0	n.a.
1985	563	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1990	1,156	63.0	3.3	7.4	4.1	8.3	13.9
1995	1,420	48.9	3.2	6.7	4.6	18.7	17.9
1998	1,311	50.9	2.6	7.3	4.3	15.5	19.4
1999	1,236.5	52.5	2.4	7.1	5.6	12.9	19.5

[†]The calculation for the share of apparel exports assumes that the entire “miscellaneous manufactured articles” category refers to apparel (on this, see Planning Institute of Jamaica 1993, p. 3.5).

Source: Data on total merchandise exports are from the International Financial Statistics Database. The shares of export items for 1995 and 1998 are from Planning Institute of Jamaica (1999), and the shares for 1990 are from Planning Institute of Jamaica (1993). Proportions for 1980 are from King (2001) and data for 1999 are from Henry-Lee and Alleyne (2001).

Table 4. Tourism in Jamaica, 1980–99

Year	Foreign Exchange Receipts (US\$ Millions)	Visitor Arrivals (Millions)	Occupancy Rates (%)
1980	n.a.	n.a.	44.2
1985	407	0.85	51.6
1990	740	1.24	62.0
1995	1,069	1.75	60.8
1998	1,196	1.90	58.5
1999	1,233	2.01	n.a.

Source: Planning Institute of Jamaica (1993), Planning Institute of Jamaica (1999). Data for 1999 are from Henry-Lee and Alleyne (2001).

Table 5. Composition of merchandise imports to Jamaica, 1991–98

Commodity Type	Percentage of Total Imports		
	1991	1995	1998
Consumer Goods	13.9	24.6	31.1
Food	4.9	6.9	9.5
Other Non-Durables	4.5	7.6	9.9
Durables (including motor cars)	3.4 (1.5)**	8.7 (5.2)**	9.1 (4.7)**
Other	1.0	1.4	2.6
Intermediate Goods	65.6	58.0	50.3
Food/Supplies	38.6	35.0	31.5
Fuel	18.4	14.0	10.0
Spare Parts/Accessories	8.7	9.0	8.8
Capital Goods	20.5	17.4	18.6
Transport	7.7	3.5	4.0
Construction Materials	5.2	5.3	5.5
Machinery and Equipment*	7.4	8.3	8.8
Other Capital Goods	0.2	0.3	0.3
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

*Excludes transportation. **Numbers in parentheses show per centage share of automobile imports.

Table 6. Direction of Jamaica's merchandise exports and imports, 1990–98*

Year	CARICOM (Share %)	NAFTA (Share %)	Europe (Share %)	Japan (Share %)	Others (Share %)	Total (US\$ Millions)
1990	6.2 (4.5)	n.a.	n.a.	n.a.	n.a.	1,158 (1,942)
1994	4.8 (6.7)	48.3 (60.1)	27.4 (6.4)	1.3 (6.0)	18.2 (20.8)	1,220 (2,233)
1995	4.2 (8.6)	47.9 (56.4)	29.4 (6.7)	1.8 (6.6)	16.7 (21.7)	1,437 (2,832)
1996	4.0 (10.0)	48.6 (57.7)	29.9 (7.2)	2.3 (5.6)	15.2 (19.5)	1,387 (2,934)
1997	3.4 (10.2)	47.5 (53.7)	31.0 (9.7)	2.3 (6.9)	15.8 (19.5)	1,387 (3,128)
1998	3.5 (10.5)	51.0 (54.1)	27.7 (9.6)	n.a.	n.a.	1,290 (2,961)

*Numbers in parentheses give corresponding data for imports.

Sources: Derived from Tables 2.1 and 2.5 in Planning Institute of Jamaica (1999), Tables 3.1 and 3.7 in Planning Institute of Jamaica (1993) and communication with Francesca Castellani (UNCTAD).

Table 7. Indicators of market access to Jamaican products under alternative free trade arrangements, 1999

Trade Agreement/Area	Number of Countries	Population (Millions)	Gross Product (Billions of US\$)	Domestic
CARICOM*	15	14.32	19.0	
Caribbean Basin Initiative (CBI)*	1	272.9	8,709	
CARICOM + CBI + Other Current***	19	383.0	9,532	
European Union****	15	375.3	8,279	
FTAA (hypothetical)	34	797.3	11,400	

*Caribbean Community and Common Market (see Appendix I).

**Caribbean Basin Initiative refers to market access provided by the United States under the Caribbean Basin Economic Recovery Act (1984) and the United States Trade Development Act (2000).

*** CARICOM + CBI + Other Current includes the 15 CARICOM countries, the United States, and three countries with which Jamaica/CARICOM has agreements for duty-free trade in the region (Canada [CARIBCAN]; Venezuela [Trade and Investment Agreement, 1993]; and Colombia [Agreement on Trade, Economic, and Technical Cooperation, 1995]).

**** Market Access to EU under the Lomé Conventions and Cotonou Agreement (February 2000).

Source: Data are from the World Bank (2000a).

