

# **ANNUAL REPORT ON THE JAMAICAN ECONOMY 1988**

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Economic Analysis & Public Policy II The Role of Government in the Jamaican Economy	1987
Economic Analysis & Public Policy III Exchange Rate Policy for Economic Growth & Development	1987

# Table of Contents

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	Page
LIST OF TABLES	
LIST OF GRAPHS	
FOREWORD	
1. OVERVIEW	1
2. GROSS DOMESTIC PRODUCT Sectoral Performance	3
3. BALANCE OF PAYMENTS The Current Account Merchandise Trade Services Transfers The Capital Account and Foreign Reserves	7
4. EXTERNAL TRADE Structure and Composition of Merchandise Trade Exports Imports CARICOM Trade Trade Constraints GATT Preferential Constraints Local Constraints Recent Developments	9
5. MONEY, CREDIT AND INTEREST RATES Money Supply Commercial Banks' Loans and Advances Commercial Bank Liquidity Interest Rates Stock Market Development Exchange Rates	15
6. INFLATION Changes in Weight in the CPI "Basket" Factors Influencing Domestic Prices Internal Factors External Factors The CPI and the GDP Deflator Outlook	19

# Table of Contents (cont'd.)

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	Page
7. ENERGY	23
Use of Petroleum Products	
Transportation	
Household Sector	
Manufacturing	
Jamaica Public Service Company Limited (JPS)	
8. MANUFACTURING	27
Food Processing	
Beverages and Tobacco	
Chemicals and Chemical Products	
Non-Metallic Mineral and Metal Products	
Export manufactures	
Non-Traditional Manufactured Exports to Third Countries	
Non-Traditional Manufactured Exports to CARICOM	
Recent Developments	
Outlook	
9. MINING	33
Western World Outlook	
Alumina Production and Exports	
Bauxite Production and Exports	
Foreign Exchange Earnings	
Developments in Red Mud Use	
Industrial Minerals	
Gypsum	
Limestone (Aggregate)	
Marble	
Marl and Fill	
Sand and Gravel	
Silica Sand	
Whiting	
Other Minerals	
Outlook	
10. TOURISM	39
Visitor Arrivals	
Hotel Room Occupancy	
Hurricane Damage	
Investment	
The Environment	
Regional Overview	
Development Trends	

# List of Tables

---

	Page
1. GDP by Sector (1985-1988) (Constant Prices) – Percentage	3
2. GDP by Sector (1985-1988) (Constant Prices) – '000	4
3. GDP by Sector (1985-1988) (Constant Prices – Percentage Contribution	5
4. Selected Aggregates (1985-1988)	5
5. Balance of Payments (1985-1988)	7
6. Merchandise Trade	9
7. Composition of Merchandise Exports	9
8. Composition of Non-Traditional Exports	10
9. Composition of Merchandise Imports	10
10. Jamaica: Caricom Trade	12
11. Money Supply (1975-1988)	15
12. Loans and Advances by Sector	16
13. Consumer Price Index	19
14. Quarterly Price Movements in the CPI at the Annual Rate of Change 1987, 1988	20
15. Group Weights from Household Expenditure Surveys	21
16. Availability Survey of Staple Items for Selected Parishes for Period, 27-29 September, 1988	21
17. Imports of Petroleum Products	23
18. Jamaica's Consumption of Petroleum Products (1984-1988)	24
19. Fuel Consumption by Bauxite/Alumina Companies (1985-1988)	25
20. Jamaica Public Service (JPS) Electricity Sales by Category	26
21. New-JNIP Supported Projects Implemented in Manufacturing (1987-1988)	28
22. Value of Exports from the Manufacturing Sector (1987-1988)	28
23. Non-Traditional Manufactured Exports (1983-1988)	30
24. Non-Traditional Manufactured Exports to Third Countries (1983-1988)	30
25. Non-Traditional Manufactured Exports to CARICOM (1983-1988)	31
26. Western World Primary Aluminium Consumption (1984-1988)	32
27. Crude Bauxite Production and Exports (1984-1988)	33
28. Foreign exchange Earnings (1984-1988)	34
29. Production of Industrial Minerals (1984-1988)	36
30. Estimated Visitor Expenditure (1984-1988)	39
31. Visitor Arrivals (1984-1988)	40
32. Stop-Over Visitors by Country of Origin (1984-1988)	40
33. Hotel Room Occupancy (1984-1988)	41

# List of Graphs

---

I. GDP Current and Constant Values (1985-1988)	3
II. Merchandise Trade (1985-1988)	8
III. Liquidity Ratio (Actual vs Real) (1986-1988)	16
IV. Auction Supply vs Demand (1986-1988)	18
V. Real Growth in Manufacturing (1983-1988)	27
VI. Alumina Production and Exports (1984-1988)	34
VII. Foreign Exchange Earnings	39

# Foreword

This is the fifth annual review of the economy conducted by the Private Sector Organization of Jamaica. It is not an exhaustive account, nor is it meant to be. Our aim is to provide a perspective on the Jamaican economy which is of particular use to people in business. Our approach is interpretive.

Official end-of-year data are included in the review where available, otherwise, data were used for the latest available month. Readers may wish to review the publications of the Statistical Institute of Jamaica, the Planning Institute of Jamaica, and the Bank of Jamaica for more details on matters in which they have a particular interest.

Particular thanks are due to the many individuals in the central government and public statutory organizations and private companies who provided information willingly and expeditiously. Without the hard work of PSOJ personnel, Joseph Cox, Hu Gentles, Claudia James and Renee Williams, this publication would not have been possible.

Peter J. C. Thwaites  
President

# 1. Overview

The Jamaican economy recorded growth of 0.5 percent for calendar year 1988. The performance of the economy was influenced significantly by (1) the growth-oriented measures of the Government within tight GOJ/IMF operational targets designed to improve the balance of payments, the fiscal deficit/GDP ratio and the level of inflation; and (2) the onset of hurricane Gilbert which wrought damage of approximately \$5 billion.

The rate of inflation on a point-to-point basis for calendar year 1988 was determined to be 8.8 percent, surpassing the targeted 7 percent. This is directly attributable to hurricane Gilbert in September 1988 which caused considerable damage to agricultural crops (\$1.5b) and hence had an inflationary impact. An additional inflationary factor was the real depreciation in the exchange rate subsequent to the decline of the US dollar, to which the Jamaican dollar is pegged, against all major international currencies.

On the fiscal side, at November 1988, the Government's financial operations resulted in an overall fiscal deficit (net of amortization) of \$1,319.8m or 6.7 percent of GDP in 1988/89. Debt servicing amounted to 42.7 percent of total expenditure. This decline is partially attributable to the extraordinary levels of imports (much duty-free) subsequent to the hurricane as well as to the overall downturn in production.

With regard to the balance of payments, preliminary data suggest that there was a current account surplus of US\$21.7m which resulted primarily from a 40.8 percent increase in net transfers. Along with this there was a surplus on the service account of US\$384.6 million representing a 87.2 percent increase over 1987. However, this improved current account position was not replicated in the capital account for the calendar year, as net capital movements declined by 73.2 percent to US\$121.5m. This can be attributed to the tardiness associated with loans and grants emanating from the process of hurricane relief as well as to a net outflow of

private capital, associated with the general elections.

The balance on goods and services improved from a deficit of \$322 million to US\$219.9 million. This gap represents 1.2 percent of GDP as against 1.8 percent in 1987.

In monetary policy the central bank made use of all its available policy instruments, including variations in the cash and liquid assets ratios of the commercial banks, maintenance of high savings deposit rates and other interest rates, selective and quantitative controls on credit expansion, expansion of its own rediscounting facilities and various deposit schemes intended partly to regulate variations. The Government has also sought to stabilize the money supply/GDP ratio. Nevertheless, domestic credit and credit to Government has continued to increase.

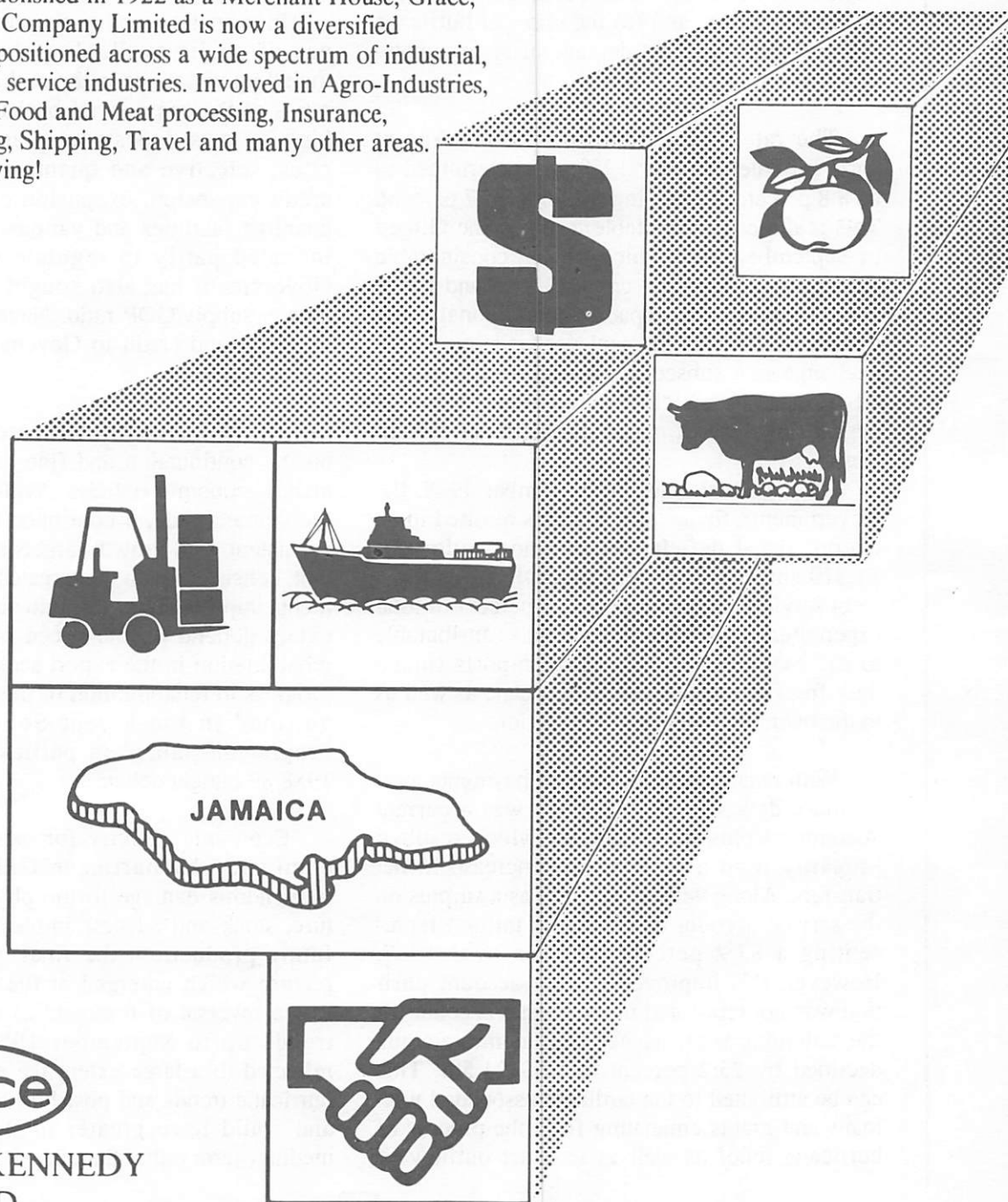
The performance of the economy is posited on the continuation and fine tuning of a set of macro-economic policies involving restraint on the demand side, a continued fiscal tightening consistent with growth targets and, most important, consistent with the targeted balance-of-payments improvement. The outcome will to a large extent depend on the speed of post-hurricane rehabilitation in the export sector as well as the progress in rehabilitation of the social sectors as outlined in the 5-year Social Well-Being Programme tabled in parliament during the 1988/89 budget debate.

Economic activity for calendar 1988 was dominated by hurricane Gilbert. Owing to tremendous damage to the physical infrastructure, stock and adverse impact on imports and future production, the final macro-economic picture which emerged at the end of the year saw a reversal of forecasts as well as to actual trends up to September 1988. The picture reflected to a large extent the evolution of pre-hurricane trends and post-hurricane intervention and could have greater implications for the medium-term rather than the short-run.

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## 2. Gross Domestic Product

The Gross Domestic Product in current prices is preliminarily estimated by the PSOJ to have reached a level of \$17,471.8 million in calendar year 1988, an increase of 11.1 percent over the \$15,717.4 million recorded in 1987. Adjusting to eliminate the effect of price changes, the movement was from \$1,967.5 million to \$1,977.3 million, an increase in real terms of 0.5 percent in constant 1974 prices. In real terms, this is the highest GDP level since 1976.

tation subsequent to hurricane Gilbert, in the export sector.

