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STATEMENT BY THE REPRESENTATIVE OF JAMAICA

The Hon. Errol Ennis, MP
Minister of Finance and Planning

SPEECH FOR HONOURABLE ERROL ENNIS, MP

**X Conference of Ministers and Heads of Planning of Latin America
and the Caribbean and XI Session of the Regional Council on
Planning**

**JAMAICA: THE FUNCTIONING OF THE MARKET ECONOMY
IN THE 1990S AND PROSPECTS FOR THE FUTURE**

Mr. Minister of Planning and Co-operation of Chile,

Mr. Vice-President of El Salvador

Other Heads of National Delegations

Mr. Executive Secretary of ECLAC

Mr. Director of ILPES

Mr. General Secretary of UNCTAD

Other Delegates, Members of the Secretariat, Ladies and Gentlemen

I begin by expressing my Delegation's great pleasure at being in the country of Bernardo O'Higgins and Pablo Neruda, two great men who

have made permanent contributions to the cause of the uplifting of the human spirit. I thus acknowledge with gratitude the warm hospitality extended to us by the Government of the Republic of Chile. Conferences such as this serve importantly as arenas for the sharing of hard information amongst those privileged to attend them. They also give life and warmth to the concept of friendship and co-operation amongst the countries of Latin America and the Caribbean by making us real to each other. Our Chilean colleagues have magnificently demonstrated and enabled that process for us this week. We will leave Santiago with a much better grasp of who they are and a much better understanding of why we like them.

Equally, I acknowledge with gratitude the contribution of the international organizations present here with us. UNCTAD will understand if I say no more about them than that we attach the utmost importance to their work, that we are pleased that they have chosen to be represented here by their Secretary General, and that we have been edified both by his illuminating paper and by his extemporaneous address yesterday.

About ECLAC, I say firstly that its Executive Secretary's contribution was interesting, informative and in that institution's best traditions of

intellectual rigour, but secondly, I take note of its relationship to the Regional Council on Planning and to ILPES.

It is to ILPES, of course, that I must deliver a particular encomium for its work in facilitating the planning function in our individual countries and in inducing, mediating and co-ordinating our joint efforts. As I speak, for example, ILPES is at work in Jamaica, assisting my country in the establishment of a National Investment System and Project Data Bank; and it is to ILPES in co-operation with our Chilean friends that I must assign much of the credit for the success of this Conference.

I say much of that credit: I do not say all. For the success of the Conference is in equally large part due to the seriousness with which we have all approached its topic. I congratulate and thank all my colleagues who have made the excellent presentations which we have already heard. We have learned a great deal about their countries' particular experiences of the general problems which we all face, and we in Jamaica intend to draw lessons relevant to ourselves. To those who are yet to speak, therefore, I give fair warning that I expect no less powerful and illuminating presentations from them.

JAMAICA AS MARKET ECONOMY

Every country is unique; yet every country's economy can be described in the terms of the categories of economics and National Accounts, terms which identify our uniquenesses and at the same time demonstrate our similarities.

Let me therefore begin in those terms by saying for the record that ours is a small nation of just over 2.5 million, with a total Gross Domestic Product estimated at US\$6,198.9 million for 1997, and with a per capita GDP of some US\$2,427.7.

The major sectors of the economy include agriculture, mining, manufacturing, tourism, financial and insurance services. Our small size means that we could not operate a modern economy without importing many of the necessary goods and services. Merchandise Imports thus represent some 50.0% of our GDP; we pay for them with Merchandise Exports of some 22.4% of GDP, with a positive Net Foreign Travel balance (the Tourist industry) of some 15.5% and with inflows on Capital account of which Transfers are much more important at present than either Direct or Portfolio Investment. We are therefore necessarily a participant in a global economy which used to allow us to maintain Quantitative Restrictions and selective tariff barriers by which to protect domestic industry but which has become intolerant of such practices as

the World Trade Organization has replaced the GATT; the preferences which our traditional agricultural exports used to enjoy in Europe have begun to fray away, and our former import-substitution industries are beginning to disappear in the face of competition from all over the world.

Jamaica has always been a mixed economy, with state enterprises existing alongside private sector businesses. Over the past two decades, however, we have implemented various structural reforms aimed at fostering private sector activity and increasing the role of market forces in the allocation of resources; and the pace has picked up over the past few years, as we have accelerated the processes of liberalizing and deregulating the various Jamaican internal markets.

In particular, we have undertaken the following initiatives:-

- We have reduced and removed trade barriers;
- We have reformed the tax system from a concentration on the taxing of income bias to one centring on taxing consumption
- We have eliminated a wide range of subsidies and price controls
- We have carried out a substantial divestment and privatization programme, on which we are continuing to press ahead. Government ownership of the Jamaican economy, which peaked in the 1970s.

