



# **Annual Report On The Jamaican Economy**

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## **1989**

# PSOJ Publications

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Title	Published
Jamaican Economy Review 1984	1985
Jamaican Economy Review 1985	1985
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Jamaican Economy Review 1988	1989
A Policy Framework for Economic <i>Development in Jamaica</i>	1985
Economic Analysis & Public Policy I <i>Foreign Trade Policy</i>	1986
Economic Analysis & Public Policy II <i>The Role of Government in the Jamaican Economy</i>	1987
Economic Analysis & Public Policy III <i>Exchange Rate Policy for Economic Growth &amp; Development</i>	1987
Economic Analysis & Public Policy IV <i>Why the JCTC should be dismantled</i>	1989

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# OVERVIEW

The Jamaican economy recorded growth of 4.6 percent for calendar year 1989. However the official statistics tends to understate the state of crisis within the economy. The simple fact is that the economy rests on a collapsing foundation which has been concealed somewhat by the transient hurricane inflows. The overall performance of the economy was influenced by;

- a) a crisis of confidence borne out of a change of administration in February 1989. This manifested itself in a high level of speculative demand which culminated in a steady deterioration in the parity of the Jamaican dollar vis-a-vis the US dollar;
- b) the absence of an IMF agreement for the last quarter of the year which exacerbated the problems related to external debt;
- c) the introduction of credit ceilings and increased interest rates;
- d) substantial increases in prices of food items as a result of the devaluations, as well as the removal of subsidies and price controls on some items;
- e) a deterioration in the external accounts.

With regards to 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.

On the fiscal side, the Government's financial operations resulted in an overall fiscal surplus (net of amortization) of \$1,049.4m or 4.5 percent of GDP in 1989/90. Debt servicing amounted to 24.8 percent of total expenditure. This is attributable to the absence of agreements with external funding agencies for the last quarter of the calendar year.

The rate of inflation on a point-to-point basis for calendar year 1989 was determined to be 17.2 percent, surpassing the targeted 8.0 percent. This is attributable to the stringent monetary policy stance of the govern-

ment coupled with the widespread deregulation of food prices.

On the external accounts there was a widening of the deficit on the merchandise accounts and a significant deterioration of the current account balance to minus US\$597.0m and minus US\$233.1m respectively. Even so the extraordinarily high levels of hurricane related transfers has led to an understating of the crisis on the external accounts. Nevertheless the reserve position deteriorated by US\$152.1m.

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.

# GROSS DOMESTIC PRODUCT

Gross Domestic Product in current prices is preliminarily established at \$22,314.9 million in calendar year 1989, an increase of 19.0 percent. over the \$18,748.0 million recorded in 1988. Adjusting to eliminate the effect of price changes, the movement was from \$2,012.6 million to \$2,104.4 million, an increase in real terms of 4.6 percent. In real terms, this is the highest GDP level since 1976.

This outcome is posited on continuing demand restraint and fiscal tightening, consistent with the growth targets, but, most important, consistent with the targeted balance-of-payments improvement. Economic policies pursued during 1989 were influenced at the macro-economic level by:

- 1) the incidence of a major hurricane in September 1988;
- 2) the continuation of stringent stabilization policies.

At the micro-economic level, the policy framework manifested itself in:

- 1) a suspension of the foreign exchange auction regime;
- 2) two successive devaluations which culminated in an 18.2% depreciation of the currency from J\$5.50 = US\$1 to J\$6.50 = US\$1;
- 3) institution of credit ceilings;
- 4) increases in interest rates;
- 5) increased use of open market operations.

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 Government's 5-year Development Plan which was tabled in parliament during the 1990/91 budget presentation. This, however, is dependent on how effectively these external resources are used.

## Statistical Problems

The PSOJ has no facilities to conduct a survey of the type required to calculate GDP, nevertheless, we have some reservations about the validity of the proffered estimates. We are hard pressed to understand how in a year marked by two devaluations, credit ceilings, excessively high interest rates, and increases in taxes, the economy experienced the second highest growth rate in nearly twenty years.

Perhaps the higher than expected growth rates in our national accounts stem from an understating of the economy's performance in 1988. Though the hurricane-related re-insurance inflows were accounted for in the balance of payments accounts, they were not included in the calculation of Gross Domestic Product for 1988. Had this element been added, the category of net exports of goods and services would have been increased, thereby yielding a higher growth rate in GDP for 1988, in which case the growth rate for 1989 would have been reduced.

TABLE 1

## *Selected Aggregates (1985-1989)*

J\$ Million

	1985r	1986r	1987r	1988r	1989p
Gross Domestic Product (Current Values)	11,151.0	13,310.1	15,717.4	17,471.8	22,314.9
Percentage Change	19.2	19.4	18.1	9.3	19.0
Gross Domestic Product (Constant Values)	1,835.3	1,870.0	1,967.5	1,977.3	2,104.4
Percentage Change	-4.7	1.9	5.2	0.5	4.6

SOURCE: Statistical Institute of Jamaica



**TABLE 2** *GDP by Sector (1985-1989) (Constant Prices)*  
(\$million)

	1985r	1986r	1987r	1988r	1989p
Agriculture, Forestry & Fishing	163.7	160.3	168.6	159.5	152.7
Mining and Quarrying	95.4	101.6	106.6	101.6	140.1
Manufacturing	299.0	306.1	325.3	331.8	355.2
Construction and Installation	104.3	107.4	122.3	140.3	167.4
Services (Net)*	1,173.7	1,191.8	1,260.6	1,279.4	1,289.0
GDP at Constant Prices	1,836.1	1,867.2	1,983.4	2,012.6	2,104.4

\* Net services already exclude Imputed Service charges

SOURCE: Statistical Institute of Jamaica and PSOJ Staff estimates

### Sectoral Performance

According to official statistics, the Agriculture, Forestry & Fishing sector declined by 4.3 percent in 1989, following a 5.4 percent decline in 1988. Export agriculture fell by 0.6 percent with all the major export crops except bananas recording lower levels of output in 1989. Banana production increased by 10.7 percent, while plantains declined by 62.1 percent. Coffee and cocoa declined by 55.2 percent and 10.6 percent respectively. Domestic agriculture declined by 13.6 percent, owing to the protracted post-hurricane rehabilitative

process as well as drought. Significant declines were recorded for Root Crops (15.6 percent), Horticulture (35.6 percent) and Tobacco (9.5 percent).