Table 8. Foreign direct investment (FDI) inflows in Jamaica and selected other countries, 1970–2000

Country	Annual Average FDI* (US\$ Millions and % of GDP)		
	1971–80	1981–90	1991–2000
Jamaica	33.9 (1.7)	22.6 (0.7)	257.4 (5.0)
Costa Rica	47.0 (1.6)	81.2 (1.5)	365.4 (4.4)
Dominican Republic	56.5 (1.4)	71.9 (1.1)	505.7 (4.2)
Honduras	8.4 (0.5)	29.1 (1.0)	101.4 (2.4)
Trinidad and Tobago	109.1 (3.1)	103.4 (2.0)	489.5 (10.0)

*Percentage of FDI/GDP appears in parentheses.

Source: Table 1 in Mugione and Castillo (2001).

Table 9. Average annual net private capital flows

	1976–85		1986–95		1996–98		Per-Capita (US\$) Private Capital Flows other than FDI NET	FDI Flows NET (millions of US\$)	Per-Capita (US\$) FDI Flows NET
	Per-Capita (US\$) Private Capital Flows other than FDI NET	FDI Flows NET (millions of US\$)	Per-Capita (US\$) Private Capital Flows other than FDI NET	FDI Flows NET (millions of US\$)	Per-Capita (US\$) Private Capital Flows other than FDI NET	FDI Flows NET (millions of US\$)			
Costa Rica	36.74	51.7	22.24	-7.57	177.3	58.59	26.74	482.8	139.42
Dominican Republic	4.89	53.6	9.29	-2.61	162.3	22.61	3.79	390.7	48.18
Honduras	11.88	14.0	3.86	4.37	42.3	8.51	9.06	105.3	17.59
Jamaica	-32.21	-7.8	-3.63	-1.03	74.3	30.74	91.38	174.7	68.36
Trinidad and Tobago	76.92	130,129,970	118.72	-29.78	157.7	128.79	-49.57	694.7	543.69

Source: Authors' calculations.

Table 10. Money supply, prices, and interest and real exchange rates in Jamaica, 1990–99

Year	M1 Annual Rate of Growth	CPI Annual Rate of Growth	"Real" Interest Rate (per cent)	"Real" Exchange Rate (e*P(J)/P(US)) ^{**}
1990	28.3	22.0	4.2	100.0
1991	95.3	51.0	-25.5	90.3
1992	49.8	77.3	-42.9	78.1
1993	40.0	22.1	6.8	88.0
1994	13.7	35.1	7.8	86.0
1995	41.9	19.9	7.8	91.5
1996	22.7	26.4	11.5	108.9
1997	0.5	9.7	11.5	125.9
1998	5.8	8.6	17.0	134.3
1999	39.5	5.9	21.1	145.6

*The "real" interest rate is defined as the average commercial bank lending rate less CPI (consumer price index) inflation for that year (IFS).

**Real exchange rate data are from the IFS and are the product of the exchange rate 'e' (US\$ per 1 J\$) with an index of Jamaican prices (P(J)), divided by an index of U.S. prices (P(US)) (1990=100). Increases denote appreciation.

Source: Data on M1 are from Planning Institute of Jamaica (1993, 1999). Data on average annual rate of increase in CPI are from the IFS.

Table 11. Growth of Jamaica's financial sector, 1990–98

Year	Share in GDP	Annual Growth Rate Of (Real) Output	Number	
			Commercial Banks	Others*
1990	9.3	10.9	11	n.a.
1991	11.1	19.3	11	n.a.
1992	11.7	7.6	11	n.a.
1993	10.7	-6.6	11	n.a.
1994	15.9	49.9	11	n.a.
1995	15.5	-2.2	11	159
1996	15.0	-5.2	11	187
1997	12.2	-20.1	11	155
1998	12.2	-1.4	9	135

*Includes merchant banks, finance houses, building societies, insurance companies, credit unions and development banks.

Source: Data are from Planning Institute of Jamaica (1999).

Table 12. Moody's ratings for Jamaica and a comparison group

Rank	Country	Domestic -Currency Government Bonds (long-term)	Rating Outlook for Foreign-Currency Government Bonds
1	Singapore	Aaa	Stable
1	Ireland	Aaa	Stable
3	Mauritius	A2[5]	Stable
4	Malta	A3	Negative
5	Trinidad and Tobago	Baa1	Stable
6	Jamaica	Baa3	Stable
7	Costa Rica	Ba1	Positive
8	Dominican Republic	B1[5]	Stable
9	Honduras	B2	Stable

[5] Issuer rating.

Source: Moody's Sovereign Rating List, January 16, 2001.

Table 13. Trends in real gross domestic product (GDP), real per-capita GDP and population in Jamaica, 1970–98

Year	GDP (J\$ billions)	Population (millions)	GDP per capita (J\$ thousands)
1970	148.3	1.87	79.3
1980	136.8	2.13	64.2
1985	137.3	2.31	59.4
1990	174.4	2.40	72.7
1995	184.1	2.49	73.9
1998	176.5	2.56	68.9

Source: The data on population and on GDP and per-capita GDP (in constant 1995 J\$) are from the International Financial Statistics (IFS) Database of the International Monetary Fund (IMF 1999).

Table 14. Average annual growth rate of real per-capita GDP for Jamaica and selected other Caribbean Countries, 1970s–1990s

Period	Jamaica**	Costa Rica	Dominican Republic	Honduras	Trinidad and Tobago
1970–79	-2.35 (-0.94)	3.51	3.80	1.38	4.67
1980–89	0.29 (1.54)	-0.24	0.45	-0.62	-4.96
1990–98	-0.62 (0.22)	0.51	3.26	0.44	0.69
1970–98	-0.43 (0.65)	0.96	1.27	0.12	-0.04

*Calculations of rate of growth are based on a regression of the natural logarithm of real per-capita GDP and real GDP, respectively, on time.