Growth and development over the medium term are expected to reflect the twin effects of deepening structural adjustment and the revitalization of the social infrastructure and human resource development. With adequate external funding in place, internal growth is expected to generate sufficient domestic resources to improve the social sectors, as outlined in the 5-year Social Well-Being Programme which was

TABLE 1

Percentage change in GDP by Sector 1985-1988 (Constant Prices)

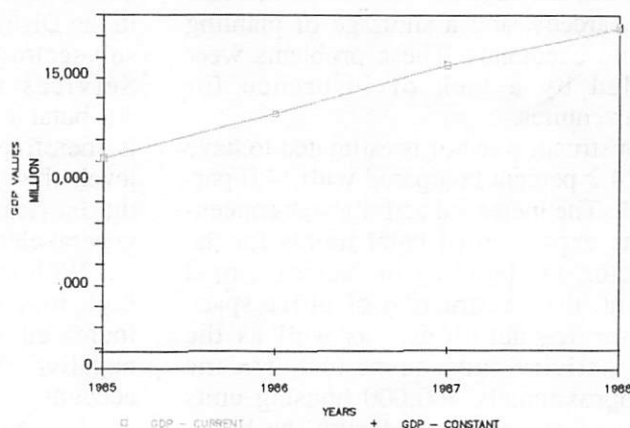
	1985	1986	1987	1988 <sub>p</sub>
Agriculture, Forestry & Fishing	-3.6	-2.1	2.5	-4.4
Mining and Quarrying	-19.5	6.6	4.9	-4.7
Manufacturing	0.5	3.7	5.2	-0.9
Construction & Installation	-14.3	2.5	14.0	14.2
Services (Net)	-3.7	1.6	4.8	0.7
GDP	-4.7	1.9	5.2	0.5

p - Provisional  
Variance  $\pm 0.5$

This outcome is posited on continuing demand restraint and fiscal tightening, consistent with growth targets but, most important, consistent with the targeted balance-of-payments improvement. The final outcome will also to a large extent depend on the speed of rehabili-

tabled in parliament during the 1988/89 budget presentation. This, however, is dependent on how effectively these external resources are utilized, e.g. whether they flow to expanding rather than declining sectors, or worse, go into consumption expenditure.

GRAPH 1  
GDP Current and Constant Values (1985-1988)



## Sectoral Performance

Agriculture, Forestry and Fishing is estimated to have declined by 4.4 percent relative to 1987. This decline is directly attributable to hurricane Gilbert in September 1988. Estimates of damage to agriculture have been put at J\$2.16 billion (US\$393 million). Domestic food crop losses have been estimated at \$767 million, banana \$408 million, cocoa \$14 million, coffee \$210 million, sugar \$150 million, marine fishing \$25 million, inland fishing \$20 million. Within the livestock sub-sector estimate of \$400 million damage, the poultry industry got the hardest blow, with up to 90 percent of the chicken houses losing their roofs, while several thousand chickens were destroyed. Up to 80 percent of coconut trees or nuts may have been blown to the ground.

cane. There was also substantial damage to public buildings; however, no precise data are as yet available on this grouping. Homeowners were adversely affected by the shortage of and consequent price increases in building materials and construction labour. It is worthy of note that since the hurricane, housing prices are estimated to have escalated by 30 percent.

The Manufacturing sector declined 0.9 percent relative to 1987, disrupting the expansion trend experienced in the three preceding calendar years.

The Mining and Quarrying sector declined by 4.7 percent relative to 1987. This was directly attributable to the declines in the production of alumina and bauxite. For 1988 local production of alumina declined by 6 percent while production of bauxite declined by 4 percent.

The Services sector (net of imputed service

**TABLE 2**  
**GDP by Sector 1985-1988 in Constant Prices**  
(\$ million)

	1985	1986	1987	1988 <sub>p</sub>
Agriculture, Forestry & Fishing	163.7	160.3	164.3	157.0
Mining and Quarrying	95.4	101.6	106.6	101.6
Manufacturing	299.3	310.2	326.4	323.4
Construction and Installation	97.4	99.9	113.9	130.1
Services (Net)*	1,179.5	1,198.0	1,256.4	1,265.2
<b>GDP at Constant Prices</b>	<b>1,835.3</b>	<b>1,870.0</b>	<b>1,967.5</b>	<b>1,977.3</b>

p - Provisional

\* - Net services already exclude Imputed Service charges

Source: Statistical Institute of Jamaica and PSQJ Staff estimates

Hence, there were shortages of some agricultural produce and subsequent price increases. Furthermore, farmers were handicapped by damaged roads, shortage of vehicles, an increase in praedial larceny, and a shortage of planting materials and chemicals. These problems were compounded by a lack of insurance for agricultural ventures.

The Construction sector is estimated to have grown by 14.2 percent compared with 14.0 percent in 1987. The increased activity was concentrated in the expansion of hotel rooms for the tourism sector, the building of factories, road improvement, the construction of office space for other service activities, as well as the rebuilding activity subsequent to hurricane Gilbert. Approximately 100,000 housing units were damaged or destroyed during the hurri-

charge) is expected to grow by 0.7 percent over 1987. There were declines in Tourism, Electricity and Water, and the Transport, Storage and Communication sub-sectors, and increases in the Distributive Trades and Financial Services sub-sectors. The lower rate of growth in the Services sector is transient and directly attributable to the disruptions of the hurricane. It is therefore expected to return to former high levels this year, notwithstanding the overhang of the hurricane and the disruptive effects of the general elections.

With reduced agricultural output there was both loss of foreign exchange earnings and increased food imports, both of which had a negative effect on the country's merchandise account.

Inflows on the current and capital accounts,

however, are expected to offset this deficit. Foreign exchange inflows from re-insurance settlements are estimated at some US\$600 million, though some portion of this sum will come in 1989. Some US\$515 million in grants and aid from multilateral agencies and friendly foreign countries were announced. In addition, the government has been granted a one-year moratorium on debt-servicing charges on most of our foreign obligations. In summary, we are looking at net inflows from these sources of some US\$1.2 billion in the 1988/89 fiscal year.

The economy has now had three successive years of growth. The shortfall from the projected 4-5 percent growth in 1988 is attributable to the unusual destruction of hurricane. For fiscal year 1988/89 a growth rate of 3 percent is currently estimated. The prospects for continued growth during 1989 are good. With the strengthening so far achieved through the structural adjustment and stabilization programmes, the economy has entered a period which should see

annual growth of at least 2 percent over the medium term provided the momentum of divestment and deregulation is maintained.

The achievement of these medium term projections is dependent on a number of factors including petroleum price levels. While there is still much volatility in the market for oil, it is likely that 1989 will see a stabilization in the average price of oil. Much will also depend on the pace of growth of the economies of Jamaica's main trading partners, as well as the success of efforts to maintain or improve Jamaica's competitiveness. In this regard, the achievement of a truly market-determined exchange rate, as well as a review of the current interest rate structure are critical. For 1989, GDP is expected to record real growth of at least 2.5 percent, assuming that changes in the exchange rate, prices and interest rates in both the domestic and international economy remain moderate over the year.

TABLE 3

GDP by Sector 1985-1988 in Constant Prices  
by Percentage Contribution

	1985	1986	1987	1988 <sub>p</sub>
Agriculture, Forestry & Fishing	8.9	8.6	8.3	7.9
Mining and Quarrying	5.2	5.4	5.4	5.1
Manufacturing	16.3	16.6	16.6	16.4
Construction & Installation	5.3	5.3	5.8	6.6
Services (Net)*	64.3	64.1	63.9	64.0
Total Gross Domestic Product	100.0	100.0	100.0	100.0

p - Preliminary

\* - Net services already exclude Imputed Service Charges

Source: Statistical Institute of Jamaica and PSQJ Staff estimates

TABLE 4

Selected Aggregates (1985-1988)  
J\$ Million

	1985	1986	1987	1988 <sub>p</sub>
Gross Domestic Product (Current Values)	11,151.0	13,310.1	15,717.4	17,471.8
Percentage Change	19.2	19.4	18.1	11.1
Gross Domestic Product (Constant Values)	1,835.3	1,870.0	1,967.5	1,977.3
Percentage Change	-4.7	1.9	5.2	0.5

p - Preliminary

Source: Statistical Institute of Jamaica and PSQJ Staff estimates

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### 3. Balance of Payments

Preliminary data for calendar year 1988 suggest that there was a current account surplus of US\$21.7m which resulted primarily from a phenomenal 40.8 percent increase in net transfers. Imports of hurricane relief supplies are classified as transfers and as such are reported in the current account of the balance of payments. Along with this, there was a surplus on the service account of US\$384.6 million representing a 87.2 percent increase over 1987.

This improved current account position was not replicated in the capital account for the calendar year, as net capital movements declined by 73.2 percent to US\$121.5m. This can be attributed to the tardiness associated with loans and grants emanating from the process of hurricane relief as some donor countries reneged on their promises of aid, as well as to a net outflow of private capital given the onset of a general election.

The balance-of-trade deficit on goods and services was reduced by US\$102.4 million to record a level of minus US\$219.9 million. This trade gap represents 1.2 percent of GDP as against 1.8 percent in 1987.

#### The Current Account

The current account balance for 1988 was US\$21.7 million compared with a deficit of US\$150.7 million in 1987. This result was obtained from the combined effects of two of the three components of the Current Account. The Services balance increased its surplus from US\$205.4 million in 1987 to US\$384.6 million in 1988. Net transfers increased from US\$171.6 million in 1987 to US\$241.6 million in 1988. However, the merchandise balance decreased by 14.5 percent to US\$604.5 million but this was offset by the extraordinary performance of net transfers.

#### Merchandise Trade

The increase in the visible trade deficit is attributable to a 15.7 percent increase in merchandise imports as well as a slowdown in the rate of growth of merchandise exports which was directly attributable to the hurricane.

In spite of the hurricane however, export performance reflected improved market conditions for our traditional exports, growth in non-traditional exports and CARICOM exports (See Chapters 4 and 8).

TABLE 5

Balance of Payments (1985-1988)  
US\$m

Categories	1985	1986	1987	1988	% Change 1988/87
Exports (f.o.b.)	568.6	589.5	706.6	823.6	16.5
Imports (c.i.f.)	1,004.2	837.4	1,234.3	1,428.1	15.7
Balance of Trade	-435.6	-247.9	-527.7	-604.5	-14.5
Services (Net)	-81.4	66.3	205.4	384.6	87.2
Foreign Travel	375.3	480.9	551.2	495.8	-10.0
Investment Income	-315.7	-321.7	-401.9	-467.8	-16.4
Other Services	-151.0	-92.9	56.1	356.6	635.6
Balance on Goods & Services	-517.0	-340.8	-322.3	-219.9	31.8
Transfers (Net)	221.2	148.1	171.6	241.6	40.8
Private	153.2	111.6	117.2	154.6	31.9
Official	68.0	36.5	54.4	87.0	59.9
Current Account Balance	-295.8	-33.5	-150.7	21.7	
Net Capital Movements	223.2	9.5	453.9	121.5	-73.2
Changes in Reserves (minus = increase)	72.6	24.0	-303.2	-143.2	52.7

p - Provisional

Source: Bank of Jamaica

## Services

The Services Account maintained a favourable balance reaching a level of US\$384.6 million in 1988, an increase of US\$179.2 million over 1987. As a direct result of hurricane Gilbert, net receipts from Foreign Travel declined by 10.0 percent to US\$495.8 million. However, net receipts from 'Other Services' increased by 635.6 percent to US\$356.6 million, accounting for 92.7 percent of total net earnings from Services in 1988. This group includes, inter alia, remittances, commission fees, and earnings from Free Zone activities.

Net investment income declined by 16.4 percent to US\$467.8 million. The majority of this is accounted for by interest payments on Government direct, government guaranteed and Bank of Jamaica debt. This is also reflective of an increasing imputed loss by bauxite companies, which is a major component of this grouping.

## Transfers

Net transfers increased by 40.8 percent to US\$241.6 million with private transfers increas-

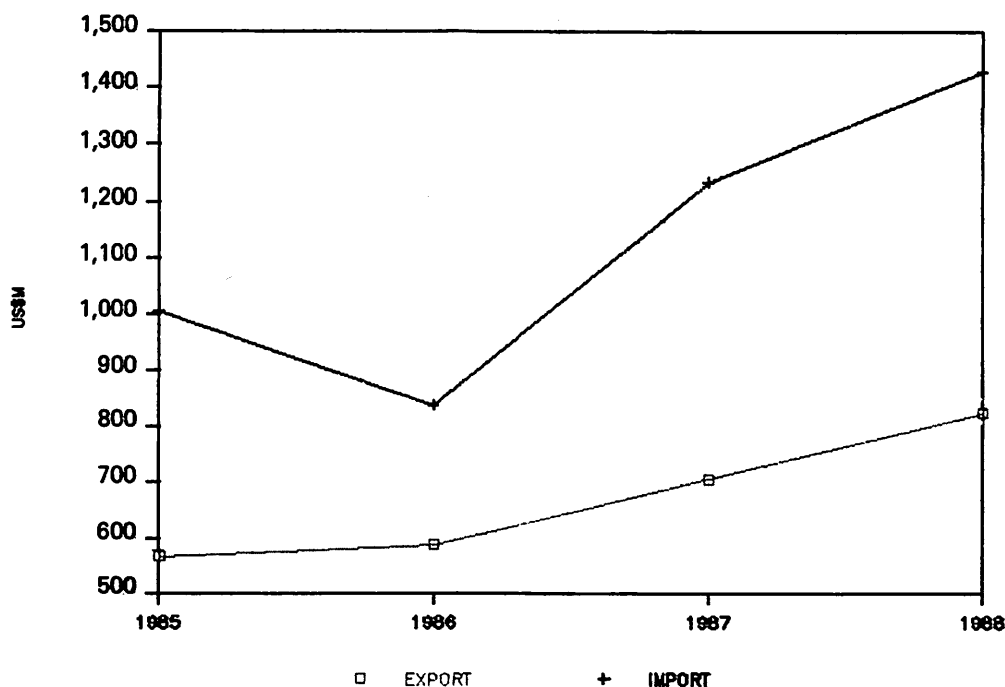
ing by 31.9 percent to US\$154.6 million, and official transfers increasing by 59.9 percent to US\$87.0 million. These increases are all attributable to the fact that imports of hurricane relief supplies are classified as transfers and have therefore skewed the performance of this sub-group and distorted the true status of the Current Account. Indeed, for 1988, there was a recorded surplus of US\$21.7 million on the Current Account. This phenomenal performance of the Current Account might be generously regarded as a testament to the effectiveness of measures to stabilize the external account as well as being reflective of the extraordinary inflows of hurricane supplies.