In the livestock sub-sector, poultry production increased by one percent to 86 million pounds, while inland fish production and grade 'A' milk production increased by 8 percent and 4 percent respectively.

However, there were shortages of some agricultural produce and subsequent price increases. Farmers were

**TABLE 3** *Percentage Change in GDP by Sector (1985-1989)*  
(Constant Prices)

	1985r	1986r	1987r	1988r	1989
Agriculture, Forestry & Fishing	-3.5	-2.1	5.2	-5.4	-4.3
Mining and Quarrying	-19.5	6.6	4.9	-4.7	38.0
Manufacturing	0.4	2.4	6.3	2.0	7.0
Construction & Installation	-8.3	3.1	13.9	14.7	19.3
Services (Net)*	-4.2	1.5	5.7	1.5	0.7
GDP	-4.6	1.7	6.2	1.5	4.6

\* Net Services already excludes Imputed Service Charges.

SOURCE: Statistical Institute of Jamaica

handicapped by damaged roads, shortage of vehicles and praedial larceny, losses from which were estimated at between J\$300m and J\$500m.

The Mining and Quarrying sector recorded real growth of 38.0 percent. This is attributable to a 32.9 percent increase in total bauxite production compared with 1988. Crude bauxite production increased by 22.1 percent, while alumina production increased by 46.7 percent. The higher level of production in the bauxite and alumina sub-sector is attributable to several factors:

- 1) world demand increased and prices remained high;
- 2) a new levy regime, more attractive to investors;
- 3) the re-opening of Alpart.

tors to this growth were the food processing, paper and printing, petroleum refining, chemical, non-metallic and metal product groups. Sugar, molasses and rum declined by 7.7 percent and textile products by 0.8 percent.

The services sector (net of imputed service change) is estimated to have grown by 0.7 percent over 1988. While the Producers of Government Services and Household and Private Non-Profit Institutions sub-sectors declined by 3.5 and 5.0 percent respectively, all other sub-sectors recorded growth.

### GDP Cost Structure

The share of Compensation of Employees in the Gross Domestic Product increased from 42.7 percent in 1988

TABLE 4

## *GDP by Sector (1985-1988) (Constant Prices)* by Percentage Contribution

	1985	1986	1987	1988	1989
Agriculture, Forestry & Fishing	8.9	8.6	8.5	7.9	7.3
Mining and Quarrying	5.2	5.4	5.4	5.0	6.7
Manufacturing	16.3	16.4	16.4	16.5	16.9
Construction & Installation	5.7	5.8	6.2	7.0	7.9
Services (Net)*	63.9	63.8	63.5	63.6	61.2
Total Gross Domestic Product	100.0	100.0	100.0	100.0	100.0

\* Net Services already excludes imputed Service Charges  
SOURCE: Statistical Institute of Jamaica.

The performance of the quarrying group was some 5.5 percent higher than that of the previous year.

The Construction Sector is estimated to have grown by 19.3 percent compared with 14.7 percent in 1988. The increased activity was mainly attributable to expansion of accommodation for the tourism sector, the building of factories, road improvement, and the construction of office space for other service activities.

The Manufacturing sector recorded real growth of 7.0 percent in 1989 compared to 2.0 percent in 1988. This was achieved despite tight credit policies, high interest rates and competition from imports. The contribu-

to 44.0 percent in 1989. In nominal terms, compensation of employees increased by 22.5 percent. In light of a 0.2 percent decline in the average employed labour force and a 1.4 percent decline in the total labour force, the data reflects widespread breaches of the 10% wage guidelines. However, it reflects an inconsistency with the levels of growth claimed on the expenditure side of the GNP.

Operating surplus or corporate profits increased by 12.3 percent in 1989 compared with 1988. In light of a 17.3 percent rate of inflation, this reflects a real decline in operating surplus. This is probably attributable to increases in direct taxation and higher interest costs.

Furthermore, indirect taxes increased by 20.4 percent in 1989 relative to 1988. Contrary to expectations, the value of subsidies increased by 20.3 percent to J\$200.2 million.

### Outlook

The economy has now had four consecutive years of growth. Though the official statistics for 1989 are controversial, the economy did experience some growth. For fiscal year 1989/90, a growth rate of 2.6 percent is currently estimated. The prospects for continued growth in 1990 are mixed in light of a possible