**Terms in parentheses indicate rate of growth of real GDP.

Source: Data on per-capita GDP (at 1995 prices) are from the International Financial Statistics Database of the International Monetary Fund (IMF).

Table 15. Average gross domestic savings rate (as a % of GDP) for Jamaica and selected other countries, 1960–98

	1960–98	1960–69	1970–79	1980–89	1990–98
Jamaica	21.29	26.12	18.24	16.87	24.21
Ireland	19.61	13.61	16.95	20.09	29.84
Sri Lanka	13.95		13.65	12.78	15.57
Malta	13.07	9.27	8.26	16.52	18.79
Mauritius	19.29	12.93	20.11	20.41	24.21
Singapore	28.14	-3.99	28.61	41.78	48.17
Honk Kong	29.76	22.42	30.80	33.36	32.74
Trinidad and Tobago	27.74	26.83	35.27	24.38	24.13

Source: Authors' calculations.

Table 16. Wages, prices, productivity and unit labour costs, 1972–98 (1974 = 100)

Year	Nominal Wage Rate ¹	CPI ²	Real Wage ³	Unit Labour Productivity ⁴	Unit Labour Cost ⁵
1972	52.3	66.7	78.4	107.4	72.9
1973	56.0	78.7	71.2	93.3	76.3
1974	100.0	100.0	100.0	100.0	100.0
1975	117.8	117.5	100.3	94.2	106.4
1976	128.6	128.9	99.8	87.8	113.6
1977	132.2	143.2	92.3	85.9	107.4
1978	151.4	193.3	78.3	83.3	93.9
1979	175.1	249.2	70.3	84.4	83.3
1980	184.8	317.5	58.2	79.4	73.2
1981	202.3	357.8	56.5	73.2	77.1
1982	267.3	381.3	70.1	74.6	93.9
1983	272.2	425.4	64.0	80.3	79.7
1984	326.6	543.8	60.1	78.6	76.4
1985	343.6	683.5	50.3	69.8	72.0
1986	392.8	786.7	49.9	68.6	72.7
1987	454.0	838.6	54.1	69.8	77.5
1988	517.8	908.3	57.0	68.4	83.3
1989	640.9	1038.8	61.7	71.2	86.6
1990	800.3	1266.8	63.2	72.4	87.2
1991	1144.4	1912.9	59.8	72.0	83.0
1992	1842.6	3326.6	54.3	73.4	73.9
1993	2790.9	4125.5	67.6	74.2	91.1
1994	3504.2	5594.2	62.6	73.8	84.8
1995	4454.4	6707.7	66.4	71.7	92.6
1996	5532.6	8478.6	65.2	70.5	92.4
1997	8998.6	9900	90.9	73.5	123.0
1998	9649.9	10040	96.1	72.5	132.5

¹Defined as compensation of employees divided by total employment; used as a proxy for the nominal wage rate.

²Taken from the IFS.

³Nominal wage rate divided by the CPI.

⁴Real GDP divided by the number of employees, or output per worker.

⁵Column 3 divided by column 4. The original table is column 1 divided by column 4.

Source: For 1993–98, Henry-Lee and Alleyne (2001); for 1972–92, Gafar, “Structural Adjustment and the Labour Market in Jamaica.”

Table 17. Labour productivity in agriculture and manufacturing in Jamaica and selected other countries, 1995–98

Country	Agricultural Value Added/Worker (1995 US\$)	Manufacturing Value Added/Worker (US\$)
Jamaica	1,291	11,091
Costa Rica	4,409	7,184
Dominican Republic	2,599	n.a.
Honduras	1,018	7,427
Mexico	2,164	25,931

Source: World Bank (2000a,b).

Table 18. Jamaica's real per-capita GDP in US\$ under various productivity growth scenarios at 1995 prices

	Scenario 1	Scenario 2	Scenario 3
	No Decline in Productivity during 1970–95	Productivity Increase Same as in the Composite Group	Productivity Level Same as in the Composite Group
Baseline (per-capita GDP in 1,658 1995)		1,658	1,658
Agriculture Only	--	1,655	1,698
Manufacturing Only	1,860	2,103	2,221
Services Only	1,874	2,765	4,777
All	2,103*	3,501	6,553

* No decline in productivity in both the services and manufacturing sectors during 1970–95.

Other Island Economies include the Dominican Republic, Hong Kong (China), Ireland, Malta, Mauritius, Singapore, Sri Lanka and Trinidad and Tobago. Estimates for the comparison group have been constructed by combining the respective data for each country using its 1980 population as its corresponding weight. The conceptual basis of derivations is provided in Appendix II.