Since then, a substantial portion of that share has been returned to private sector ownership through divestment and privatization programmes in areas such as agriculture, tourism, transportation, banking, manufacturing and communications.

- The move to privatization commenced in 1981 but initially the process was haphazard and slow. In the early period, the programme focussed on the divestment of public services and small entities such as garbage collection and sanitation services.
- After 1985, fiscal considerations gave the programme of divestment greater impetus. In one form or another since then, we have divested entities such as the National Commercial Bank, the Cement Company, the telephone company, the Government-owned sugar and banana estates, the Kingston public transport system, the State-owned radio and television stations, the national airline Air Jamaica, and the hotels which the Government had acquired in the 1970's in the successful attempt to save the tourist industry.
- We have liberalized the foreign exchange market, as from September 1991, by abandoning exchange control (thus allowing Jamaican residents legally to hold foreign exchange both in Jamaica and abroad, allowing foreign residents to hold foreign exchange accounts in Jamaica, and allowing Jamaican dollars legally to be exported abroad) and relieving the Central Bank of the obligation to attempt to

maintain a fixed parity for the Jamaican dollar against its US counterpart.

- The Government has vigorously committed itself to macro-economic stability. We have brought about sustainable reductions in domestic inflation and into creating the conditions in which the exchange parity of the Jamaican dollar has ceased to be subject to constant downward pressure
- In a bid to reinforce the private sector-led growth strategy, the Government introduced a National Industrial Policy (NIP) in early 1996. In addition to subsuming the macro-economic policy outlined above (which figures here as aimed at creating the basis for growth in a stable environment), the NIP importantly includes an industrial strategy aimed at investment and trade promotion and developing physical, economic and social infrastructure, a social policy aimed at alleviating poverty and an environmental policy aimed at protecting the country's natural heritage. The National Industrial Policy has targetted certain industry clusters as the foundation for long-term development: tourism, shipping and berthing, agro-processing, apparel and bauxite, alumina and non-metallic minerals, and information technology.

What might we have expected from these initiatives? And what, in fact, have the consequences been? We undertook them in the recognition that our previous policy stance had been unsuccessful in generating the appropriate level of sustainable economic growth and gathering the resources necessary for a serious assault on poverty, which is a necessary precondition for a serious attempt at strengthening and deepening our democracy and modernizing out the structure of our civil society.

We acted in the hope of increasing the Jamaican economy's global competitiveness. The liberalization of the foreign exchange system, the ongoing privatization programme, the removal of subsidies, the abandonment of price and wage controls and the reduction of trade barriers all represented deepening of the adjustment process aimed at making the economy efficient at producing the increasing quantities of goods and services (tradable and non-tradable) necessary to provide the Jamaican people with the social welfare which they deserve.

What have been the consequences? We must be careful not to commit the logical fallacy of *post hoc, ergo propter hoc*, but we are compelled to connect the initiatives with both the positive developments and the difficulties which the Jamaican economy has recently undergone. On the positive side:-

- The macro-economic programme has achieved single-digit inflation over the last two full fiscal years 1996/97 and 1997/98, with the forecast for 1998/99 also expected to be below 10 per cent and 3.48 per cent projected for 1999/2000. This is to be contrasted with many previous years of inflation of 15 per cent and more, peaking with 105.7 per cent in fiscal year 1991/92;
- Although the immediate consequence of the liberalization of the foreign exchange rate regime was a severe depreciation of the Jamaican dollar (the value of the US dollar rose from 8 to 40 Jamaican dollars between 1991 and 1995), within the last two years we have been able to achieve relative exchange rate stability around the rate of 36/37 Jamaican dollars to the US dollar. This has contributed significantly to the lowering of inflation noted above
- The achievement of single-digit inflation and relative exchange-rate stability have together led to an equally important lowering of inflationary expectations in the economy. One spin-off has been a lowering in the temperature of wage negotiations, since the unions have been less concerned to achieve gigantic wage increases to cover their members against expected high inflation and exchange rate depreciation;
- Another positive of the macro-programme has been the fact that for the past two years at least the Central Bank has been able to maintain Net International Reserves sufficient to cover 12 weeks of imports.

In addition, foreign currency balances in private bank accounts have grown from US\$465 million at the end of 1994 to US\$974 million as at the end of August 1998. This amply demonstrates that Jamaica's foreign exchange system is now credible, and it gives the economy a flexibility and options which had long been lacking.