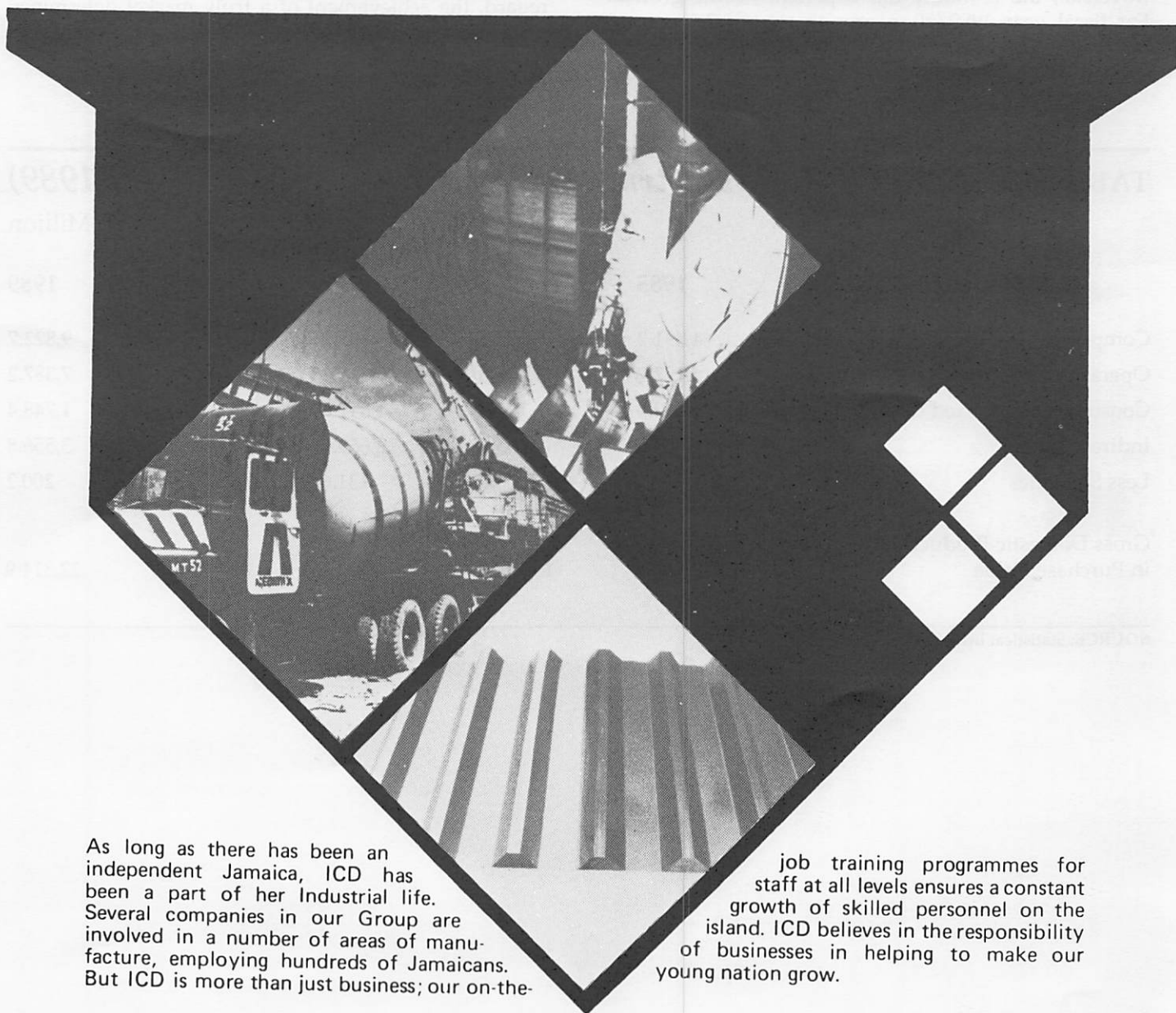
downturn in the world economy. However, *ceteris paribus*, with the strengthening so far achieved through the structural adjustment and stabilization programmes, the economy has entered a period which could see annual growth of at least 2 percent over the medium term provided the momentum of divestment and de-regulation is maintained. 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.

**TABLE 5** *GDP Cost Structure in Current Prices (1985-1989)*

	J\$Million				
	1985	1986	1987	1988	1989
Compensation of Employees	4,891.2	5,580.1	6,703.2	8,012.1	9,822.7
Operating Surplus	4,192.7	4,608.6	5,448.3	6,577.1	7,387.2
Consumption of Fixed Capital	1,082.3	1,148.4	1,312.6	1,371.2	1,748.4
Indirect Taxes	1,079.5	2,155.3	2,669.7	2,954.0	3,556.8
Less Subsidies	43.2	103.9	131.6	166.4	200.2
Gross Domestic Product in Purchase Value	11,202.6	13,388.5	16,002.1	18,748.0	22,314.9

SOURCE: Statistical Institute of Jamaica.

# Industry: Behind the scenes



As long as there has been an independent Jamaica, ICD has been a part of her Industrial life. Several companies in our Group are involved in a number of areas of manufacture, employing hundreds of Jamaicans. But ICD is more than just business; our on-the-

job training programmes for staff at all levels ensures a constant growth of skilled personnel on the island. ICD believes in the responsibility of businesses in helping to make our young nation grow.



**THE I.C.D.  
GROUP OF COMPANIES**

Together we achieve

# BALANCE OF PAYMENTS

Provisional data for calendar year 1989 suggests that there was a current account deficit of US\$233.3 million in spite of an 8.4 percent increase in net unrequited transfers to US\$294.0 million. A minuscule portion of the increase was attributable to private transfers, migrant transfers, remittance and gifts. Private transfers amounted to US\$148.8 million, 1.5 percent, more than the previous year. Net inflows to the official sector increased by some 16.5 percent to US\$145.2 million. Approximately 47.0 percent of gross official inflows was received during the first quarter of 1989 mainly in the form of hurricane assistance.

For 1989, there was a surplus on the service account of US\$328.7 million, but this represented a 22.5% decline over 1988.

The worsening current account position was not replicated in the capital account for calendar year 1989, as net capital movements increased by 16.7 percent to US\$62.9 million.

Also the balance of trade or merchandise balance deteriorated by US\$250.0 million to record a level of minus US\$856.0 million. This trade gap represents 24.9 percent of GDP in 1989 compared to 17.8 percent in 1988.

## The Current Account

The Current Account deficit for 1989 was US\$233.3 million compared with a surplus of US\$89.3 million in 1988. This result was obtained primarily through a 41.2 percent deterioration in the merchandise balance to minus US\$856.0 million and through a 22.5% decline in the services balance. Though the services account yielded a surplus of US\$328.7 million the rate of growth deteriorated. Net transfers increased from US\$271.2 million in 1988 to US\$294.0 million 1989. However most of the figure represents hurricane relief, which therefore conceals the underlying crisis in the current account.