## The Capital Account and Foreign Reserves

The balance on the capital account at December 1988 stood at US\$121.5 million, a decline of 73.2 percent below the 1987 level. Foreign exchange reserves at December 1988 had declined by 52.7 percent to US\$143.2 million relative to the corresponding period of the previous year.

GRAPH II

Merchandise Trade (1985-1988)



## 4. External Trade

The deficit on the merchandise trade account for 1988 was US\$604.5m compared with US\$527.7m for 1987. This reflected expenditures of US\$1,428.1m on merchandise imports and earnings of US\$823.6 million derived from merchandise exports. Imports increased by

lower exports than would have been normal.

The total value of Jamaica's trade in 1988 increased by 16.0 percent to US\$2,251.7 million. This marks an 8.5 percentage point decline in the growth rate of trade compared to 1987's increase over the previous year. The increased

TABLE 6

### Merchandise Trade (US\$M)

	1984	1985	1986	1987	1988p
Merchandise Imports	1,183.3	1,143.7	969.2	1,234.3	1,428.1
Merchandise Exports	702.4	568.5	589.7	706.6	823.6
Trade Balance	(480.9)	(575.2)	(379.5)	(527.7)	(604.5)

p - Provisional

Source: Statistical Institute of Jamaica (STATIN)

US\$193.8m or 15.7 percent while exports increased by US\$117.0 or 16.5 percent over the preceding year. However, the external trade of the country was distorted by the effects of hurricane Gilbert which led to higher imports and

trade value demonstrates the continued effects of the government's trade liberalization policies. Of the total increase in trade value, exports accounted for 36.6 percent and imports 63.4 percent.

TABLE 7

### Composition of Merchandise Exports (US\$M)

Categories	1987	1988	Percent Change
Total Exports	706.6	823.6	16.5
Alumina	224.0	285.1	27.3
Bauxite	112.4	104.3	-7.2
Sugar	74.1	78.7	6.2
Bananas	19.1	15.4	-19.4
Rum	9.9	13.4	35.4
Coffee	9.3	10.5	12.9
Citrus	5.5	8.8	60.0
Cocoa	7.3	6.8	-6.8
Pimento	5.9	6.4	8.5
Gypsum	1.7	0.6	-64.7
Total Traditional Exports	469.2	530.4	13.0
Non-Trad. (CARICOM)	45.6	58.5	28.3
Non-Trad. (Third Countries)	174.9	214.1	22.4
Re-Exports	16.9	20.6	21.9

Source: Bank of Jamaica

The composition of merchandise imports shifted moderately. Raw Materials accounted for 33.7 percent as against 32.9 percent of total imports in the previous year. The Consumer Goods category increased by 0.4 of a percentage point while Capital Goods increased by 3.2 percentage points over the same period. [See Table 9].

Exports were dominated by earnings from alumina which amounted to US\$285.1m or 34.6 percent of total export earnings and represented an increase of 27.3 percent over 1987. Bauxite, though contributing 12.7 percent to total earn-

ings, declined by 7.2 percent relative to 1987. It is also worthy of note that non-traditional exports increased by 23.8 percent relative to 1987.

The improved export performance was due to the following main factors:

- (i) an upturn in the market for bauxite and alumina;
- (ii) the decrease in international oil prices;
- (iii) the depreciation of the U.S. dollar against EEC currencies which resulted in increased earnings from the U.K. and other European markets.

TABLE 8

Composition of Non-Traditional Exports  
(US\$M)

SITC Categories	1987	1988	Percent Change
ALL SECTIONS	220.5	272.9	23.8
Food	28.9	29.3	1.4
Beverages and Tobacco	23.6	23.8	0.0
Crude Materials	5.2	37.4	719.2
Mineral Fuels	13.6	18.6	36.8
Animal and Veg. Oils & Fats	0.3	0.0	-100.0
Chemicals	19.0	19.4	2.1
Manufactured goods	9.2	12.3	33.7
Machinery & Transport			
Equipment	3.0	4.7	56.7
Misc. Manufacturing Goods	117.7	127.1	8.0
Misc. Commodities	0.0	0.0	0.0

Source: Bank of Jamaica

TABLE 9

Composition of Merchandise Imports  
(US\$M)

Categories	1987	1988	Percent Change
TOTAL IMPORTS	1,234.3	1,428.1	15.7
Consumer Goods	234.3	276.9	18.2
Raw Materials	405.7	481.3	18.6
Capital Goods	331.3	429.2	29.5
Fuel	197.4	170.1	-13.8
Imports for Bauxite/Alumina Industry	65.6	70.6	7.6

Source: Bank of Jamaica

## Structure and Composition of Merchandise Trade

A combination of upward price movements and increased trade volume resulted in an expansion in total value of visible trade which amounted to US\$2,251.7m, 16.0 percent above the US\$1,940.9 million in 1987. Merchandise exports increased by 16.5 percent over 1987 to US\$23.6 million.

Traditional exports accounted for 64.4 percent of total exports in 1988 compared with 66.4 percent in 1987. Alumina and bauxite remained Jamaica's main export commodities contributing 53.8 percent and 19.7 percent respectively to traditional exports. When compared with 1987, alumina's share of total traditional exports increased by 6.1 percent while bauxite declined by 4.2 percent. Sugar, the third ranked commodity export, increased by 6.2 percent, reflecting increased earnings resulting from the changes in the value of sterling against the U.S. dollar, to which the Jamaican dollar is pegged.

Although non-trationals' share of total exports remained static relative to 1987, there was an 8.0 percent increase in Miscellaneous Manufactures which includes "807-CMT" textile products [see Chapter 8]. However, this group experienced a decline in its share of total non-traditional exports from 53.4 percent in 1987 to 46.6 percent, reflecting a combination of labour troubles and a softening in the international textile market.

The total import bill continued to be heavily weighted in favour of Raw Materials which constituted 33.7 percent of the total. The other two main categories, Capital Goods and Consumer Goods, accounted for 30.0 percent and 19.4 percent of total imports compared with 26.8 percent and 19.0 percent respectively for 1987.

### Exports

Increases were recorded in nearly all the main categories of exports. Total traditional exports recorded earnings of US\$530.4 million, an increase of 13.0 percent over 1987. Non-traditional exports increased by 23.8 percent, moving from US\$220.5 million in 1987 to US\$272.9 million in 1988. For further details, see Chapter 8.

### Imports

Merchandise imports for the calendar year

increased by US\$193.8 million or 15.7 percent to US\$1,428.1 million. Of this increase, Capital Goods, Raw Materials, and Consumer Goods, represented 30.0 percent, 33.7 percent and 19.4 percent respectively. The percentage composition of total imports for the three sub-categories remained virtually unchanged in the 1987 calendar year. Consumer Goods accounted for 18.9 percent, Raw Materials 32.8 percent, and Capital Goods 26.8 percent.

It should be noted that hurricane relief supplies are not included in the import figures. This results from the incompleteness of data collection by the Statistical Institute of Jamaica, as well as the difficulty experienced by that Institute in collecting the necessary data. An indeterminate quantity of relief supplies – estimated to be the majority – was not routed through customs and was therefore not recorded.

Indeed, in general, import figures for all sub-categories may have been higher. However, imports of hurricane relief supplies are classified as transfers and as such are reported in the current account of the balance of payments.

### CARICOM Trade

Total value of Jamaica's trade with CARICOM in 1988 amounted to US\$114.4 million which represents a 4.5 percent increase over 1987. As a percentage of total 1988 trade value, CARICOM trade accounted for 5.6 percent in 1987 and 5.1 percent in 1988. For the calendar year 1988 exports increased by US\$12.9 million or 28.3 percent to US\$58.5 million. Imports declined 12.5 percent over the same period to US\$55.9 million, yielding a trade surplus of US\$2.6 million with CARICOM compared to a 1987 deficit of US\$18.3 million.

### Trade Constraints

The biggest threat to achieving self-sustaining growth, with manageable debt and an adequate level of foreign exchange reserves, is the growing trade protectionism in the developed world. Jamaica needs trade agreements which will ensure that the world is its market for exports as well as imports.

The General Agreement on Tariffs and Trade (GATT) is dedicated to liberalizing world trade. The GATT's Most Favoured Nation (MFN) rule requires that if a country lowers its tariff on one import item, the same tariff will

TABLE 10

Jamaica: Caricom Trade  
(US\$M)

SITC	1987		1988	
	Exports	Imports	Exports	Imports
ALL SECTIONS	45.6	63.9	58.5	55.9
Food	8.8	13.5	10.7	12.4
Beverages and Tobacco	5.1	3.4	5.9	6.1
Crude Materials	0.5	0.2	0.6	0.5
Mineral Fuels	2.7	19.1	6.2	0.5
Animal and Veg. Oils & Fats	0.2	2.6	0.0	2.4
Chemicals	13.1	7.9	14.4	10.6
Manufactured Goods	6.2	11.7	9.7	15.2
Mach. and Transp. Equipment	1.7	4.3	2.7	6.8
Misc. Manufacturing Goods	7.3	1.2	8.3	1.4
Misc. Commodities	0.0	0.0	0.0	0.0

Source: Bank of Jamaica

apply to imports of that item from whatever source. The developing countries are exempt from the MFN rule; they can retain their trade barriers while gaining greater access to markets of the developed countries.

The apparent advantage to developing countries conceals great danger to the process of building efficient economies. The protectionist tariff barriers distort domestic prices relative to world prices and impose a tax on exports. Protectionism involves a net cost to the whole economy of a country while it creates specific gains for the protected industry. Developing countries need 'protection' offered by free trade, not bilateral trade agreements with the developed world which offer a form of restricted 'free trade' with non-tariff instead of tariff barriers. Non-tariff barriers to free trade include restrictions on sourcing of raw materials and on transportation, or clauses in the agreements which allow the trade concessions to be withdrawn when the rising quantity and quality of developing countries' products threaten the market shares of the developed countries' producers.

### Preferential Constraints

The EEC/ACP conventions, the CBI, CARIBCAN, and the CARICOM treaty are all discriminatory; they contain restrictions, protocols, and exemptions which reflect the double-edged concession-with-protection which negate the potential of free trade. The almost total free

trade agreement between the USA and Canada violates the GATT's MFN rule, but is not illegal. It could further result in displacement of trade especially for those items imported in both markets under bilateral trade agreements with non-tariff barriers.

### Local Constraints

- a) The introduction of a 100 percent container search system at the ports. These security measures were introduced by the government in December following a series of illegal drug discoveries and fines by U.S. Customs. Some shipping lines have reduced or suspended services to Jamaica. The intrusion of illegal drugs and increased cargo search has resulted in export cargo being left behind at the port, damage to fresh produce, cancellation of export orders and lines-of-credit, and the suspension of shipments by apprehensive exporters. Subsequently, the Jamaica Exporters Association proposed, and the Government accepted, the introduction of a Sterile Export Security Centre. Nevertheless, these developments are proving to be a severe constraint on trading activity.
- b) The continued operation of the Jamaica Commodity Trading Company (JCTC). This twelve-year old state trading company has an import monopoly on a range of food

items, motor vehicles and medical supplies, the effect of which is to stifle entrepreneurship. Furthermore, by its policy of cross-subsidization, the JCTC promotes massive price distortions.

### **Recent Developments**

The Jamaican Government initiated a programme of Tariff Reform in 1987, as part of the continuing programme of structural adjustment. The programme is directed at lowering import duties and broadening the base of dutiable

items. The programme had envisaged a final aggregate duty of 20 percent applicable to capital goods imports. The scheduled implementation of this rate has been advanced and became effective on December 16, 1988. The duty reduction, as outlined in Ministry Paper 48, was in response to private sector representation as well as the perceived need to provide an appropriate duty regime that would enable the sector to replace and modernize its machinery. The benefits of the reduction in aggregate rates of duty will extend to the manufacturing, construction, tourism, and other sectors.

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## 5. Money, Credit and Interest Rates

Over the period under review, the Central Bank made use of all its available policy instruments including variations in the cash and liquid assets ratios of the commercial banks, maintenance of high savings deposit rates and other interest rates, selective and quantitative controls on credit expansion, expansion of its own rediscounting facilities and various deposit schemes to ensure consistency with the overall objectives of the financial programme.

### Money Supply

Narrowly defined money M1 (currency in the hands of the public plus demand deposits) grew by 54.9 percent relative to 1987. The behaviour of M1 in 1988 may be partially attributed to expansionary policies on the part of Government as a result of the hurricane, as well as widening of the tax base. In addition, an aggressive open market operations strategy ensured that liquidity levels were relatively in line with the expectations of economic performance targets such as the rate of inflation.

Broadly defined money, M2 (M1 plus time deposits plus savings deposits) grew by 39.7 percent in 1987. This was aided by a growth of 54.9 percent in M1, 45.5 percent in time deposits and 29.2 percent in savings deposits. When compared with 1987, the rate of growth of M2 was 12.1 percent higher.

The transactions demand, estimated as the sum of the growth rate of GDP and the CPI, declined by 4.5 percent relative to 1987. This is largely due to the drastic deterioration in the rate of growth of GDP in 1988 relative to 1987, as well as a marginal increase in the rate of inflation.

### Commercial Banks' Loans and Advances

Loans outstanding to commercial banks increased by 17.8 percent to \$5,766.0m. The magnitude of this increase is directly attributable to the financing of post-hurricane restoration efforts.