There have undoubtedly been negatives, and it is a moot point whether they do not counterbalance the positives outlined above. Achieving low inflation and exchange-rate stability over the last two fiscal years has not been without its fiscal cost, and it is arguable that it has also had a negative impact both on economic growth and on social welfare. In particular:-

- After several consecutive years of surplus, the Central Government's budget went into deficit in Fiscal Year 1996/97. This was substantially due to the high interest rates associated with the macro-stabilization programme, which included sterilizing large unprogrammed capital inflows. These high interest rates led to a decline in economic activity, as wealth-holders found it more profitable to purchase Government paper than to invest in productive activity; the result was that incomes and consumption both fell and with them the possibility of taxes levied on such flows. At the same

time, however, the Government had to meet the direct interest costs of the monetary programme.

- In addition, there emerged the need to prop up an ailing financial sector whose difficulties stemmed not merely from the fact that the life-insurance companies were caught on the hop by the sudden fall in the rate of nominal increase of the value of assets such as real estate, but also from the fact that the regulatory framework had not been updated to keep abreast of the liberalization of the sector and the proliferation of new products and cross-linkages between banks, building societies, provident societies and so forth.
- The fiscal accounts would have been even worse if the Government had not cut back on other expenditures. All too often, unfortunately, these cuts have had to fall precisely on the capital budget, with long-term consequences for maintenance and expansion of the country's economic and social infrastructure and for the possibility of transfers to generate a social safety net for the very poorest.
- Even in its own terms our privatization programme has met at best with mixed results. To date, only one major divestment may be called a clear success and that is the telephone monopoly, which has significantly expanded its investments and also its level of service since it moved into private hands. Other privatized entities have not shown substantial efficiency gains. The National Commercial Bank was one of the financial sector institutions which had to be bailed

out, and the Government has had to provide financial assistance to the national airline in the form of approximately US\$114.0 mn in guarantees; and the sugar estates have very recently returned into the Government's hands as the only alternative to them dissolving into nothingness. The Government has also had to assume significant debts owed by the National Water Commission, the Coffee Industry and the University of the West Indies.

- The removal of protection has devastated a surprising number of Jamaican industries, which have been unable to compete with overtly and covertly subsidised foreign imports; examples are the dairy industry and the shoe industry and a range of domestic agricultural enterprises, such as farmers who produce vegetables, fruits and cash crops. There have been consequent losses of employment and income to Jamaican residents, who are not necessarily the same as the consumers who have undoubtedly benefited from the availability of cheaper goods and services imported from abroad.
- The situation is worsened by adverse movements in our Terms of Trade due to falls in the prices of our major commodity exports. Such falls have only partially been counterbalanced by falls in the prices of some of our major imports, such as petroleum products.

PROSPECTS FOR THE FUTURE

Here at the moment we have more questions than answers. I don't want to sound too pessimistic when I ask whether Jamaica can survive in anything like its present form, and whether it can provide its population with anything like the living standards which they demand and deserve in a globalized economy. That globalized economy seems to be developing purely as a playground for essentially speculative short-term capital. It cannot be right that any of our countries can wake up one morning with a sound economy and find it in ruins by the time we go to bed that night.

It has become axiomatic that the role of the State must change; what is now less clear is what the nature of this change should be. I report with sadness that there is beginning to be some evidence that the Jamaican people, who have enjoyed representative parliamentary democracy and the rule of law continuously since Independence in 1962, are becoming impatient about the time it is taking for the expected benefits of market reform to trickle down to them; and it is difficult to be wholly unsympathetic with that view, in a country which has had no more than 1.5 per cent real growth in any year since the reform process began, which has indeed suffered negative real growth in 1996 and 1997 and which appears to be achieving only 1 per cent (welcome, undoubtedly, but still inadequate) this year.

Who articulates and defends the social agenda in this context? Can we continue to accept the massive transfers of resources from the poor and the hardworking to the speculators, the owners of hot money? Aren't we simply entrenching injustice if we do so? Can the global economy work better for us without better global institutions than we now have? But if not, how can those institutions be created and empowered? Have we got it all seriously wrong? Is that why we seem to be groping around for the right path, one which will suit our particular circumstances without putting us on a collision course with powerful forces?

All history and in particular economic history have taught us that conventional wisdom is not always right, however universally it is held. Are we searching to identify our peculiar shade of economic grey? We must use our understanding to inform our vision of the future. These questions are all-important, we suspect, however, that the answers will emerge slowly and in very piecemeal fashion.

In the meantime, there are some things of which we feel fairly sure. The Government of Jamaica remains committed to a programme of credible and sustainable market-based reforms for the economy. Over the last decade or so, we have been convinced of two things. The first is that prudent market-oriented reforms hold the best chance for achieving

long-lasting economic growth and development. Second, we can best achieve long-term sustainable economic growth if the Government fulfils its role as a facilitator by ensuring that the economic environment is stable, within a framework of social equity.

In spite of our uniqueness, we are absolutely convinced that we have much to learn from countries like those present here today. It is for this reason that we found it compelling to be here with you today, and our optimism in that regard has already been amply justified. For that and for your patience, I thank you all.