## Merchandise Trade

The increase in the visible trade deficit is mainly attributable to a 26.0 percent increase in merchandise imports in 1989 to US\$1826.3 million coupled with a slowdown in the rate of growth of merchandise exports which increased by 15.0 percent in 1989. In 1988 when exports were curtailed severely by the onset of hurricane Gilbert exports grew by approximately 19.0%.

The deterioration in the trade picture may be attributed to several factors:

- a) Increased post-hurricane import demand coupled with high levels of inventory build-up fueled by devaluation expectations
- b) The expansion of commercial bank credit (private sector credit expanded by 28.8 percent)
- c) Increases in interest rates to record levels
- d) The imposition of credit ceilings
- e) Delays in distribution of foreign exchange garnered through the foreign exchange auction and the subsequent suspension of the auction
- f) Devaluation of the Jamaican dollar by 18.2%.

The value of traditional commodities expanded by 19.7 percent to US\$682.9 million. Exports of bauxite, alumina, rum and bananas increased, but all other traditional commodity exports declined. The declines range from 53.2 percent for citrus and citrus products to a 5.0 percent decline in coffee and coffee products.

The weight of bauxite and alumina (81.7 percent of total traditional exports) flatters the general performance of our export trade. The value of bauxite and alumina exports grew by US\$20.8 million and US\$119.7 million respectively, while that of bananas and rum increased by US\$3.5 million and US\$2.4 million respectively.

The non-traditional commodities recorded an increase of 5.5 percent in export value over 1988.

## Services

The services account maintained a favourable balance reaching a level of US\$328.7 million. However compared with 1988, net services declined by 22.5 percent. This reflects a 16.5 percent increase in net investment income payments and a 30.7 percent decline in Other Services (net). Net income payments in 1989 moved to US\$474.6 million from US\$407.5 million in 1988, as a result of higher interest payments, on government direct, government guaranteed and Bank of Jamaica debt, and repatriated profits relating to bauxite companies.

The 30.7% decline in Other Services (net) reflects a decline in commission fees and, more specifically, earnings from Free Zone activities.

Net foreign travel receipts increased by 17.5 percent to US\$553.1 million and reflects a full post-hurricane recovery of the sector. Total visitor arrivals for 1989 increased by 14.0 percent to 1.16 million while receipts increased by 15.2 percent to US\$607.4 million.

### Transfers

Net transfers increased by 8.4 percent to US\$294.0 million with official transfers increasing by 16.5 percent to US\$145.2 million and private transfers increas-

ing by 1.5 percent to US\$148.8 million. This category consists of carry-over hurricane relief supplies and migrant transfers, remittances and gifts. The hurricane relief has once again skewed the performance of this sub-group and distorted the true status of the current account.

### The Capital and Foreign Reserves

The balance on the capital account at December 1988 stood at US\$62.9 million, 16.7 percent above the previous year. Foreign exchange reserves at December 1989 reflected a deterioration of US\$170.4 million in contrast to an improvement of US\$143.3 million in 1988.

TABLE 6

## *Balance of Payments (1985 - 1989)*

US\$ Million

Categories	1985	1986	1987	1988	1989	% increase 1989/88
Exports (f.o.b.)	568.6	589.7	708.8	843.4	970.3	15.0
Imports (c.i.f.)	1143.6	969.2	1234.3	1449.4	1826.3	26.0
Balance of trade	-575.0	-379.5	-525.5	-606.0	-856.0	-41.3
Services (net)	38.3	198.1	205.5	424.1	328.7	-22.5
Foreign Travel	375.3	481.0	551.2	470.6	553.1	17.5
Investment Income	-305.7	-321.7	-401.8	-407.5	-474.6	-16.5
Other Services	-31.3	38.8	56.1	361.0	250.2	-30.7
Balance on Goods and Services	-536.7	-181.4	-320.0	-181.9	-527.3	-289.9
Transfers (net)	221.2	148.1	171.6	271.2	294.0	8.4
Private	153.2	111.6	117.2	146.61	148.8	1.5
Official	68.0	36.5	54.4	124.6	145.2	16.5
Current Account Balance	-315.5	-33.3	-148.4	89.3	-233.3	-261.25
Net Capital Movements	388.1	9.3	356.6	53.9	62.9	16.7
Changes in Reserves (minus = increase)	72.6	24.0	208.2	143.2	170.4	

# EXTERNAL TRADE<sup>1</sup>

The deficit on the merchandise trade account for 1989 was US\$856.0m compared with US\$606.0m for 1988. This reflected expenditure of US\$1,826.3m on merchandise imports and earnings of US\$970.3m derived from merchandise exports. Imports increased by US\$376.9m or 26.0 percent while exports increased by US\$126.9m or 15.0 percent over the preceding year. Based on PSOJ estimates (and contrary to the official figures) the external trade picture of the country was distorted by an extraordinary inventory build-up born out of speculation about the stability of the currency coupled with carry-over demand from 1988.

The total value of Jamaica's trade in 1989 increased by 22.0 percent to US\$2,796.6m. This represents a 4.0 point increase in the growth rate of trade. The increased trade value partially demonstrates the continued effects of the government's trade liberalization policies. Of the total increase in trade value, exports accounted for 34.7 percent and imports 65.3 percent.

The composition of merchandise imports remained much as it was in the previous year. Raw materials accounted for 48.3 percent of total imports as against 48.6 percent in 1988. Capital goods accounted for 30.7 percent in 1989 versus 31.6 percent in 1988 and consumer goods for 21 percent versus 19.8 percent.