Construction and Land Development secured the largest share of loans and advances

TABLE 11  
Money Supply 1975 - 1988  
(J\$ Million)

	Quasi-Money				M2=M1 + Tot. Quasi-Money
	M1	Time Deposit	Savings Deposit	Total	
1975	312.8	334.6	331.2	665.8	978.6
1976	343.0	363.2	349.6	712.8	1,055.8
1977	510.2	236.5	451.4	687.9	1,198.1
1978	494.7	345.2	519.0	864.2	1,358.9
1979	541.1	357.8	595.2	953.0	1,494.1
1980	647.4	210.6	687.7	898.3	1,545.7
1981	687.1	417.3	814.0	1,231.3	1,918.4
1982	729.2	614.0	1,016.0	1,630.0	2,359.2
1983	884.3	975.0	1,122.2	2,097.2	2,981.5
1984	1,012.4	1,134.1	1,304.7	2,438.8	3,451.2
1985	1,210.4	1,091.7	2,007.5	3,099.2	4,309.6
1986	1,667.6	1,183.3	2,646.8	3,830.1	5,497.7
1987	1,874.8	1,119.4	3,378.1	4,497.5	6,372.3
1988	2,904.5	1,628.9	4,365.8	5,994.7	8,899.2

Source: Bank of Jamaica

TABLE 12

## Loans and Advances by Sector

	1984	1985	1986	1987	1988
Agriculture	401.0	496.9	416.1	479.6	668.6
Manufacturing	681.1	726.1	822.3	978.8	1,216.5
Construction	617.4	612.2	636.9	897.4	1,319.8
Mining	10.0	6.4	9.4	25.6	17.0
Tourism	125.4	184.8	236.1	321.6	451.0
Transport	334.3	390.9	446.5	591.5	762.7
Consumer-Oriented	441.8	400.8	464.9	568.9	691.6
Government Services	44.0	141.9	677.9	890.6	436.8
Other	90.8	88.1	111.8	141.8	202.0
TOTAL	2,745.8	3,048.1	3,821.8	4,895.8	5,766.0

Source: Bank of Jamaica

in 1988 (22.8 percent). This was followed by Manufacturing (21.1 percent) which suffered approximately \$1.2 billion damage from the hurricane. Mining and Government Services declined by 50.9 percent and 33.6 percent respectively while all other sectors recorded increases.

## Commercial Bank Liquidity

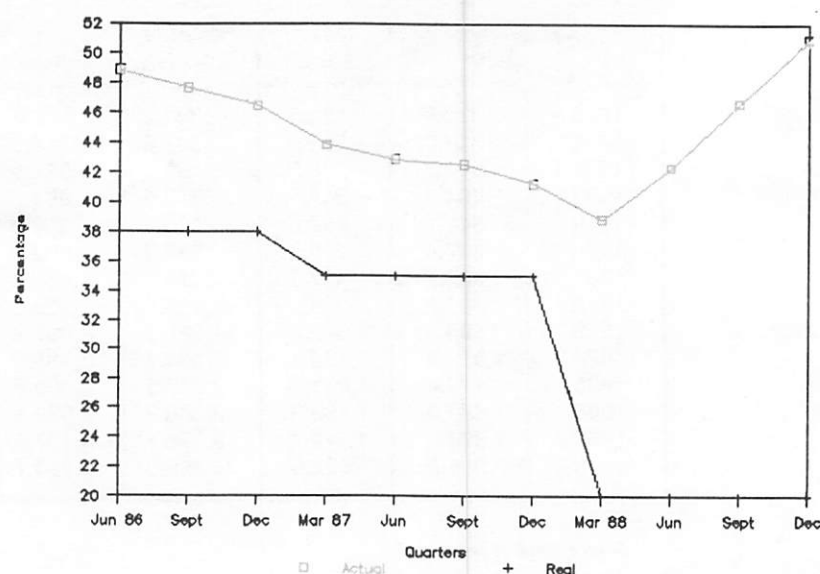
Despite the substantial mopping up of liquidity through Certificates of Deposits (CDs) and other government paper, the financial system remained highly liquid throughout 1988. At the

end of December, the actual cash reserve of commercial banks was 51.1 percent. It therefore continued to exceed the statutory requirements of 20 percent of average deposits.

The continued growth in liquidity is mainly attributable to two factors:

- 1) a growth in commercial banks average deposit liabilities due to the increased inflow of funds into the system (e.g. \$300m in reinsurance flows at December 1988);
- 2) a softening of loan demand, owing to the maintenance of high interest rate policy.

GRAPH III

Liquidity Ratio (Actual vs Real)  
1986-1988

Despite the removal of the non-cash portion of the liquid asset requirements, Treasury Bills have maintained their favourable position in the commercial banks' investment portfolios. At December, they held 47.5 percent of the total value of CDs issued.

### **Interest Rates**

In any stabilization policy, the interest rate emerges as a significant policy variable. The level of interest rates is important to investment decisions, while being critical to the decision to postpone consumption. Hence, the loan rate should be sufficiently low to act as a stimulant to investment, but high enough to be a deterrent to unwarranted expansion in aggregate demand, while the deposit rate should be sufficiently high to stimulate savings.

In order to ensure that the objectives of the interest rate policy were attained, interest rates on Treasury Bills moved erratically over 1988 from a high of 18.98 percent in June to a low of 18.0 in December on 6-month offers. At December 1988, the average weighted rate on Certificates of Deposit was 17.35 percent, 2.65 points below the corresponding period of the previous year. A large volume of resources was channeled through non-bank financial intermediaries, but this eventually stemmed from the liquidity in the money market which these institutions were in a good position to utilize because of their competitive interest rate structure. Consequentially, over the year commercial bank loan rates have remained relatively stable and high. Indeed, at the end of the last calendar quarter, the overall average weighted loan rate was 24.9 percent.

In keeping with the selective credit policy, which is geared towards channeling resources into the more productive economic activities, the interest rate structure reflected a bias against certain types of credit such as Installment and Personal Credit. Lending rates for these two categories exceeded the overall average rate.

Rates on time deposits for both 3 months and less than 6 months, and 6 months and less than 12 months maturity ranged between 10 and 18 percent. Adjusting for inflation the real weighted deposit rate at the end of December 1988 was 5.3 percent. Both savings and the

prime lending rate declined by 2 percentage points to 13 and 21 percent respectively by administrative fiat. However, these interest rates are still deemed to be excessive and are in need of downward revision given the spread between deposit and loan rates.

### **Stock Market Development**

The year was mixed for the Jamaican Stock Market. The bearish trend which commenced in the last quarter of 1987 continued through September 1988. At December 1988, the equity index was 1,439.22, five percent below the index at December 1987. However, activity on the local stock market increased during the last calendar quarter. The equity index increased by 11.1 percent or 143.49 points over September's level at the end of December. This surge in the index may be attributed to:

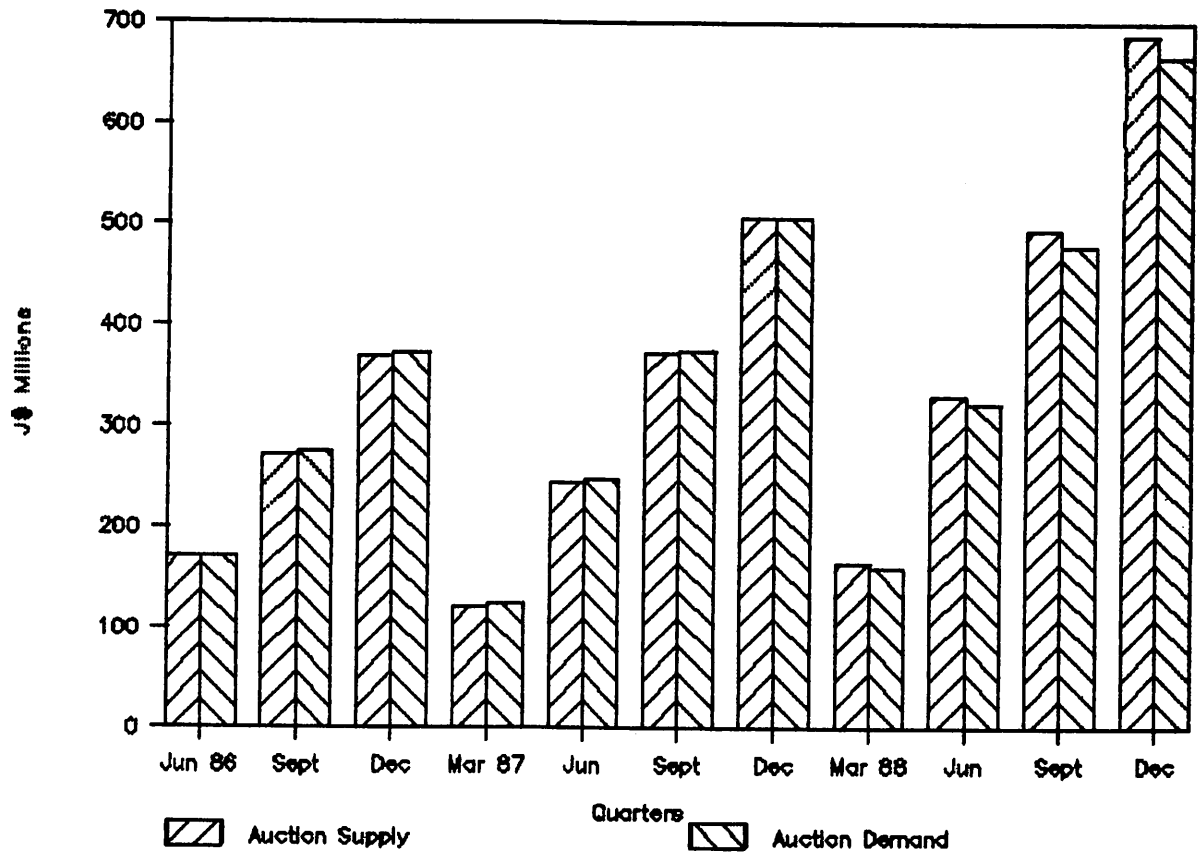
- (a) the increased supply of shares for trading,
- (b) the reduction in the mandatory savings rate,
- (c) the perception of increased profitability of companies by investors as a direct result of reconstruction and other activities following the hurricane.

The level and results of trading in Jamaica were not helped by the distortion in the level of interest rates which offered higher yields on Treasury Bills and Certificates of Deposit and left common stock yields below the rate of inflation. In the event that interest rates on competing investment options are reduced during 1989, then trading will improve and yields may yet have a chance to recover.

### **Exchange Rates**

The nominal exchange rate, which is determined through a managed float, remained relatively stable over 1988. Indeed, though there was a substantial increase in incremental demand in the last calendar quarter, there was no adjustment. In fact, the government continued to use a high interest rate policy, as well as moral suasion to protect the exchange rate.

**GRAPH IV**  
**Auction Supply vs Demand**  
**1986-1988**



## 6. Inflation

The inflation rate for the 1988 calendar year, as measured by the Consumer Price Index (CPI) was 8.8 percent, point to point, bringing the index to 875.6 from 804.6 recorded at the end of the last calendar year, 1987. On the average, the inflation rate was 8.2 percent compared to 6.7 percent in 1987. (The point-to-point measure is used for comparison, unless otherwise stated).

The inflation rate does not take account of

all price changes in the economy. The CPI is derived from a "basket" of goods and services purchased by householders with income of \$24,000 or less a year.

Government's policy measures were effective in containing aggregate demand within the previously posited growth targets, and in stabilizing the costs of the factors of production, all of which impact on the inflation rate. These

TABLE 13

Consumer Price Index  
(Point-to-Point)

Items	Index		% Change Over 1987	Weight
	1987	1988		
<b>All Groups</b>	804.6	875.6	8.8	100.0
<b>Food and Drink</b>	899.6	995.0	10.6	53.28
Meat and Poultry and Fish	798.5	817.2	2.3	
Dairy Products, Oil & Fish	842.5	890.9	5.7	
Starchy Food and Cereals	722.6	986.1	36.5	
Other Food and Beverages	1,222.1	1,295.4	6.0	
Meals Away from Home	854.6	941.2	10.1	
<b>Fuels and Other Household Supp.</b>	953.4	1,010.9	6.0	5.13
Fuels	950.0	1,029.3	8.3	
Other Household Supplies	955.3	999.7	4.6	
<b>Housing</b>	479.9	497.9	3.8	8.87
Rent	384.8	409.3	6.4	
Other Housing Expenses	611.3	620.3	1.5	
<b>Household Furnishings &amp; Furn.</b>	931.7	964.6	3.5	3.18
Furniture	1,003.6	1,067.4	6.4	
Other "Home Furnishing"	868.4	874.2	0.7	
<b>Personal Clothing &amp; Accessories</b>	679.9	735.2	8.1	8.15
Made-up Clothing & Access.	738.4	782.9	6.0	
Footwear	572.8	678.5	18.5	
Clothing Materials	667.9	669.8	0.3	
Making-up and Repairs	672.4	757.9	12.7	
<b>Personal Expenses</b>	895.9	955.9	6.7	8.4
<b>Transportation</b>	569.0	579.1	0.01	4.86
<b>Miscellaneous Expenses</b>	557.5	618.8	11.0	8.10
Recreation Expenses	258.2	279.9	8.4	
<b>Other Miscellaneous Expenses</b>	736.5	821.6	11.5	

Source: Statistical Institute of Jamaica (STATIN)

measures include: monetary policy, fiscal deficit controls, the stability in the exchange rate and a 10 percent guideline on wage increases. The achievement of single digit inflation in 1988 was also aided by the moderate inflation rates recorded by Jamaica's trading partners.

While the rate of inflation was higher than projection, the actual out-turn for 1988 was only marginally higher than that for 1987. Indeed, up to September 1988, the inflation rate was approximately 3.4 percent and increased to 8.8 percent by December as the full impact of hurricane Gilbert was realized. In fact the index increased by 5.2 percent in the last quarter of the calendar year.

The movement in the index was largely influenced by the 10.6 percent increase in the Food and Drink category of the CPI which, in turn, was influenced by a 36.5 percent jump in the sub-group Starchy Food and Cereals. The Food and Drink index displayed the highest average increase for the year – an increase of 7.54 percent during the last quarter of 1988. This movement did not conform to the usual seasonal pattern exhibited by the index during this quarter. This usual increase was directly linked to a surge in the index in October and December and is largely attributable to the hurricane in September. A temporary shortage of certain food crops led to an upward movement in the cost of these items in the heavily weighted (53.28 percent) Food and Drink category of the CPI. The price surge is expected to abate in the last fiscal quarter.