Table 19. Decomposing differences in (Log) of per-capita GDP

	Jamaica 1970–95	Other Island Economies 1970–95*	Jamaica & Other Island Economies Group 1970–95*
Log Difference in real per-capita GDP	-0.084	1.158	1.557
Log Difference in ratio of working ^-age to economically active population	0.087	0.030	-0.267
Log Difference in ratio of working-age to total population	0.207	0.171	0.117
Log Difference in output per economically active person of which:	-0.378	0.957	1.707
Differences in agricultural output/ Worker	0.009	0.007	0.024
Differences in share of agriculture in total economically active population	-0.011	-0.017	-0.004
Differences in industrial output/ worker	-0.115	0.123	0.292
Differences in share of industry in total economically active population	0.029	0.002	0.033
Differences in service output/ worker	-0.123	0.389	1.058
Differences in share of services in total economically active population	0.043	0.087	-0.007
Residual	-0.210	0.367	0.310

*Other Island Economies include the Dominican Republic, Hong Kong (China), Ireland, Malta, Mauritius, Singapore, Sri Lanka and Trinidad and Tobago. Estimates for the comparison group have been constructed by combining the respective data for each country using its 1980 population as its corresponding weight. The conceptual basis of derivations is provided in Appendix II.

Table 20. Budget deficits and tax revenues in Jamaica, 1990–99

Year	Fiscal Balance/GDP* (per cent)	Tax Revenues/GDP (per cent)
1990	7.8	25.8
1991	2.5	25.9
1992	3.0	25.9
1993	3.3	30.4
1994	3.6	28.8
1995	1.9	29.6
1996	(-)7.5	27.5
1997	(-)9.1	26.9
1998	(-)8.1	28.1
1999	(-)5.9	29.7

*Fiscal balance refers to government revenues *less* expenditures but excluding amortization expenditures.

Source: Data are from Planning Institute of Jamaica (1993, 1999), International Monetary Fund (2000) and <http://www.statinja.com>.

Table 21. Jamaica's tax regime, 1992, 1997 and 2000*

Tax Category	Year	Type of Tax and Tax Base	Tax Rates
<u>DIRECT TAXES</u>	1992	Personal Tax: Income above a threshold	33.3 per cent
		Corporation Tax: Profits	33.3 per cent (Firms); 30 per cent (Building Societies); 7.5 per cent (life assurance companies)
	1997	Personal Tax: Income above a threshold	25 per cent
		Corporation Tax: Profits	33.3 per cent (Firms); 30 per cent (Building Societies); 7.5 per cent (life assurance companies)
	2000	Personal Tax: Income above threshold of J\$100, 464 for employees, higher for pensioners (2000)	25 per cent
		Corporation Tax: Profits	33.3 per cent (Firms); 30 per cent (Building Societies); 7.5 per cent (life assurance companies)
<u>INDIRECT TAXES</u>	1992	General Consumption Tax (GCT): ad-valorem tax on commodities including imports (food, agriculture, medical and educational services, and exports exempted)	10 per cent. Special GCT rates for alcohol, motor vehicles, tobacco, petroleum.
	1997	General Consumption Tax (GCT): ad-valorem tax on commodities, including imports (exports and some other items exempted).	15 per cent standard; 12.5 per cent on cement, concrete and steel bars Special GCT rates for alcohol, motor vehicles, tobacco, petroleum.
		General Consumption Tax (GCT): ad-valorem tax on commodities, including imports (exports exempted)	15 per cent; Special GCT rates for petroleum, tobacco, alcohol; and motor vehicles (24 per cent – 288 per cent).
	2000	General Consumption Tax (GCT): ad-valorem tax on commodities, including imports (exports exempted)	15 per cent; Special GCT rates for petroleum, tobacco, alcohol; and motor vehicles (24 per cent – 288 per cent).

*Does not include import duties, which account for about 10 per cent of all tax revenues (IMF 2000).

Sources: Hilaire (2000, Table 4), King (2001), IMF (2000) and JAMPRO (2000).

Table 22. Growth and development in Jamaica, 1970–95: a comparison with other island economies*

Growth and Development Indicators	Jamaica		Other Island Economies	
	1970	1995	1970	1995
Per-Capita GDP (1995 US\$)	1,803	1,658	2,486	8,051
Life Expectancy at Birth (in years)	69	75	66	74
Gross Primary Enrolment Rate (%)	119	102	103	106
Gross Secondary Enrolment Rate (%)	46	66	43	73
Ratio of Female/Male Gross Secondary Enrolment Rate (%)	98	113	100	112
Adult Literacy Rate (%)	70	85	79	90
Population Living below \$1/Day at 1993 Prices (PPP) (%)**	n.a.	3.2	n.a.	<3.8
Gini Ratio (%)***	42.9	36.4	37.7	37.5
Human Development Index	0.662	0.735	0.588	0.790

*The comparison group of island economies used for the calculations presented in the table includes the Dominican Republic, Hong Kong (China), Ireland, Malta, Mauritius, Singapore, Sri Lanka and Trinidad and Tobago. Estimates for the comparison group have been constructed by combining the respective data for each country using its 1980 population as its corresponding weight.

**Proportion living below US\$1/day (1993 PPP) for the comparison group was based on data from only three countries – Trinidad and Tobago, the Dominican Republic and Sri Lanka – and hence is best treated as an upper bound to the proportion of the population living in poverty under this definition.

***Estimates for Gini in the comparison group exclude Malta, for which the relevant data were unavailable.

Source: Data are from World Bank (2000a), Human Development Report 1998 (United Nations Development Programme 1998), World Bank Social Indicators Database 1996 (World Bank 1996), World Bank (2000b) and communication with Jaypee Sevilla (Harvard University, School of Public Health).