Alumina earned approximately US\$432.0m or 44.5 percent of total export earnings and represented an increase of 38.3 percent over 1988. Bauxite contributed US\$125.7 million, 12.9 percent of earnings. Non-traditional exports contributed 30.2 percent in 1989 up from 19.9 percent in 1988. However, the change in value from

about US\$242 million to US\$255 was only 5.5 percent.

The mixed trade performance was due to the following:

- 1) an upturn in the market for bauxite and alumina;
- 2) an increase in international oil prices;
- 3) an increase in interest rates coupled with the introduction of credit ceilings;
- 4) two successive devaluations of the Jamaican dollar.

## Structure and Composition of the Merchandise Trade

A combination of upward price movements and increased trade volume resulted in an expansion of total value of visible trade which amounted to US\$2,796.6m, 22.0 percent above the US\$2,292.8m recorded in 1988. Merchandise exports increased by 15.0 percent or US\$126.9m.

Traditional exports accounted for 70.4 percent of total merchandise exports in 1989 compared to 67.6 percent in 1988. Alumina and bauxite remained Jamaica's main export commodities. When compared with 1988, alumina's share has increased by 7.5 percentage points and bauxite increased by 2.1 percentage points. However, sugar which is the third major export commodity, declined by 27.8 percent.

TABLE 7

## Merchandise Trade (US\$M)

	1985	1986	1987	1988	1989
Merchandise Imports	1,143.6	969.2	1,234.3	1,449.4	1,826.3
Merchandise Exports	568.6	589.7	708.8	843.4	970.3
Trade Balance	-575.0	-379.5	-525.5	-606.0	-856.0

SOURCE: Bank of Jamaica

<sup>1</sup> Because of inconsistencies in the official statistics, there has been undue reliance on the data from the Central Bank.

Non-traditional exports as a percentage of total exports declined from 28.7 percent in 1988 to 26.3 percent in 1989. Miscellaneous Manufactures, which includes '807-CMT' textile products increased marginally by 0.3 percent in 1989 as compared to an 8.4 percent growth in 1988. However, this group declined in share of total non-traditional exports from 52.1 percent in 1988 to 49.5 percent in 1989. There was a significant decline in earnings from the 807/CMT garment industry.

The total import bill continues to be heavily skewed in favour of Raw Materials which constituted 48.3 percent of the total. The other main categories, Capital Goods and Consumer Goods, accounted for 30.7 percent and 21.0 percent respectively, compared to 31.6 percent and 19.8 percent for 1988.

### Exports

Sugar declined 27.8 percent. 'Other traditional' export commodities fell by 13.3 percent to US\$39.6m. The re-

covery from hurricane damage in this sector has been slower than in others. Indeed, 75 percent of the island's coffee plants were reported damaged resulting in a 5.0 percent decline in coffee and coffee products. Coffee requires two or three years for rehabilitation, hence the low export performance of coffee products. Total traditional exports earned US\$682.9m, an increase of 19.7 percent over 1988. (For further details, see chapter on Manufacturing).

### Imports

Merchandise imports for the calendar year increased by US\$379.3m or 26.2 percent to US\$1828.7m. Of this increase, capital goods, raw materials, and consumer goods represented 22.3 percent, 25.4 percent and 34.0 percent respectively. Imports of capital goods grew by \$102.4m, reflecting continued rehabilitation efforts in the first half of the calendar year. Raw material imports expanded by US\$179.2m and mirrors an upward

TABLE 8

## *Composition of Merchandise Imports*

US\$'000

Categories	1987	1988	1989	Percent Change 1989/88
All Categories	1,234,273	1,449,449	1,828,679	26.2
Consumer Goods	234,662	286,912	384,558	34.0
Food	94,718	124,536	154,990	24.5
Other Non-Durables	96,943	105,232	141,461	34.4
Durable	43,001	57,144	88,107	54.2
Raw Materials	652,696	704,311	883,501	25.4
Fuels	235,097	192,105	273,249	42.2
Food	102,279	119,556	134,131	12.2
Other	315,320	392,650	476,121	21.3
Capital Goods	346,915	458,226	560,620	22.3
Construction	79,798	138,130	161,029	16.6
Transport Equipment	60,985	117,616	101,852	-13.4
Other Machinery & Equipment	200,263	195,823	289,267	47.7
Other Capital	5,869	6,657	8,472	27.3

SOURCE: Statistical Institute of Jamaica



movement in the price of petroleum coupled with increased demand for raw materials used in production. Fuel imports increased by 42.2 percent to US\$273.2m, while imports of other raw materials increased by 21.3 percent to US\$476.1m.

The increase in consumer goods imports was partially attributable to the need to supplement the shortage of local food supplies experienced in the first three months of the calendar year. Though at variance with official statistics, the PSOJ partially attributes the overall increase in merchandise imports of 26.2 percent to significant levels of inventory build-up.

In any event the percentage composition of total imports for the three subcategories remained virtually unchanged in the 1989 calendar year relative to 1988. Consumer goods accounted for 21.0 percent, Raw Materials 48.3 percent and Capital goods 30.7 percent.

### Caricom Trade

Total value of Jamaica's trade with CARICOM in 1989 amounted to US\$159.5, a 38.5 percent increase over 1988. As a percentage of total trade, CARICOM trade

accounted for 5.7 percent versus 5.0 percent in 1988. Exports to nine Caribbean countries expanded, with Trinidad & Tobago continuing to be Jamaica's main trading partner in the region, absorbing US\$31.6m (46.1 percent) of the country's exports.

Imports increased by 62.2 percent in 1989 to US\$91.0m, yielding a trade deficit of US\$22.5m with CARICOM compared to a 1988 trade surplus of US\$3.0m. This is partially attributable to a 288.0 percent decline in Jamaica's trade balance with Trinidad.