Retail prices for many items in the basket of

goods and services were either subsidized or controlled or both. For example, in the case of poultry (where prices for feed inputs were subsidized and wholesale prices controlled) and imported fish (where the final goods were subsidized and the margins controlled) shortages caused substantial increases in prices. In cases where persons bargained freely for services such as Make-up and Repairs and Furniture Making, inflation was between 6.4 and 12.7 percent.

The marginal increase in Transportation (0.01 percent) is indicative of a high degree of competition among the providers of passenger transport for the consumers represented in the "basket". There are also prohibitions to passing on increased costs for insurance and repairs.

The 18.5 percent increase in the price of Footwear, where competitive market conditions should be most manifest, could have indicated that the official inflation rate is understated. But the 0.3 percent increase in Clothing Materials and the 4.6 percent for Other Household Supplies so obviously reflect the impact of non-tariffed imports being offered to consumers by many sellers that the case for free trade could not be any stronger.

### Changes in Weights in CPI "Basket"

Between the household expenditure surveys in 1972 and 1984, the percentage share of total expenditure in Food and Drink, Household Supplies, and Transportation increased. Their combined weights in the CPI moved from 63.27 to 71.42 at the expense of Clothing (down 3.08

TABLE 14

Quarterly Price Movements in the CPI at  
the Annual Rate of Change 1987, 1988

	Weight	1987				1988			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All Items	100.0	0.64	8.07	8.54	16.76	-0.32	1.03	2.74	5.18
Food and Drink	53.28	-0.64	9.91	10.60	23.36	-1.47	0.30	4.08	7.54
Fuel	5.13	-3.20	5.59	8.92	6.09	1.94	2.02	1.07	0.88
Housing	8.87	12.51	4.14	5.93	-3.36	-0.85	1.81	0.93	1.84
Household Furnishing	3.18	9.91	10.73	19.43	6.20	1.42	0.28	0.46	1.33
Clothing	8.15	3.73	13.78	-0.08	8.29	1.00	2.71	0.92	3.29
Personal Expenses	8.43	12.77	3.85	6.01	23.18	2.15	2.25	0.84	1.29
Transportation	4.86	-0.40	-0.20	-0.12	0.42	0.02	0.12	-0.16	0.03
Misc. Expenses	8.10	1.41	1.69	4.39	3.37	2.76	3.54	1.96	2.31

Source: STATIN

TABLE 15

## Group Weights from Household Expenditure Surveys

Category	1972	1984
Food and Drink	53.28	55.63
Household Supplies	5.13	7.35
Housing	8.87	7.86
Furniture and Furnishings	3.18	2.83
Personal Expenses	8.43	6.97
Clothing	8.15	5.07
Transportation	4.86	6.44
Miscellaneous Expenses	8.10	7.85

Source: STATIN

points) and Personal Expenses (down 1.46 points). Surprisingly the weight for Housing has decreased from 8.87 to 7.86. But most disturbing is the fact that though the last survey was completed in 1985 the results have not been brought on stream, thereby continuing the process of understating the rate of inflation. The GDP deflator is, therefore, a more comprehensive measure of inflation than the CPI and indicates that non-basket items are important in determining the overall movement of prices in the economy.

### Internal Factors Influencing Domestic Prices

Widespread damage to the agricultural sector resulted in a severe shortage of agricultural

produce immediately following the hurricane. The market dislocations and subsequent price effects generated by the hurricane have been intensified further by the following developments which occurred in the latter part of September:

- Insufficient imported food and building materials immediately following the disaster.
- The forced closure of the Jamaica Flour Mills resulting in the non-production of flour and its by-products.
- Panic buying by consumers/retailers creating an artificially large demand for food items as their perceptions of food shortages heightened.

Furthermore, the shortage of locally pro-

TABLE 16

## Availability Survey of Staple Items for Selected Parishes for period, 27-29 September 1988

Item	Kingston	St. James	St. Thomas
Corned Beef	G	G	G
Chicken	S	S	S
Cheese	S	G	S
Cooking oil - Imported	F	F	S
Cornmeal	F	G	F
Counter Flour	F	S	F
Kerosene Oil	S	S	S
Pickled Mackerel	S	S	S
Tinned Mackerel	S	F	F
Condensed Milk	S	S	S
Skimmed Milk	S	N/A	N/A
Rice	S	G	S
Salted Fish	S	S	S
Sardines	F	F	S
Sugar	F	G	F

Key: G - Good; F - Fair; S - Short

Source: Prices Commission and PSQJ

duced poultry occurred against the background of increased production and significant increases in demand, based to a large extent on its low price when compared to other meats. However, while the shortage of chicken meat did not directly influence the index – due to controlled prices – its unavailability must have led to shifts in demand and consequently higher prices for other meats and fish contained in the "basket".

Another catalyst to the upward movement in prices was the increase in the money supply which grew at a faster rate relative to 1987. This was enhanced by a mild relaxation of monetary policy in the first six months of the year. However, the inflationary impact of the growth in the monetary base, was contained to some extent, by liquidity controls of the Bank of Jamaica via the issue of Certificates of Deposit and local registered stocks by the Government.

Fiscal policies for 1988 were aimed at containing aggregate demand and hence, inflation through a continued reduction in the budget deficit. This was to be accomplished by raising revenue and reducing expenditure. However, given the widespread damage done by the hurricane to public buildings, the budget deficit targets are not likely to be met.

The Tariff Reform programme had a marginal but positive effect in reducing the upward pressures exerted on the CPI by the hitherto high duties payable on raw materials and capital goods. However the fall in duties on raw materials and capital goods, which served to reduce the overall production costs of the highly import-dependent productive sector and also reduced the landed duty paid prices to distributors, were not passed on to the consumers.

The 10 percent wage guideline also contributed to reduced inflationary pressures in 1988. This guideline acts as a constraint on demand pressures through limiting the amount of money made available to the wage earner and hence, for aggregate expenditure and effective demand. Moreover as a cost input in the production process it aids in the stabilization of final-good prices. However, this is valid only to the extent that they are not matched by productivity increases.

### **External Factors Influencing Prices**

Given the high import dependency, the

Jamaican economy is very sensitive to the economic performance of its trading partners. Among the main external factors that impacted on the CPI were comparatively low international oil prices and low to moderate inflation rates recorded by the country's main trading partners.

### **The CPI and the GDP Deflator**

The GDP deflator is an index which measures price changes for all goods and services produced in the country for a given period while the CPI measures changes in prices of a specific number of items comprising a consumer basket of purchases. Hence it can be said that the GDP deflator yields a more accurate estimate of the rate of inflation (given its comprehensive nature) than the CPI.

Between 1980 and 1982 the rates of increase in the CPI were above the rates of increase in the GDP deflator. Since 1983, the situation has been reversed. The GDP deflator is estimated to be 10.6 percent in 1988, approximately 1.8 percentage points higher than the 'official' inflation rate.

### **Outlook**

According to PSOJ estimates, inflation as measured by the CPI is expected to fall within the 8.5–9.5 percent range for fiscal year 1988/89. Allowing for replanting and a growing period of 10-15 weeks for short-term crops such as vegetables, it is expected that domestic crops production will have recovered to some extent by early 1989. The increase in the 'Food and Drink' index would then be contained, resulting in a slower rate of inflation. Oil prices are not expected to rise significantly in the near future largely due to the inability of the OPEC cartel to enforce stipulated production quotas.

For calendar 1989, however, the rate of inflation is expected to be upwards of 15 percent given the recently announced price increases. Furthermore, if there is a devaluation of the Jamaican dollar vis-a-vis the U.S. dollar, there will be further upward adjustment of the rate of inflation.

# 7. Energy

Imports of petroleum products moved from 12.85 to 13.09 million barrels in 1988. The increase of 2 percent in 1988 is consistent with the past performance, as since 1985 the annual percentage increase in the volume has varied between 2 and 3 percent. On the other hand, the value of imports has been declining since 1985. This is a result of over-production in the world market and the consequent fall in average oil prices from a high of US\$28.80 per barrel in 1984 to US\$15.10 in 1988. The value of fuel imports as a percentage of total imports has also

na sector declined by 4 percent to 3,325.41 million barrels in 1988. Annual consumption has been declining since 1985 and, as a percentage of Jamaica's fuel consumption, has moved from a high of 59 percent in 1985 to 37 percent in 1988.

In 1985 the government through the Petroleum Company of Jamaica Limited (Petcom), started marketing petroleum products to industrial users. Products included fuel oil, bunker fuel, asphalt and lubricants. Petcom's operations have expanded and in November

TABLE 17

## Imports of Petroleum Products 1984-1988

Item	1984	1985	1986	1987	1988	%age Change 1987/88
Volume (m.bbls) <sup>1</sup>	13.5	12.2	12.6	12.85	13.09	2
Value of Imports (US\$m)	395.1	330.6	191.9	224.1	198.70	(11)
Fuel Imports as a %age of Total Imports	33.0	29.0	20.0	15.3	10.8	(29)
Average price per Barrel (US\$)	28.8	27.1	15.23	17.6	15.10	(14)

<sup>1</sup> m.bbls - Million Barrels

Source: Ministry of Mining, Energy and Tourism

been declining, and in 1988 the percentage was 10.8 percent, which is the lowest share recorded in the last 5 years.

Consumption of petroleum products increased by 4 percent in 1988, with a total of 13.4 million barrels for all sectors except for bauxite and alumina. Fuel oil accounted for more than half of all petroleum product consumption, but the products which showed the greatest percentage increase in consumption were aviation gas, marine diesel oil, asphalt and kerosene.

Fuel consumption by the bauxite and alumi-

na sector declined by 4 percent to 3,325.41 million barrels in 1988. Annual consumption has been declining since 1985 and, as a percentage of Jamaica's fuel consumption, has moved from a high of 59 percent in 1985 to 37 percent in 1988.

## USE OF PETROLEUM PRODUCTS

Last year's 4 percent increase in consumption was below the 6 percent rise in 1987. The consumption of the various petroleum products is discussed in the following paragraphs.

TABLE 18

**Jamaica's Consumption of Petroleum Products – 1984–1988**  
(’000 Barrels)

Products	1984	1985	1986	1987	1988	%age Change 1987/88
Aviation Fuel	785	998	928	1,044	1,063	1.8
Aviation Gas	15	12	7	9	11	22.0
Turbo Fuel	770	986	921	1,035	1,052	1.6
Gasoline	1,545	1,504	1,569	1,682	1,764	4.8
Automotive Diesel	1,177	1,143	1,167	1,168	1,270	8.7
Marine Diesel	178	178	171	185	334	80.5
Asphalt	49	43	85	115	154	33.9
Kerosene	292	352	406	422	489	15.8
L.P.G. <sup>1</sup>	377	367	397	414	433	4.5
Fuel Oil	8,242	7,082	6,464	6,789	6,778	-0.1
Lubricants	65	66	69	77	84	9.0
<b>TOTAL</b>	<b>13,495</b>	<b>14,684</b>	<b>12,129</b>	<b>12,940</b>	<b>13,432</b>	<b>3.8</b>

<sup>1</sup> L.P.G. – Liquid Petroleum Gas

Source: Ministry of Mining, Energy and Tourism

## TRANSPORTATION

### Road Transportation

Fuel for the road transportation sub-sector consists of gasoline and automotive diesel products. Consumption of these products increased by 4.8 and 8.7 percent, respectively. Overall, the increases could be a direct result of the heightened activity in manufacturing, public and private transportation sectors, and an increase in the motor vehicle population.

### Air Transportation

A total of 1,063 thousand barrels of aviation fuel was used by this sub-sector in 1988, an increase of 2 percent over the 1987 level. Aviation fuel consists of aviation gas and turbo fuel. In the case of aviation gas, consumption moved up by 22 percent. Noteworthy is the 50 percent increase in the use of local aviation gas which indicates increased use of domestic carriers.

Turbo fuel consumption recorded a 1.6 percent increase in 1988, as compared with 12 percent increases for the years 1986 and 1987. The demand for this fuel is correlated to tourist arrivals and the number of international flights both of which declined in the months after hurricane Gilbert in September.

### Marine Transportation

Marine Diesel Oil consumption increased by over 80.5 percent to 334 thousand barrels in 1988. Since 1984, there has been an 88 percent increase in the use of fuel, which is attributed to the growth in the number of cruise ships which visit the island.

### Asphalt

Between the years 1986 and 1988, the average annual increase in the use of asphalt has been 33.9 percent. In 1988 a total of 154 thousand barrels was used compared with 115 thousand in 1987. The increased use is a result of the government's road construction and repair programmes.

## HOUSEHOLD SECTOR

To a large extent, consumption of both Liquid Petroleum Gas (LPG) and Kerosene Oil are reflective of the household sector's use for cooking and lighting. In 1988 consumption of LPG moved from 414 to 433 thousand barrels, a 5 percent increase over 1987, while kerosene consumption moved from 422 to 489 thousand barrels, a 16 percent increase.

Increased kerosene consumption may be

partly attributed to a switch from LPG which had a price increase in 1987. However, over the last three years the increase may also be attributed to the illegal practice of adulterating gasoline and auto-diesel with kerosene, which is not taxed and is therefore inexpensive when compared with gasoline and diesel fuels.

## MANUFACTURING

### Bauxite and Alumina

The sector's consumption of petroleum products declined by 4 percent to 3,325 thousand barrels in 1988. The sector's energy use as a percentage of national fuel consumption has declined sharply over the past four years, from 59 percent in 1985 to 37 percent in 1988. This level of consumption reflects, in the main, lower production in the sector, though some weight may also be allowed to efforts by the companies to improve energy efficiency.