Table 23. Jamaica's achievements in health: a comparative look, circa 1998

Country	Life Expectancy (in years)	IMR	Safe Drinking Water Access* (% of population)	Sanitation Access* (% of population)	Malnutrition** (< 5 yrs) (%)
Jamaica	73	21	87	99	10
Costa Rica	76	13	96	97	2
Dominican Republic	71	40	79	78	6
Honduras	70	36	78	65	18
Trinidad and Tobago	74	16	97	n.a.	7

*For a definition of *safe drinking water access* and *sanitation access*, refer to World Bank (2000b).

**Malnutrition is defined using a weight-for-age criterion. The malnutrition rate is the proportion of underweight children aged 5 years or less reported in UNDP (2000).

Source: Data are from Planning Institute of Jamaica (1999), Planning Institute of Jamaica and Statistical Institute of Jamaica (1999), UNDP (2000) and World Bank (2000b).

Table 24. Jamaica's achievements in health: changes across time, 1970–98

Year	IMR (per 1,000 live births)	Life Expectancy at Birth (years)	Safe Drinking Water Access (% of population)	Sanitation Access (% of population)
1970	47	69	n.a.	n.a.
1980	33	n.a.	96.0	91.0
1990	25	73	86.6 (78.3)*	99.1
1998	21	75	86.9 (79.9)*	99.4

*Numbers in parentheses refer to piped water sources.

Source: Data are from World Bank (1993, 2000b), UNDP (2000) and Planning Institute of Jamaica and Statistical Institute of Jamaica (1999). Data on sanitation and safe water access for 1990 and 1998 are from Planning Institute of Jamaica and Statistical Institute of Jamaica (1999), and the numbers so derived may not strictly match the method used in World Bank (2000b), on which the 1980 data are based.

Table 25. Public health expenditures in Jamaica, 1980–98*

Year	PHE per Capita (1986 JS)	PHE/GDP (%)	PHE/GE (%)	PHE/TE (%)
Early 1980s	300	4.1–5.4	9–12	70.0
1990	202	2.6	7.4	n.a.
1994	230	3.1	6.0	32.0
1998	191	2.8 (3.5)**	5.0 (6.8)**	n.a.

*PHE = public health expenditures; GE = total government spending (health plus non-health); TE = total spending (public plus private) on health.

**Numbers in parentheses refer to corresponding data for 1997.

Source: Data are from Lalta (1995) and Planning Institute of Jamaica (1993, 1999). Calculations for early 1980s are based on data from World Bank (1984) and Lalta (1995).

Table 26. Jamaica's achievements in education: a comparative look, circa 1998

Country	Adult Literacy Rate (15+ years)	Net Primary Enrolment	Net Secondary Enrolment
Jamaica	86	96	75-80
Costa Rica	95	89	40
Dominican Republic	83	91	79
Honduras	73	88	36
Trinidad and Tobago	93	100	72

Source: UNDP (2000), World Bank (2000b), Planning Institute of Jamaica and Statistical Institute of Jamaica (1999).

Table 27. Public education expenditures (PEE) in Jamaica, 1980–98

Year	PEE per Capita (1986 JS)	PEE/GDP (%)	PEE/GE (%)	PEE/TE (%)
1980	445	7.0	15.6	n.a.
1991	323	4.5	12.4	86.0
1994	347	4.7	9.1	76.5
1998	500	7.3	13.0	66.4

Source: Calculations are based on data provided in Planning Institute of Jamaica (1993, 1999), Lalta (1995), World Bank (1984), Planning Institute of Jamaica and Statistical Institute of Jamaica (1999).

Table 28. Poverty and inequality in Jamaica and selected other countries, circa 1996

Country	Poverty Ratio (% under US\$1/day)	Gini	Share of Top 20% to Share of Bottom 20 %
Jamaica	25.2	0.364	7.3
Costa Rica	26.3	0.470	13.0
Dominican Republic	16.0	0.487	12.5
Honduras	68.8	0.537	17.1
Trinidad and Tobago	n.a.	n.a.	n.a.

Source: World Bank (2000b).

Table 29. Crime in Jamaica, 1990–98

Year	Recorded Crimes (per 100,000 population)	Homicides (per 100,000 population)	Suicides (per 100,000 population)
1990	2,114	24.4	0.3
1991	2,064	26.1	0.1
1992	2,048	28.2	0.3
1993	2,191	29.2	0.9
1996	2,258	38.1	1.5
1997	2,009	42.1	1.7
1998	1,851	39.6	2.8

Source: Planning Institute of Jamaica (1993, 1999).