### Trade Constraints

The main objective of the General Agreement on Tariffs and Trade (GATT) is to liberalize 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 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 con-

TABLE 9

## *Jamaica: CARICOM Trade by Country* (1987-1989) US\$'000

Country	1987	1988	1989	% Change 1989/88
Total CARICOM	104, 577	115, 247	159, 466	38.4
Antigua	2,368	3,457	3,294	-4.7
Barbados	15,432	16,762	21,805	30.1
Belize	5,994	10,128	13,333	31.7
Dominica	6,401	8,018	8,071	0.7
Grenada	1,177	1,518	1,803	18.8
Guyana	9,450	7,704	6,583	14.6
Montserrat	307	356	577	62.1
St. Kitts & Nevis	1,184	1,097	1,525	39.0
St. Lucia	4,192	4,167	7,569	81.6
St. Vincent	2,496	2,051	3,109	51.6
Trinidad & Tobago	58,072	59,989	91,794	53.0

SOURCE: Compiled from Economic and Social Survey, Planning Institute of Jamaica.

ceals the 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 a developing country's products threaten the market shares of the developed country's 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 totally free trade agreement between the US 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.

### Outlook

Jamaica's exchange and trade system have been liberalized somewhat in recent years. The government has stated its intention to advance the process of liberalization, but this will be constrained by the adoption of a fixed exchange rate regime versus an auction system.

Trade reforms expected to be implemented in the medium term will include further reductions of Customs Tariffs, elimination of remaining tariff exemptions, reference prices and import monopolies and strengthening of the Customs and anti-dumping procedures. The existing rebate to exporters is to be replaced with an import duty drawback scheme.

The proposed General Consumption Tax is supposed to eliminate several imposts including Customs Duty and Additional Stamp Duty. However, a 50% Consumption Surcharge on 'luxury goods' is to be maintained.

TABLE 10

### *Traditional Exports (1988-1989)*

US\$'000

	1988	1989	Change
Total Traditional Exports	570,400	682,869	19.7
Bauxite	104,850	125,692	19.9
Alumina	312,322	431,994	38.3
Gypsum	586	279	-52.4
Sugar	91,853	66,339	-27.8
Bananas	15,734	19,259	22.4
Citrus & Citrus Products	8,600	4,021	53.2
Coffee & Coffee Products	10,698	10,158	-5.0
Cocoa & Cocoa Products	6,915	4,480	-35.2
Pimento	5,138	4,589	-10.7
Rum	13,704	16,058	17.2

SOURCE: STATIN

TABLE 11

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

SITC Categories	1987	1988	1989	% Change 1989/1988
Total Non-Traditional Exports	224.7	241.7	255.0	5.5
Food	30.8	30.3	32.5	7.3
Beverages and Tobacco	22.8	23.0	19.9	-13.5
Crude Materials	6.1	5.4	14.0	259.3
Mineral Fuels	13.7	18.8	16.3	-13.3
Animal & Vegetable Oils & Fats	0.5	0.0	0.0	0.0
Chemicals	20.7	20.0	23.2	16.0
Manufactured Goods	8.9	13.6	18.4	35.3
Machinery and Transport Equipment	3.1	4.7	4.4	-6.4
Miscellaneous Manufacturing Goods	116.1	125.9	126.3	0.3
Miscellaneous Commodities	2.0			

SOURCE: Economic and Social Survey, Planning Institute of Jamaica.

# MONEY, CREDIT AND INTEREST RATES

In 1989 the central bank made use of all its available policy instruments, including increases in the cash reserve and liquid asset ratios of the commercial banks, increasing of the already high deposit rates by 5 percentage points and the subsequent increase of other interest rates, selective and quantitative credit controls and various deposit schemes, to ensure consistency with the overall objectives.

The Government's financial programme was derailed from the first quarter of the calendar year. This was attributable to an influx of reinsurance flows to the private sector coupled with public assistance to uninsured householders. This served to expand time and savings deposits in commercial banks and facilitated an expansion in the stock of Treasury Bills. Hence, at the end of March, there existed a large pool of liquid resources in the private sector.

In the five months to September, the behaviour of money and credit was reflected in the developments in the foreign exchange market. Strong credit growth and a consequent widening in the current account deficit served to put pressure on the exchange rate, triggering a series of devaluations of the Jamaican dollar. There was a decline in the rate of growth of money supply up to June 1990, despite which, credit expanded by J\$528m. Despite the fact that the Bank of Jamaica aggressively marketed Certificates of Deposits with open-ended interest rates, commercial banks did not buy as many of these short-term financial instruments as was expected. Indeed, the central bank's utilization of open market policies were conditioned by an intensification of demand for foreign exchange.

This culminated in new monetary measures in September and October which included credit ceilings, higher interest rates on savings and the more extensive use of Certificates of Deposits to regulate the level of liquidity in the banking system.

The following measures were implemented to contain aggregate demand:

- 1) combined devaluation of 18.2 percent of the Jamaican dollar against the US\$, coupled with a suspension of the foreign exchange auction;
- 2) the central bank ceased paying interest on any portion of the cash reserves deposited by commercial banks and near banks;

- 3) access to liquidity support facility limited to a maximum of two applications per month;
- 4) suspension of bankers' re-discounting facility;
- 5) penalty for premature encashment of Treasury Bills and Certificates of Deposit increased from 4 percent to 10 percent;
- 6) minimum interest rate paid on commercial banks' savings deposit increased from 13 percent to 18 percent;
- 7) the imposition of ceilings on bank credit in September.

## Money Supply

Narrowly defined money, M1 (currency in the hands of the public plus demand deposits) declined by 5.8 percent relative to 1988. The behaviour of M1 in 1989 may be partially attributable to contractionary policies on the part of Government. However, the decline in M1 balances contrasted with a \$1,034.0m. (or 55.2 percent) increase in 1988.

Broadly defined money, M2 (M1 plus time deposits plus savings deposits) grew by 6.4 percent in 1989. This was aided by a growth of 13.4 percent in time deposits and 11.8 percent in savings deposits. When compared with 1988, the rate of growth of M2 declined by 33.3 percentage points.