### Other Manufacturing

This category includes the sugar companies and all other manufacturing not previously mentioned. Petroleum sales to the sector are used as a proxy for consumption. Fuel consumption registered a substantial increase of 28 percent over the 1987 levels, with a total of 280,400 barrels used in 1988. The increase could be attributed to either a slight increase in manufacturing output (despite loss of production because of the hurricane) or the inefficient use of fuel.

### JAMAICA PUBLIC SERVICE COMPANY LIMITED (JPS)

JPS fuel use was virtually unchanged in 1988 as 3,047 thousand barrels were used compared to 3,031 thousand in 1987. (Here, petroleum market sales are used as a proxy for consumption). The lack of growth is a result of the substantial damage to power lines and equipment estimated by the JPS at \$237 million.

TABLE 19

Fuel Consumption by Bauxite/Alumina Companies - 1985-1988  
('000 Barrels)

Product	1985	1986	1987	1988
Aviation Gas	0.53	0.57	0.47	0.54
Premium Gas	5.85	2.73	3.20	2.49
Automotive Diesel Oil	74.84	79.58	75.97	78.19
Marine Diesel Oil	61.84	63.93	76.71	80.68
Kerosene Oil	0.03	0.03	0.03	0.01
Fuel Oil - Bunker C	3,059.55	2,144.67	2,113.96	2,104.93
Fuel Oil - Low Vanadium	681.25	993.89	1,208.91	1,058.57
<b>TOTAL</b>	<b>3,883.89</b>	<b>3,225.40</b>	<b>3,479.25</b>	<b>3,325.41</b>
Bauxite Fuel Consumption as a %age of Jamaica's Fuel Consumption	59.0	42.0	40.0	37.0

Source: Ministry of Mining, Energy and Tourism

### Cement

In 1988 a total of 411 thousand barrels of petroleum products was used by the cement manufacturing company, representing a 7 percent increase as compared with the 25 percent increase in 1987. In October 1988 the company started operation of its coal conversion plant and it is expected that this will decrease petroleum consumption by at least 18 percent.

The company's sector sales for 1988 (Table 20) highlighted a decrease in sales. This is a result of the damage to power lines and reduced generating capacity. Unlike the other sectors in the last four years sales to government have declined by 14 percent. They have moved from 95,573 megawatt hours (mwh) in 1984 to 82,197 mwh in 1988. The decline has been attributed to the implementation of conservation programmes in this sector.

TABLE 20

**Jamaica Public Service (JPS)**  
**Electricity Sales by Category in Megawatt Hours (MWH)**

Category	1984	1985	1986	1987	1988
Residential	368,114	340,344	367,674	417,116	406,955
Government	95,573	97,928	88,421	89,999	82,197
Street Lighting	28,978	29,497	29,304	31,037	25,795
Industry – Small	520,735	516,426	555,697	636,654	620,534
– Large	142,378	154,007	171,576	163,927	145,888
Other	7,071	9,143	14,310	14,839	13,261
<b>TOTAL</b>	<b>1,162,795</b>	<b>1,147,345</b>	<b>1,226,982</b>	<b>1,353,572</b>	<b>1,294,630</b>

Source: Ministry of Mining, Energy and Tourism

The company also generates hydro-electric power (h.e.p.) and since 1984 output has moved from 82,410 to 101,161 mwh in 1988. Using the same period, h.e.p as a percentage of total power generated has varied between 5.7 and 6.0 per cent.

### Energy Conservation

A national energy conservation programme has been spearheaded by the Ministry of Mining and Energy for the past ten years. In addition to reducing simple waste by raising public awareness, the programme includes retrofitting and improved maintenance of energy-using equipment, training of energy auditors and technical personnel, and developing low-cost alternatives to oil.

An Energy Credit Fund was also established to provide loans for conservation measures. The Fund has made 14 loans totalling \$5.1 million to the private sector. However, the Fund is no longer in operation.

Some headway is reported in energy conservation but it is clear that gains have not been general throughout the economy. Improvements have been reported in the bauxite/alumina and cement industries and central government reports a 14 percent decrease in electricity usage. The use of solar water heaters and heat recovery from air conditioning systems appear to have had some success (up to 25 percent saving in energy use) in the tourism sector. The only major energy conservation projects reported in 1988 were the coal conversion plant at the cement company and an oil pre-heating system at the Petrojam refinery.

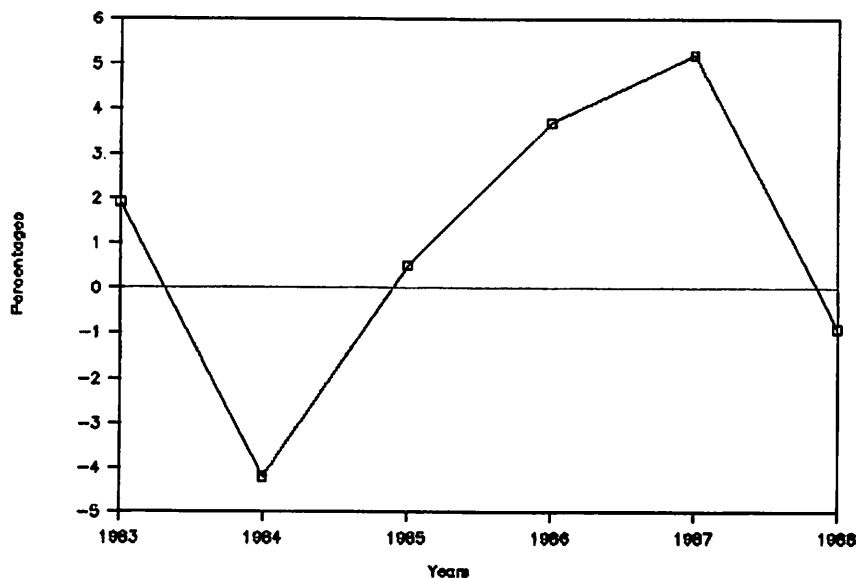
## 8. Manufacturing

The manufacturing sector recorded its first year of decline in 1988 after three consecutive years of growth. Preliminary estimates of manufacturing GDP indicate a decline of 0.9 percent owing to the widespread damage occasioned by hurricane Gilbert in September 1988. The sector was also adversely affected by competition from illicit imports and the illegal exports of marijuana in bona fide export shipments. However, the

- a) an increase of 42.5 percent in imports of non-fuel, non-bauxite raw materials for 1988;
- b) an increase of 42.5 percent in imports of capital goods;
- c) an increase of \$535.8 million in new JAMPRO supported investments in the sector for the year;
- d) the decline in the price of oil.

GRAPH V

Real Growth In Manufacturing  
1983-1988



most devastating factor was that created by the hurricane-damaged plant, machinery, raw materials and finished goods estimated at over \$600 million. The disruption of public utilities also stymied efforts to normalize production and exports for some time after the hurricane, thus abruptly retarding the growth in the sector for several weeks.

As a result, production in certain industries showed marked declines. For some industries which escaped damage, output grew significantly continuing the upturn which began previously.

Notwithstanding the foregoing, there were several positives in the manufacturing sector as shown by other leading indicators:

In light of the hurricane damage, it is most surprising that for 1988, total manufactured exports increased by 8.1 percent to US\$317.2 million. The indicators reflect a dynamic business outlook for the manufacturing sector in the medium term although it is expected that in the short-term the hurricane will continue to influence the performance in the sector.

Indeed significant reductions in output occurred in the production of flour (11.1 percent), condensed milk (14.5 percent), soap (21.9 percent), and tyres and tubes (19.5 percent).

Significant increases were recorded in the production of steel (3.7 percent), cement (21.1 percent), sugar (17.4 percent), and beer and stout (11.3 percent).

TABLE 21

**New JNIP Supported Projects Implemented in Manufacturing  
1987-1988**

Sector	1987		1988 <sub>p</sub>	
	No.	J\$M	No.	J\$M
Food Processing	4	14.83	4	.94
Textile & Seven Products	41	87.39	36	41.78
Chemicals & Chemical Products	3	19.40	1	.49
Furniture & Wood Products	3	7.40	4	15.18
Footwear	1	5.50	1	3.30
Electrical and Electronics	3	1.87	4	3.61
Printing and Publishing	—	—	1	10.25
Non-Metallic Minerals	2	4.78	1	605.00
Other Manufacturing	6	6.70	5	3.09
<b>TOTAL</b>	<b>63</b>	<b>147.87</b>	<b>57</b>	<b>683.64</b>

p - Preliminary

Source: Compiled from JAMPRO reports

TABLE 22

**Value of Exports from the Manufacturing Sector 1987-1988  
US\$Million**

Category	1987	1988 <sub>p</sub>	Percent Change 1988/1987
Non-Traditional	203.8	220.6	8.2
Processed Foods	19.1	19.1	.0
Beverages & Tobacco	22.7	22.6	-0.4
Mineral Fuels	13.6	17.3	27.2
Chemicals & Chemical Products	20.6	18.6	-9.7
Manufactured Goods	8.8	12.5	42.0
Machinery & Trans. Equipment	3.0	4.7	56.7
Miscellaneous Manufactures	116.0	125.8	8.4
Traditional	89.7	96.6	7.7
Sugar	73.8	74.4	0.8
Rum	10.9	12.0	17.4
Other Food Products	5.0	9.4	88.0
<b>TOTAL</b>	<b>293.5</b>	<b>317.2</b>	<b>8.1</b>

p Preliminary

Source: Compiled from data supplied by STATIN

**Food Processing**

The dislocation in the agricultural sector caused by hurricane Gilbert is reflected in the Food Processing sub-sector because of the linkages between manufacturing and agriculture. Hurricane damage to this sub-sector, in terms of

machinery and equipment has been estimated at J\$13.5 million. However, for the majority of companies in this sub-sector, which have an estimated marginal propensity to import of 0.8 or an import content of 80 percent, the dislocation will have a minimal effect.

In this regard, there were increases in the production of cornmeal (19.4 percent), edible fats (7.7 percent), and animal feeds (13.5 percent) over the previous calendar year. These industries were largely unaffected by the hurricane.

Among locally driven industries, there were several areas of decline. For example, immediately after the hurricane, poultry meat production fell from 1.2 million pounds per week to 400,000 pounds per week, a decline of 79.4 percent compared with the corresponding period of 1987. Hence, the production of poultry meat declined by 1.1 percent in calendar 1988 vis-a-vis 1987. The problems were exacerbated by the high demand for the product which is the least expensive source of animal protein on the domestic market. Hence, the unsatisfied demand had to be met by imports. Consequently, approximately 15 million pounds of whole chicken meat was imported between October and December to satisfy demand. There was also a decline of 14.5 percent in the production of condensed milk.

Furthermore, following the damage to the silos and subsequent closure of the Jamaica Flour Mills in September, operations resumed in December. The late start coupled with a significantly reduced productive capacity, resulted in an 11.1 percent decline in output for 1988.

However, there were increases in the production of sugar and molasses which grew by 17.4 percent and 20.5 percent respectively over the calendar year.

### **Beverages and Tobacco**

Production of aerated water declined by 6.3 percent relative to calendar year 1987. However, the upward trend in the production of beer and stout continued, culminating in an increase of 11.3 percent relative to 1987.

Cigarette production increased by 1.5 percent in 1988 vis-a-vis 1987. However, the decline in cigar production which began in mid-1987, continued through 1988. This sub-group declined by 15.3 percent relative to 1987. This is attributable to a contraction in demand for this product in traditional exports markets which form the major outlet for Jamaican cigars.

### **Chemicals and Chemical Products**

Performance in this sub-sector was mixed.

Fertilizer output recorded marginal growth of 0.6 percent in spite of a 71.0 percent increase in the final quarter, over the previous quarter.

The increase in fertilizer production in the final quarter is associated with an increased demand to carry out rehabilitation of major crops such as sugar cane, banana and coffee after the hurricane.

Protectionist measures imposed by Trinidad earlier in the year continued to have a negative effect on the production of tyres and tubes which decreased by 19.5 percent in 1988 relative to 1987.

### **Non-Metallic Mineral and Metal Products**

The products in this group (cement, steel, galvanized sheets, and aluminium sheets) are building materials. An earlier upturn in demand accelerated into a boom following the hurricane which caused widespread destruction to buildings. For 1988 there were increases of 21.2 percent and 33.7 percent in cement and steel production respectively.

### **Export Manufactures**

Provisional data on exports of manufactured commodities for 1988, indicate an increase of 8.1 percent to US\$317.2m compared with 1987. All categories of exports increased except Beverages and Tobacco, and Chemicals and Chemical Products which declined by 0.4 and 9.7 percent respectively. The major increases occurred in Other Food Products (88 percent), Manufactured Goods (42 percent), Machinery and Transport Equipment (56.7 percent), Mineral fuels (27.2 percent), and Rum (17.4 percent). Non-traditional manufactured exports accounted for 69.5 percent of the total, with traditional exports, including sugar and rum, accounting for the remainder. Miscellaneous Manufacture – mainly apparel exports – increased by 8.4 percent, thereby becoming one of the driving forces behind the increase in non-traditional exports.

Non-traditional exports for the year amounted to US\$220.6 million while traditional manufacturing exports amounted to US\$96.6 million, resulting in total manufactured exports of US\$317.2 million. In 1988, Jamaica's apparel exports were estimated at US\$9.3 million – up from US\$2.2 million in 1987.