Table 30. Simulating the impact of improved openness, demographics and health on per-capita GDPs in 2015

	Jamaica	Trinidad and Tobago	Honduras
Historical Data			
1990	2,545	7,764	1,377
Simulations for 2015			
Benchmark	4,733	7,924	2,107
Improvements in:			
Openness	5,238	10,733	2,451
Demography	4,993	8,034	2,199
Health	5,052	8,471	2,250
Demography and openness	5,639	11,659	3,171
Health, demography and openness	6,016	12,452	3,383

FIGURES

Figure 2 Remittances

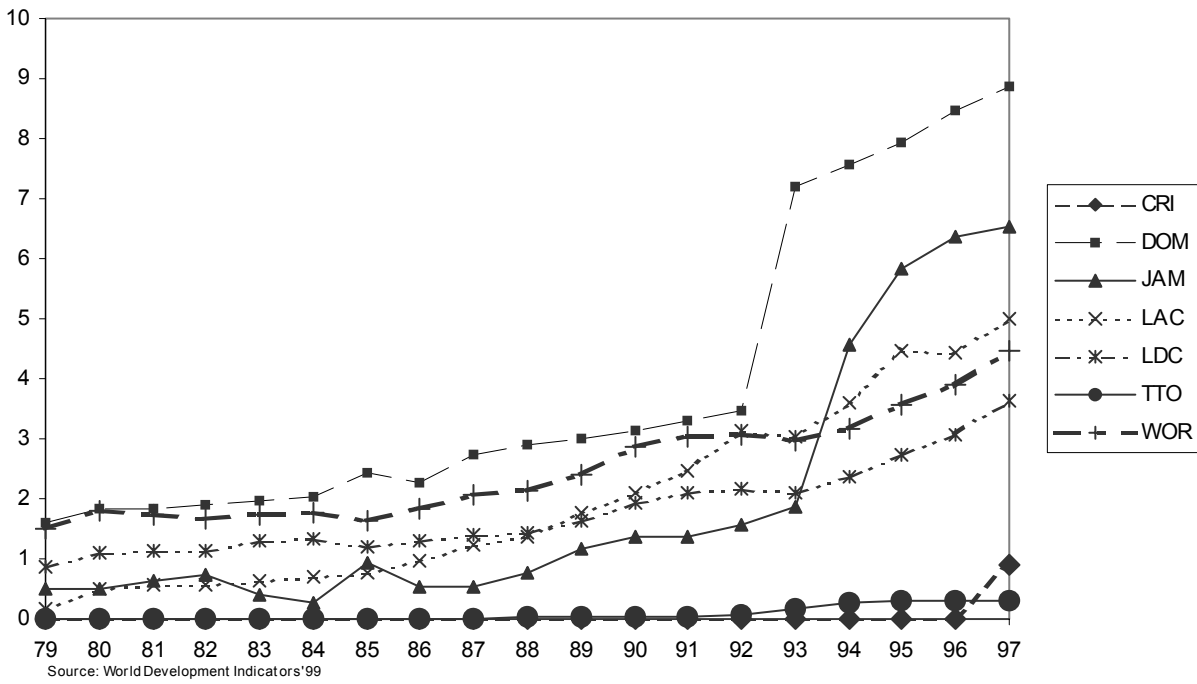


Figure 3 Crude Death Rate

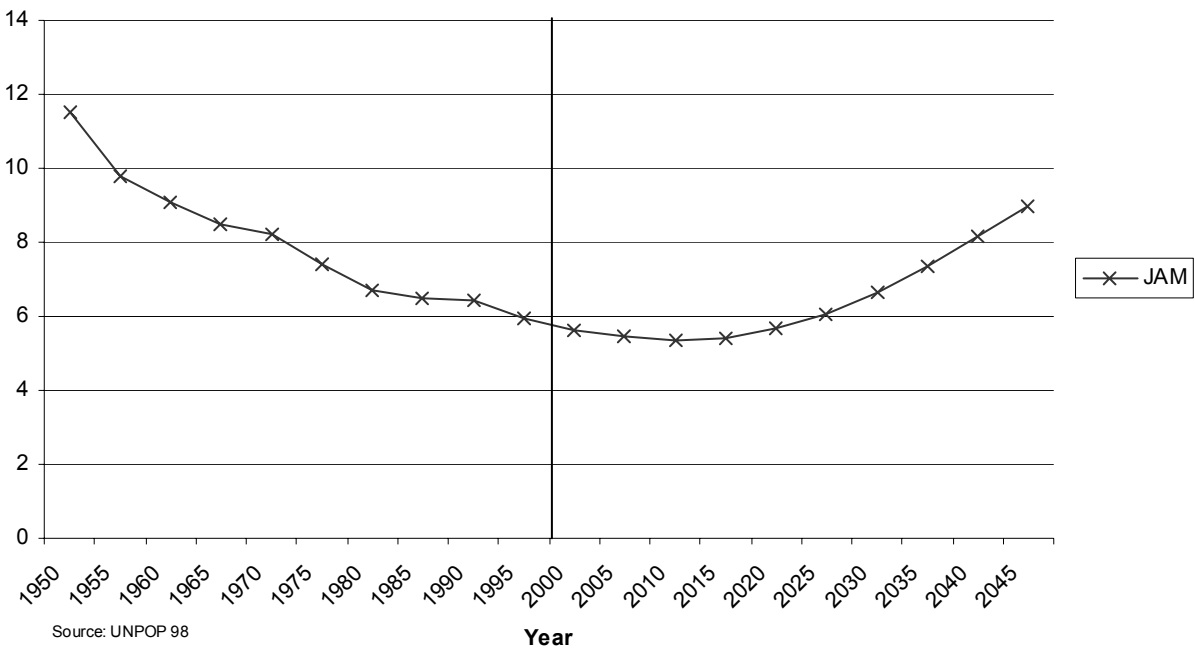


Figure 4 Infant Mortality Rate