The transactions demand, estimated as the sum of the growth rate of GDP and the CPI, increased by 11.5 points relative to 1988. This was largely due to the impressive growth of GDP as well as the relatively high rate of inflation.

## Commercial Bank Loans and Advances

Loans outstanding to commercial banks as at December 1989, increased by 29.1 percent to J\$7,446.4m. Construction and Land Development secured the largest share of loans and advances in 1989 (23.2 percent). This was followed by Manufacturing (19.6 percent) (See Table 13).

The increase in 1989 reflected, on the one hand, a strong upsurge in private sector demand for credit and a smaller increase to the public sector given the overall

TABLE 12

*Money Supply 1975-1989*

J\$Million

Year	M1	Time Deposit	Savings Deposit	Total	M2 = M1 + Total QuasiMoney
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	2,908.8	1,625.5	4,365.8	5,991.3	8,900.1
1989	2,739.4	1,843.5	4,882.7	6,726.2	9,465.6

recovery in economic activity. On the other hand, it reflected an increased capacity of the banking sector to extend credit due to the further lowering of the liquid assets ratio from 20 percent to 19 percent in 1989 and also to the significant growth in bank deposits subsequent to the hurricane.

Despite credit ceilings, commercial banks continued to accord special emphasis on lending to the priority sectors of the economy as part of the overall strategy to stimulate private sector investment. This was manifested in the higher proportions of total loans extended to the productive sectors versus the personal, distributive and government sectors.

### Commercial Bank Liquidity

Despite mopping up of liquidity through Certificates of Deposits (CDs) and other government paper, the financial system remained highly liquid throughout 1989. At the end of December 1989, the average actual liquidity ratio of commercial banks was 42.7 percent versus 43.8 percent at December 1988.

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

- carry-over hurricane related reinsurance and public assistance funds;
- a softening of loan demand, owing to the maintenance of a high interest rate regime;
- implementation of credit ceilings.

In response to a surge in private credit demand, commercial banks encashed approximately 51.0 percent of their holdings (\$1.2 billion) in CD's, Treasury Bills and Local Registered Stock. This triggered a series of restrictive initiatives by the central bank.

This policy stance was designed to stem the switching from money market instruments to credit. Demand was sufficiently strong, however, for the auctions for instruments in the money market to be undersubscribed in the third quarter of the calendar year. This has resulted in increasing interest rates for both CD's and Treasury Bills. The yield on Treasury Bills increased from

TABLE 13

*Loans and Advances by Sector (1984 - 1989)*

J\$Million

Sectors	1984	1985	1986	1987	1988	1989
Agriculture	401.0	496.9	416.1	479.6	668.6	702.1
Manufacturing	681.1	726.1	822.3	978.8	1,216.5	1,462.7
Construction	617.4	612.2	636.9	897.4	1,319.8	1,729.1
Mining	10.0	6.4	9.4	25.6	17.0	33.1
Tourism	125.4	184.8	236.1	321.6	451.0	612.4
Transport	334.3	390.9	446.5	591.5	762.7	1,117.4
Consumer Oriented	441.8	400.8	464.9	568.9	691.6	997.7
Government Services	44.0	141.9	677.9	890.6	436.8	577.7
Other	90.8	88.1	111.8	141.8	202.0	214.2
<b>TOTAL</b>	<b>2,745.8</b>	<b>3,048.1</b>	<b>3,821.8</b>	<b>4,895.8</b>	<b>5,766.0</b>	<b>7,446.4</b>

SOURCE: Bank of Jamaica.

18.8 percent at December 1988 to 28.3 percent at December 1989. The average interest rate on Certificates of Deposit moved by 8 points to 25.1 percent at December 1989.

### Interest Rates

In any stabilization policy, the interest rate emerges as a significant policy variable. For 1989, the classical 'knife edge' problem was evident as the Government grappled with the problem of establishing an appropriate interest rate structure, conducive to both savings and investment. Interest rates on Treasury Bills moved erratically over 1989 from a low of 17.7 percent in January 1989 to a high of 23.6 percent in December. At December 1989, the average weighted rate on Certificates of Deposit was 7.7 points above 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 relatively high liquidity in the money market which these institutions were in a good position to utilize because of their competitive interest rate structure. Consequently, commercial bank loan rates have remained high. At the end of the last calendar year, the overall average weighted loan rate was 28.2 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, mortgage and personal credit.

Rates on time deposits for both 3 months and less than 6 months and 6 months and less than 12 months maturity ranged between 15.0 and 22.5 percent and 17.0 and 22.5 percent respectively. Adjusting for inflation the real weighted deposit rate at the end of December 1989 was 3.0 percent. Furthermore, by administrative fiat the savings rate increased by 5 percentage points and hence there was a substantial increase in the prime lending rate. These interest rates are 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. Bullish trading was recorded up to August 1989 followed by a bearish trend for the rest of the year. At December 1989, the stock market index was 2,075.9 points, 44.2 percent above the index at December 1988. However, the index at December 1989 was 18.3 percent below the level attained at September 1989.

The downturn in the stock market was a direct result of the tighter monetary measures implemented to

stabilize the exchange rate. The bearish performance reflected the underlying mood of uncertainty as investors shifted their portfolios away from the stock market and into risk-free, short-term securities and other investment activities.

### Exchange Rates

There were significant developments in the area of foreign exchange management, which culminated in a suspension of the foreign exchange auction, coupled with two devaluations. The developments were characterized by a persistent build-up of demand for foreign

exchange, no doubt influenced by a breakdown of confidence, both locally and externally. This problem was compounded by an inadequate inflow of foreign resources and exacerbated by the maintenance of foreign exchange controls. There was also a shift in the use of credit financing in 1989 with an increasing percentage of imports being financed by short term credit facilities relative to 1988, when longer term arrangements were utilized. With the depreciation of the Jamaican dollar, the Government characteristically resorted to more stringent demand management policies. This was coupled with open market operations, as well as moral suasion in an attempt to protect the exchange rate.