TABLE 23

**Non-Traditional Manufactured Exports, 1983-1988**  
(US\$ Million)

SITC Sections	1983	1984	1985	1986	1987	1988 <sub>p</sub>	1988/1987
Processed Foods	17.0	20.0	19.2	18.4	19.1	19.1	.0
Beverages & Tobacco	24.6	20.0	19.6	19.3	22.7	22.6	-0.4
Mineral Fuels	24.1	18.6	27.9	18.0	13.6	17.3	27.2
Chemicals	21.6	17.9	16.9	15.7	20.6	18.6	-9.7
Manufactured Goods	15.0	11.1	7.7	7.4	8.8	12.5	42.0
Machinery & Trans. Equipment	5.3	2.8	2.8	2.3	3.0	4.7	56.7
Miscellaneous Manufactures	30.9	45.7	46.2	63.9	116.0	125.8	8.4
<b>TOTAL</b>	<b>138.5</b>	<b>136.1</b>	<b>140.3</b>	<b>145.0</b>	<b>203.8</b>	<b>220.6</b>	<b>8.2</b>

p - Preliminary

Source: Compiled from data supplied by STATIN

**Non-Traditional Manufactured Exports  
to Third Countries**

The expansion of non-traditional exports to Third Country markets continues to be a major economic objective in the drive to increase the economy's foreign exchange earnings. Non-traditional exports to third countries increased by

**Non-Traditional Manufactured Exports  
to CARICOM**

Exports of non-traditional manufactured commodities to CARICOM increased by 25.6 percent to US\$55 million in 1988 relative to 1987. The major increases occurred in mineral fuels (89.3 percent), manufactured goods (82.1

TABLE 24

**Non-Traditional Manufactured Exports to Third Countries (1983-1988)**  
(US\$ Million)

SITC Sections	1983	1984	1985	1986	1987	1988 <sub>p</sub>	Percent Change 1988/1987
Processed Foods	5.5	5.6	13.5	11.1	11.3	10.1	(10.6)
Beverages & Tobacco	12.1	8.5	15.0	14.5	17.7	17.2	(2.8)
Mineral Fuels	14.1	16.2	25.3	14.7	10.8	12.0	11.1
Chemicals	3.6	4.1	5.0	3.9	7.7	4.7	(39.0)
Manufactured Goods	1.3	0.9	1.7	2.1	3.2	2.3	(28.1)
Machinery & Trans. Equipment	0.1	0.4	1.4	0.9	1.4	2.0	42.9
Miscellaneous Manufactures	10.7	33.1	39.2	56.8	107.9	117.3	8.7
<b>TOTAL</b>	<b>47.4</b>	<b>68.8</b>	<b>101.1</b>	<b>104.0</b>	<b>160.0</b>	<b>165.6</b>	<b>3.5</b>

p - Preliminary

Source: Compiled from data received from STATIN

3.5 percent to US\$165.6 million. The two most significant increases in this category occurred in machinery and transport equipment (42.9 percent) and mineral fuels (11.1 percent). Between 1983 and 1987, exports to these destinations increased by 349.3 percent.

percent), and machinery and transport equipment (68.8 percent). Non-traditional exports to this destination have declined concurrently with the increase in exports to third countries, between 1983 and 1988 non-traditional exports to CARICOM declined by 39.6 percent. The rel-

TABLE 25

**Non-Traditional Manufactured Exports to CARICOM (1983-1988)**  
(US\$ Million)

SITC Sections	1983	1984	1985	1986	1987	1988 <sub>p</sub>	1988/1987
Processed Foods	11.5	14.4	5.7	7.3	7.8	9.0	15.4
Beverages & Tobacco	12.5	11.5	4.6	4.8	5.0	5.4	8.0
Mineral Fuels	10.0	2.4	2.6	3.3	2.8	5.3	89.3
Chemicals	18.0	13.8	11.9	11.0	12.9	13.9	7.8
Manufactured Goods	13.7	10.2	6.0	5.3	5.6	10.2	82.1
machinery & Trans. Equipment	5.2	2.4	1.4	1.4	1.6	2.7	68.8
Miscellaneous Manufactures	20.2	12.6	7.0	7.1	8.1	8.5	4.9
<b>TOTAL</b>	<b>91.1</b>	<b>67.3</b>	<b>39.2</b>	<b>41.0</b>	<b>43.8</b>	<b>55.0</b>	<b>25.6</b>

p - Preliminary

Source: Compiled from data received from STATIN

ative share of CARICOM exports in total non-traditional manufactured exports declined from 65.8 percent in 1983 to 17.3 percent in 1988. However, it is instructive to note that the decline of Jamaica's exports to CARICOM has been influenced by protectionist measures adopted by some member states, as well as the increased emphasis placed on exports to third countries by the Jamaican government.

### Recent Developments

As part of Tariff Reform within the Structural Adjustment Programme, customs and stamp duties on capital goods (excluding motor vehicles) were reduced to a maximum aggregate of 20 percent of c.i.f. Where customs duty exceeds 20 percent the aggregate rate will be set at the CARICOM agreed rate.

Manufacturing producer goods which attract these benefits include: knitting machinery, industrial sewing machines, boot and shoe machinery, sewing machines, tools for wood-work, machines for treating wood, glass work-

ing machines, machines for rubber industry, etc.

The reduction of duties on capital goods used by the sector, in tandem with the export tax rebate scheme, should reduce costs in the sector and render it more competitive.

### Outlook

In the light of the dislocations caused by the hurricane, the 7 percent real growth in manufacturing value-added which was previously forecast is expected to decline by 0.9 percent.

The outlook for 1989 is, however, bright. Indeed, the tariff reform programme in conjunction with the associated import duty rebate scheme, the expected rationalization of all indirect domestic taxes (with the introduction of the GCT) and the revised corporate income tax should provide a significant impetus to export-oriented local manufacturing. This should, *ceteris paribus*, be reflected in a 4-5 percent real growth in manufacturing GDP for calendar 1989.



# 9. Mining

Largely because of production losses from the hurricane, total shipments of crude and processed bauxite for 1988 decreased by 3.3 percent over 1987 with a total of 7,048 thousand tonnes. Despite the decline, total foreign exchange earnings increased by 5.6 percent to US\$229.9 million, a result of the high world prices for aluminium, from which demand and price levels for bauxite and alumina are largely derived.

Alumina production dropped 5.9 percent from 1,609 in 1987 to 1,514 thousand tonnes in 1988. Exports increased slightly by 3.4 thousand tonnes with total shipments being 1,575.5 thousand tonnes. Crude bauxite production declined by 4.2 percent in 1988, moving from 7,697 to 7,370 thousand tonnes. Exports which moved from 3,711 to 3,494.4 thousand tonnes, a decline of 5.8 percent.

Industrial minerals output moved from 5,837.23 in 1987 to 5,963.58 thousand tonnes in 1988, an increase of 2.1 percent. Declines in production were recorded for gypsum, limestone (aggregate), and silica sands. On the other hand, marble production increased substantially by over 400 percent, while lesser increases were recorded for marl and fill, and sand and gravel.

## Western World Overview

During 1988 the consumption of primary aluminium by "Western" World countries totalled 14 million tonnes, an increase of 3.1 percent over the 1987 level. (See Table 26) Noteworthy was the increase in aluminium consumption by the following countries: Japan – 9.8 percent, Italy – 4 percent, and the United Kingdom – 6 percent. Aluminium Analysis<sup>1</sup> attributes the increase to the 5.4 percent growth in the world's economy in 1988 which in turn resulted in higher levels of investment and greater productivity. However, the growth of consumption was restricted by high metal prices.

The cash price of aluminium on the London Metals Exchange (LME) varied from a high of 164.9 cents per pound in June to a low of 91.3 cents in January. The average price for the year was 117.33 cents, which was 65 percent higher than the average for 1987. Expressed in tonnes, the world average price for aluminium was US\$1,957 per tonne or 25 percent higher than the 1987 price. The continued increase in demand for aluminium on the world market has put pressure on existing supplies and the capaci-

TABLE 26

Western World Primary Aluminium Consumption 1984-1988 ('000 Tonnes)					
Country	1984	1985	1986	1987	1988
United States	4,573	4,282	4,317	4,536	4,602
Japan	1,772	1,783	1,805	1,750	1,923
France	579	586	593	616	622
Germany, West	1,152	1,158	1,187	1,186	1,223
Italy	438	470	510	548	572
United Kingdom	369	350	389	384	408
1) Other	3,631	4,004	4,182	4,631	4,723
TOTAL	12,514	12,633	12,983	13,651	14,073

1) Refers to non-socialist world but including Yugoslavia

Source: CRU – Metal Monitor

<sup>1</sup> Anthony Bird and Associates, Aluminium Analysis #40, January 1989, United Kingdom.

ty of mills and fabricators.

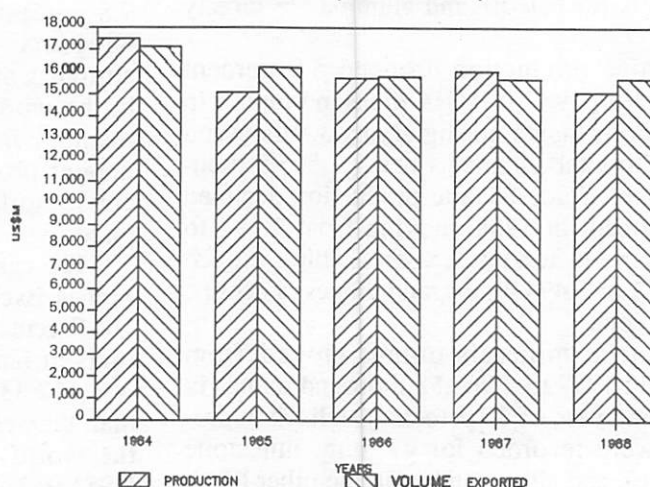
In 1988, world smelter capacity utilization was estimated by Aluminium Analysis<sup>2</sup> to be 98 percent compared to 77 percent in 1985. Locally, the buoyancy of demand has resulted in the signing of agreements to re-open the alumina refinery at Alpart. Under the new agreement, Kaiser will own 75 percent and Hydro-Aluminium of Norway the other 25 percent. The

remain below the 1983 levels of 1,851 and 1,907 thousand tonnes respectively. While hurricane disruption was minimal compared to other sectors, the JBI estimates production loss of crude bauxite and alumina to be 73,000 tonnes. Some of the decline in exports could also be attributed to the disagreement over prices resulting in delays in shipments to the Soviet Union.

North America and Western Europe contin-

GRAPH VI

Alumina Production and Exports  
1984-1988 ('000 Tonnes)



government's Bauxite Alumina Trading Company (BATCO) signed a new marketing agreement with China in 1988 to supply 50,000 tonnes of alumina, which is less than the amount requested. This should increase production and exports in 1989.

### Bauxite and Alumina Production and Exports

Both production and exports of alumina

ue to be the main markets for Jamaica's alumina. In 1988, shipments to North America increased by 12.5 percent while those to Europe declined by 12.2 percent. Details of shipments are outlined in Table 28. The increased sales to North America could be a result of their decreasing stockpiles and the general shortage of aluminium worldwide.

During 1988, inventories of crude bauxite declined by 34 percent to a total of 74,158

TABLE 27

Crude Bauxite Production and Exports  
1984-1988 ('000 Tonnes)

Year	Crude Production	Crude Exports	Processed Locally	Total Shipments
1984	8,621	4,559.0	4,176.0	8,735.0
1985	6,238	2,325.0	3,914.0	6,240.0
1986	6,953	2,939.0	4,025.0	6,964.0
1987	7,697	3,711.0	3,948.5	7,659.5
1988	7,370	3,494.4	3,914.0	7,408.4

Source: Jamaica Bauxite Institute

<sup>2</sup> Aluminum Analysis - op. cit.

tonnes. Alumina inventories also recorded a similar percentage decline (34.6). At the end of 1988 they amounted to 85,602 tonnes. A review of quarterly inventory statistics highlighted a marked decline in the amount in the quarter after hurricane Gilbert.

### Foreign Exchange Earnings

Despite the decline in exports, foreign exchange earnings from the sector increased by an estimated 5.6 percent in 1988 to US\$229.9 million. From Table 28, earnings from the levy and exports increased by 7 and 5 percent, respectively, while royalty contribution to the sector's earnings remained the same in 1988. In the case of foreign exchange earnings, high prices in the world market have resulted in the

those for constructing the red mud lake, but the long term benefits, namely, less land-use, storage and possibilities for re-use, make this method cheaper.

Research continues on uses for the red mud waste. The uses include road building, land fill and construction bricks. To this end, tests continued to determine the level of radio-activity of the red mud. Another potential use is recovering trace elements, such as gallium, which are used in the electronics industry.

### Industrial Minerals

The total production of industrial minerals increased by 2 percent to 5,963.58 thousand tones in 1988. Output of gypsum, limestone aggregate, and silica sands declined. The

TABLE 28  
Foreign Exchange Earnings  
1984-1988  
(US\$M)

Year	Categories			
	Levy	Forex <sup>1</sup>	Royalty	Total
1984	127.5	108.1	4.3	239.9
1985	68.4	70.6	2.9	142.0
1986	72.1	101.1	3.4	176.5
1987	96.5	117.6	3.6	217.7
1988p	102.9	123.4	3.6	229.9

1 - Foreign Exchange

p - Provisional

Source: Jamaica Bauxite Institute

increase. However, levy and royalty earnings remained below the 1984 levels.

### Developments in Red Mud Use

Over the years, waste disposal - red mud waste in particular - has been a controversial issue in the industry. Dry mud stacking has been started by Alcan at its Ewarton Works as an alternative to existing red mud lakes which contaminate ground water. Under this process, the mud is dried and then stored in sheets at the dry stacking site for periods of up to 40 years. The initial costs of construction are the same as

declines are attributed to the hurricane which either made areas inaccessible or disrupted electricity supplies needed to process the minerals.

### Gypsum

Production in 1988 totalled 145 thousand tonnes which was 31 thousand tonnes less than the output in 1987. Consequently, exports to Caribbean countries which have been the main market, also declined. A total of 85,579 thousand tonnes was exported, 28.8 percent less than the previous year. Consequently, earnings in 1988 totalled US\$599,033 which was 29 percent

**TABLE 29**  
**Production of Industrial Minerals 1984 – 1988**  
(‘000 tonnes)

Mineral	1984	1985	1986	1987	1988
Gypsum	180.20	179.00	117.00	176.30	145.26
Limestone (Aggregate)	a	1950.00	1,960.00	2,150.00	2,100.00
Marble	0.37	0.05	0.20	0.50	2.66
Marl and Fill	3,200.00	2,300.00	2,600.00	2,800.00	2,900.00
Sand and Gravel	345.00	555.00	610.00	680.00	800.00
Silica Sands	14.00	16.00	13.10	19.93	15.66
Whiting	—	—	—	6.00	—
<b>TOTAL</b>	<b>3,739.57</b>	<b>5,000.05</b>	<b>5,300.3</b>	<b>5,837.23</b>	<b>5,963.58</b>

a – included in 1984 marl and fill figure.