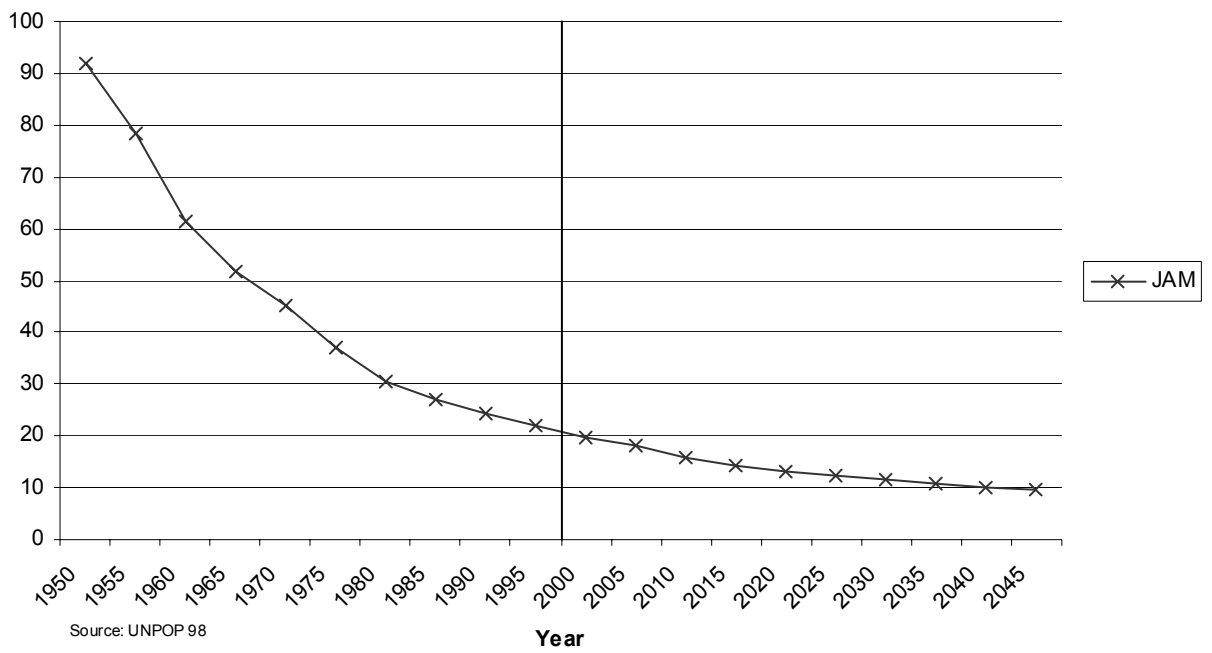


Figure 5 Crude Birth Rate

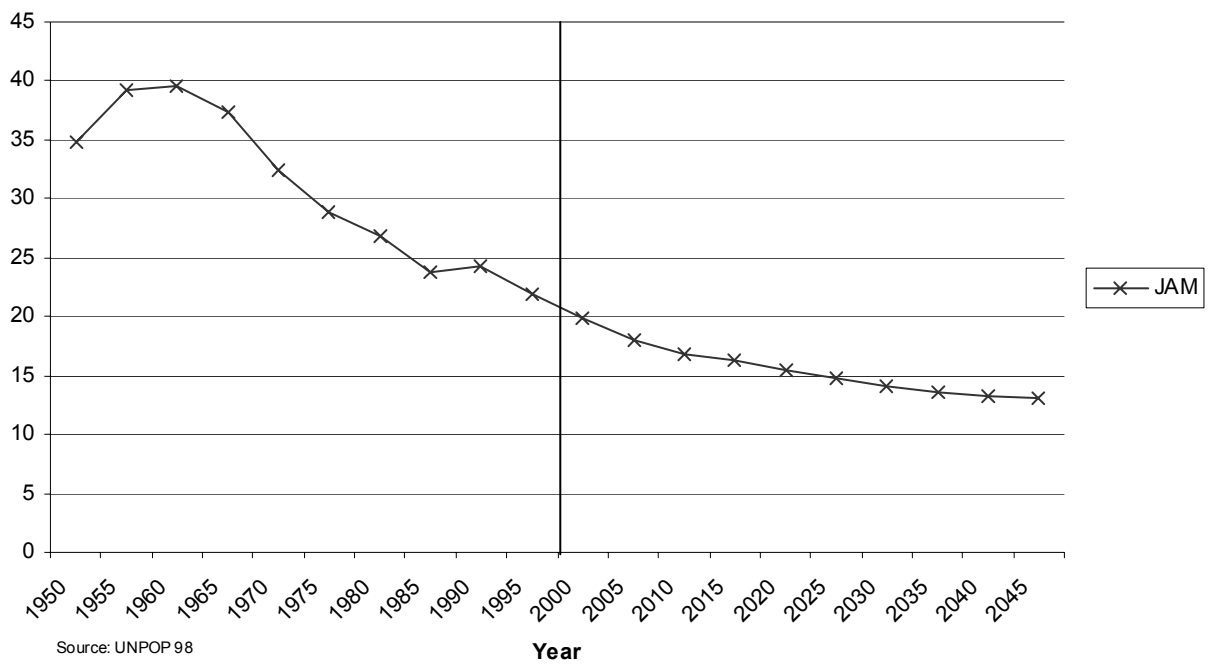


Figure 6 Total Fertility Rate

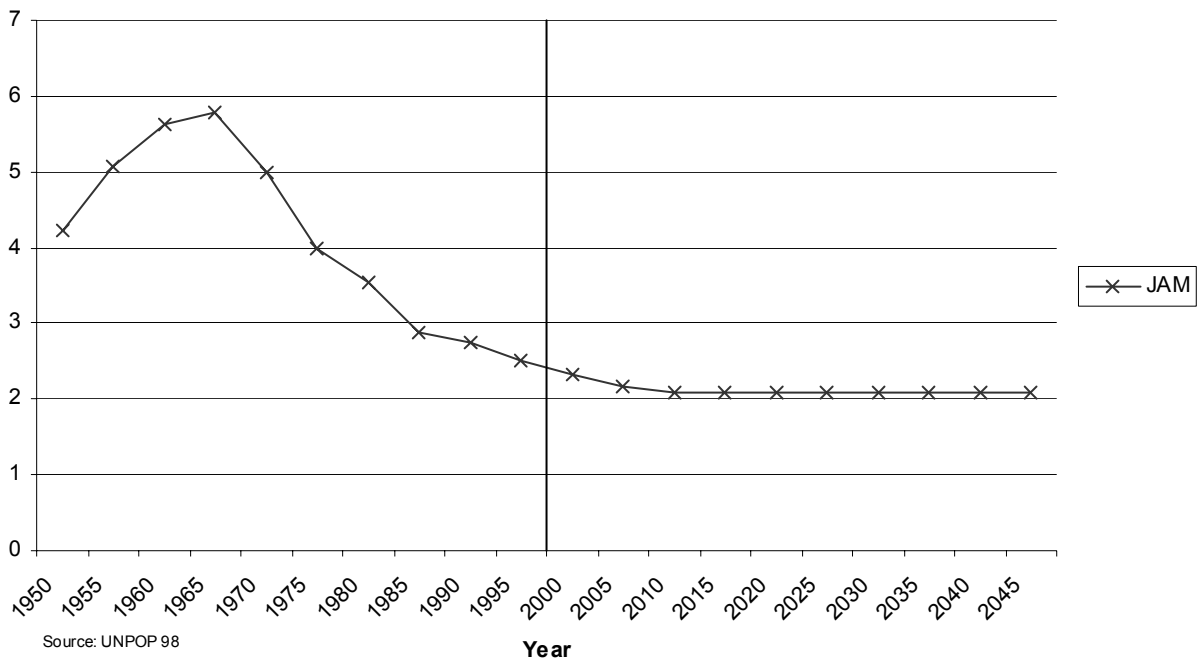


Figure 7 Population Growth Rate

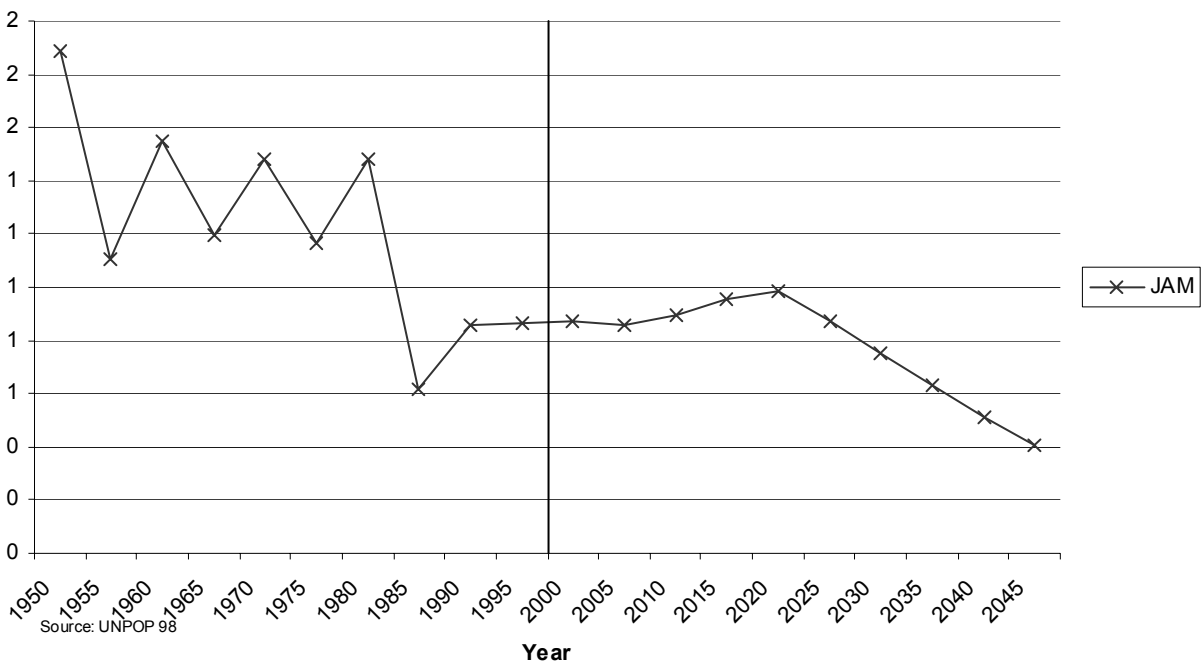


Figure 8 Ratio of Working Age to Non-Working Populations