Source: Mines & Quarries Division, Ministry of Mining

less than the previous year.

### Limestone (Aggregate)

Production declined by 2.3 percent resulting in an output of 2,100 thousand tonnes in 1988. Exports fell from 104.21 in 1987 to 38 thousand tonnes in 1988. Consequently, foreign exchange earnings in 1988 totalled US\$146,909, a decline of 67 percent.

### Marble

Marble production increased by 432 percent to 2.66 thousand tonnes in 1988. This is attributed to the increase in the use of marble for manufacture of tiles, wall cladding and other marble products.

The commercial production of marble received a boost with the addition of a new cutting machine at the Geological Surveys Division and at a site in Montego Bay. This will also increase the potential for exports of marble from Jamaica.

### Marl and Fill

Marl and fill production increased by 4 percent to 2,900 thousand tonnes in 1988. The constant increase in production since 1986 is attributed to the increase in the number of road improvement programmes undertaken by government and the increased demand for fill for other construction projects.

### Sand and Gravel

There has been a continuous increase in the mining of sand and gravel since 1985, with a total of 800 thousand tonnes being mined in 1988. The increase in mining is a direct result of the increase in the level of construction activities. Controversy surrounds sand mining, however, because of the undermining of land and river banks and other forms of environmental damage. Consequently, quarrying policies are under review and stricter control of quarrying permits and site inspection have been called for.

### Silica Sand

The quality of silica sand quarried in 1988 decreased by 21 percent to 15.66 thousand tonnes. The substantial increase in production in 1987 (52 percent over the 1986 level) was attributed to stockpiling and the increase in local production of glass.

### Whiting

Several foreign firms are examining the feasibility of establishing mines to produce whiting for export. The product is used in industries such as paint, paper and pharmaceuticals. No production figures were available for 1988 but 6 thousand tons were produced in 1987.

### Other Minerals

As a result of geo-chemical surveys and

analyses a number of companies are conducting preliminary surveys on the feasibility of gold mining. Exploration continued in 1988 to determine whatever extraction would be commercially viable.

## **OUTLOOK**

### **Bauxite and Alumina**

The outlook for the local bauxite/alumina industry seems promising given the re-negotiation of the Soviet contract, other government sales agreements and the new levy structure which has been arrived at after negotiation between the government and aluminium companies. The tax regime added to the buoyancy of world demand have resulted in the re-opening of Alpart and the re-activation of a digester unit at Alcan's Ewarton plant.

Internationally, aluminium consumption is expected to increase by 1.5 percent in 1989. Marginal growth is a result of competition from its substitutes, such as steel, ethylene and composite materials. However, the building of new smelters and the re-activation of closed plants will increase supplies. Analysts do not, however, expect another cyclical downturn in the world aluminium industry before 1992.

### **Industrial Minerals**

The enforcement of mining regulations and monitoring will result in the closure of a number of illegal sand and gravel mining operations. This is expected to decrease supplies and, by extension, increase prices.

In the case of other industrial minerals, it is estimated that output will exceed the 1988 levels by at least 20 percent.



# 10. Tourism

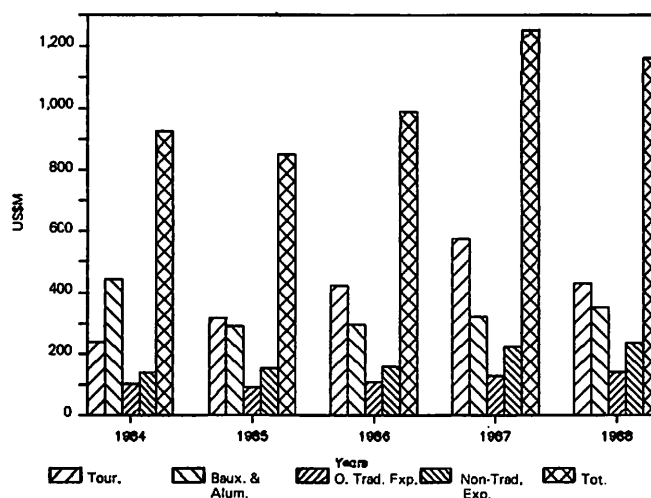
In 1988, actual foreign exchange receipts from tourism declined to US\$433.29 million, which was US\$93.81 million less than the sum earned in 1987. Despite the decline, as seen in Graph VII, the sector's earnings continued to exceed those from bauxite and agriculture.

due to hurricane Gilbert.

Gross visitor expenditure totalled US\$525.00 million, which was 11.7 percent below the comparable figure for 1987. While average expenditure of stop-over visitors remained virtually unchanged at US\$77.00 per

GRAPH VII

Foreign Exchange Earnings (US\$ Million)



To a large extent the decline in earnings was a result of two factors, namely, a sharp drop in stop-over visitors, which was accelerated by the damage to and subsequent closure of properties

night compared with US\$77.50 in 1987, the average expenditure for cruise ship passengers increased by US\$2.00 to US\$50.50 per person. Despite the increase, expenditure levels

TABLE 30

Estimated Visitor Expenditure 1984-1988								
Expenditure Per Person (US\$)							Estimate of Visitor Expenditure US\$M	% Change Over Previous Year
Stop-Overs (Per Night)				Cruise Passengers				
Year	Winter	Summer	Average	Winter	Summer	Average		
1984	81	67	74.0	55	48	51.5	406.6	+ 1.9
1985	76	66	71.0	49	49	49.0	406.8	+ 0.1
1986	75	85	80.0	49	58	53.5	516.0	+26.8
1987	79	76	77.5	44	53	48.5	594.9	+16.2
1988p	78	76	77.0	52	49	50.5	525.0	-11.7

p - Provisional  
Source: Jamaica Tourist Board

TABLE 31

Visitor Arrivals – 1984 – 1988						
Category of Visitors	1984	1985	1986	1987	1988p	% Change 1988/ 1987
Stop-Over Visitors	604,436	571,713	663,593	738,827	648,873	-12.2
Cruise Ship Passengers	231,089	261,508	278,507	292,156	367,552	+25.8
Armed Forces	9,299	13,495	12,521	6,651	3,678	-44.7
TOTAL	843,774	846,716	954,621	1,037,634	1,020,103	-1.7
Average Length of Stay (Nights)	9.3	9.8	10.2	10.2	10.4	10.3

p – Provisional

Source: Jamaica Tourist Board

remained below the 1986 levels.

### Visitor Arrivals

A total of 1,020,103 persons visited the island in 1988. This was 1.7 percent below the number in 1987. Stop-over visitors and armed forces visitors declined by 12.2 percent and 44.7 percent, respectively. On the other hand, cruise ship passenger arrivals increased by 25.8 percent over the same period, indicating that this group was not affected by the hurricane.

North America continues to be the main source of our stop-over visitors and in 1988 visitors from the United States and Canada were 71 and 14.3 percent, respectively, of total arrivals.

The proportions by country of origin have been shifting however. Stop-overs from the United States have been declining steadily from 77.5 percent in 1984 to 71.0 in 1988, (see Table 32) while visitors from Europe have moved from 5.3 percent in 1984 to 10.8 percent of total stop-overs in 1988. The strengthening of European currencies against the US dollar in recent years is probably the chief underlying factor, and the trend has encouraged a revival of marketing efforts in western Europe.

The Caribbean Tourism Research Centre's (CRTC) review of the European market indicates that further growth of European visitors to some parts of the Caribbean can be expected. Given this trend, the results of the Visitor

TABLE 32

Stop-Over Visitors by Country of Origin – 1984–1988 by Percentage					
Country of Origin	1984	1985	1986	1987	1988
United States of America	77.5	75.8	74.5	73.8	71.0
Canada	13.1	14.4	15.2	14.9	14.3
United Kingdom	3.3	3.8	4.5	4.8	6.8
Other European Countries	2.0	1.7	1.8	3.1	4.0
Commonwealth Caribbean	2.3	2.5	2.3	2.0	—
Latin America	0.8	0.8	0.9	0.8	0.9
Other	1.0	1.0	0.8	0.6	3.0

Source: Jamaica Tourist Board

Satisfaction Survey<sup>1</sup> conducted by the Jamaica Tourist Board should be noted, as Europeans have shown a distinct preference for small hotels. Apart from the general desirability of market diversification, the value of European tourists is disproportionate to their numbers because of their greater length of stay. Continued expansion will, however, depend on better air links, increased promotion and 'product' design tailored for the market.

## HOTEL ROOM OCCUPANCY

The closures and damage to properties adversely affected hotel room occupancy levels. The average level for the island in 1988 was 49.1 percent compared with 61.7 percent in 1987. Negril was the only resort area to maintain an average occupancy level of over 60 percent. Kingston's occupancy levels increased by

to complete repairs in time to meet the start of the 1988-89 winter tourist season on December 15.

## Investment

Using commercial bank loans and advances as an indicator of the level of private sector investment, in 1988 loans and advances to the sector were approximately J\$451 million, an increase of 40 percent over the previous year. This resulted in the construction of 530 new rooms, 6 percent more than the number built in 1987. The largest number of new rooms, 6 percent more than the number built in 1987. The largest number of new rooms were built in Negril (312), followed by Ocho Rios (121), Port Antonio (80), Kingston (7) and Clarendon (10). At the end of 1988, 2,043 rooms were under construction and it is expected that 262 will be completed by June 1989. Estimated completions

TABLE 33

Hotel Room Occupancy - 1984-1988 (Percentage)					
Area	1984	1985	1986	1987	1988p
Kingston & St. Andrew	49.8	36.2	34.6	40.4	49.2
Montego Bay	61.0	52.2	61.2	66.6	46.3
Ocho Rios	65.8	57.7	62.2	66.0	49.5
Port Antonio	23.6	24.9	28.5	38.1	23.3
Mandeville	35.2	24.5	35.2	33.4	28.9
Negril	74.8	69.2	74.2	68.5	64.9
Jamaica - Average	60.4	51.6	57.0	61.7	49.1

p - Provisional

Source: Jamaica Tourist Board

22 percent, perhaps a result of the capital being the hub of activity after the hurricane.

## Hurricane Damage

Properties affected by hurricane damage were mainly in the parishes of St. Mary, St. James, and St. Ann. It is estimated that 1,748 or 30 percent of the hotel rooms in these parishes were affected. The total value of hotel damage islandwide was put at J\$300 million. Most hoteliers used the reconstruction exercise as an opportunity to refurbish and re-design their facilities. Despite the closures, lay-offs were minimal as staff was used in the clean-up and reconstruction exercise. Most hotels were able

by year-end 1989 are 1,215.

Estimated public sector expenditure for the fiscal year 1988/89 increased by 55 percent to J\$247.46 million. Post-hurricane advertising campaigns substantially increased the capital estimates which moved to \$245.3 million, a 56 percent increase over the previous estimates.

## The Environment

As an activity tourism is in a dilemma. Given its economic importance expansion is highly desirable; however, the human and physical impact threatens the coastal environment on which the ultimate viability of the industry depends. The most important problems are

sewage disposal, which threatens the marine line and integrity of the beaches, beach front constructions which may result in beach erosion, and water sport and other activities which may destroy the coral reefs. While some trade-off is inevitable, properly planned and adequately funded schemes are essential for water supply, sewage disposal and other infrastructure. Both short and long-term considerations must be given equal weight as must mechanisms for enforcement of regulations governing activities.

The future and viability of tourism depends on a pollution-free environment and the conservation of our natural resources.

### Regional Overview

In 1988 tourist arrivals in the Caribbean region exceeded 10 million, an increase of 3.5 percent above the 1987 level. Four destinations increased their arrivals by over 15 percent: Anguilla, Aruba, Guadeloupe, and Turks and Caicos Islands. Jamaica's arrivals declined 1.7 percent.

The CRTC notes that destinations in the region which recorded more than 350,000 visitors during 1988 were Puerto Rico, St. Maarten, the U.S. Virgin Islands, Jamaica, Dominican Republic and the Bahamas.

Visitors from the United States to the region have been declining. One factor suggested is the increased attractiveness of other destinations – including domestic US resort areas. Despite this the CTRC's forecast indicates that there will be an increase of about 4 percent in visitor arrivals to the Caribbean for the winter '88 season. This will be 1 percent less than the previous season's performance.

### Development Trends

The following are some of the factors which will influence the future of tourism in the region:

- i) Increased competition from new destinations both within the region (e.g. Trinidad, Costa Rica) and outside.
- ii) Changing consumer demographics resulting in new market segment groups such as the elderly, women, the disabled – all of whom have different interests and incomes.
- iii) Changing consumer tastes (e.g. the de-emphasis on beaches per se).
- iv) Increased leisure time.
- v) Growth in income available for travel.
- vi) Deregulation of the airline industry and development of new information technologies.
- vii) Europe becoming a single market in 1992.

Jamaica's tourism industry has long been performing below its real potential for reasons which are to some degree internal but more for reasons outside the control of business people in the sector. Given the economy's need for significant improvement in foreign earnings, and the intensifying competition – regional and worldwide – radical improvements are required in policies and strategies to realize the potential for the sector.

The needed improvements go well beyond increased promotion and accommodation. Infrastructure, product design, marketing, transport and personnel training are all imperatives as are environmental protection and enhancement, and the development of attractions – natural, cultural and "commercial." The future dictates that we clearly define and develop our product(s) and markets in order to remain competitive.