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# INFLATION

The inflation rate for the 1989 calendar year as measured by the Consumer Price Index (CPI) was 17.2 percent, point to point, bringing the index to 128.0 from 109.2 recorded at the end of the last calendar year, 1988. On the average, the inflation rate was 14.3 percent compared to 8.2 percent in 1988. (The point-to-point measure is used for comparison, unless otherwise stated.)

## Internal Factors

The inflation rate was the highest since 1985. This can be attributed to:

- (a) increases in the prices of staple foods largely because of the reduction of subsidies;
- (b) the devaluation of the Jamaican dollar;
- (c) the introduction of credit ceilings and a high interest rate policy;
- (d) an increase in bus fares in 1989;
- (e) increasing oil prices;
- (f) increase in world inflation.

Government's policy measures were less than effective in containing aggregate demand within the previously posited growth targets, and in stabilizing the costs of the factors of production, all of which affect the inflation rate. Nevertheless, there was some reliance on monetary policy, fiscal deficit controls, and a 10 percent wage guideline. In fact, money supply was tightly controlled and high interest rates were maintained. In the latter part of the year credit ceilings were introduced, as bank credit to the private sector was more than projected. The liquid to total assets ratio of commercial banks was increased as were interest rates paid on savings, hence, the lending rates increased. The government also increased the penalty for early encashment of Treasury Bills and Certificates of Deposits. All these measures were aimed at containing aggregate demand which was being manifested in an increased demand for foreign exchange in the auction. The value of the Jamaican dollar, which was formerly determined by the auction, had been moving downwards since July and a decision was taken to fix it at J\$6.50 to US\$1.00 on November 1.

The demand management programme was continued, embracing policies directed at keeping inflation at a comparatively low rate of 8 percent. However, the need

to rebuild the economy after the destruction of the hurricane in 1988, necessitated the softening of policy measures. As a result, credit expanded at a faster rate in the third quarter of 1988 and continued to expand in 1989. Credit expansion in 1989 was partially attributable to increased transaction demand. However, given the implementation of credit ceilings, credit contracted during the final quarter of 1989 compared with the previous period.

Fiscal policies for 1989 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.

The Tariff Reform Programme continued to have a marginal, but positive effect in reducing the upward pressure exerted on the CPI by the hitherto high duties payable on raw materials and capital goods. However, the continued fall in duties on raw materials and capital goods, which served to reduce the overall production costs, *ceteris paribus*, and also reduced the landed duty paid prices to distributors, were not passed on to the consumers.

## External Factors

Given its high import dependency, the Jamaican economy is very sensitive to the economic performance of its trading partners. Among the main external factors that affected the Consumer Price Index for 1989 were the increases in world oil prices and the inflation rates recorded in the economies of Jamaica's main trading partners.

The average price per barrel of oil increased from US\$16.20 in 1988 to US\$19.60 in 1989, a rise of 21.0 percent. The average weighted rate of inflation among the economies of our main trading partners was about 5.0 percent in 1989 as against 3.8 percent in 1988. This higher average inflation rate among these industrial economies, coupled with increased US labour costs and relatively higher international oil prices manifested itself in greater inflationary pressures given the import dependency of the Jamaican economy. It is instructive to note that retail prices for many items in the basket of goods and services were either subsidized or controlled or both. Therefore, when in May the subsidies and controls on basic food items were reduced and in some cases removed, there was a significant increase in food and drink. There was also another

TABLE 14

# Consumer Price Index – (Point-to-Point)

1988-1989

Item	1988	1989	Index over 1988	% Change Weight
All groups	109.2	128.0	17.2	100.0
Food and Drink	112.1	135.5	20.9	55.63
Meals away from home	109.7	132.4	20.7	
Meat, poultry and fish	102.7	125.6	22.3	
Dairy products, oils and fats	105.2	133.2	26.6	
Baked products, cereal & breakfast drink	102.6	129.7	26.4	
Starchy food	174.4	203.0	16.4	
Vegetable and fruits	119.4	130.1	9.0	
Other food and beverages	105.3	127.8	21.4	
Fuels and Other Household Supplies	105.1	117.3	11.6	7.35
Household supplies	102.8	117.4	14.2	
Fuels	109.3	117.2	7.2	
Housing	107.7	116.0	7.7	7.86
Rental	106.0	109.2	3.0	
Other housing expenses	108.3	118.6	9.5	
Household Furnishing and Furniture	107.4	118.1	10.0	2.83
Furniture	105.8	120.3	13.7	
Furnishings	108.1	117.5	8.7	
Healthcare & Personal Expenditure	105.4	115.3	9.4	6.97
Personal Clothing, Footwear & Accessories	108.9	124.0	13.9	5.07
Clothing materials	106.0	115.9	9.3	
Ready-made clothing and Accessories	106.6	118.3	11.0	
Footwear	112.2	133.3	18.0	
Making-up and repairs	114.0	134.9	18.3	
Transportation	101.3	128.3	26.7	6.44
Miscellaneous	105.7	117.5	11.2	7.85

significant movement in the index in November when prices of this group of items were again increased in response to the devaluation.

The second highest contribution to the inflation rate for 1989 was the 'Transportation' group with an upward movement of 26.7 percent. Increases in bus fares and taxi fares towards the end of year had a significant impact on the index. There were also increased prices for air fares, engine oil and tyres.

The 18.8 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.

### Changes in Weights in CPI

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 an income of \$24,000 or less a year.

It should be noted that the price movements recorded above are based on the revised index published by the Statistical Institute of Jamaica. The new series was derived from data obtained from a Household Expenditure Survey carried out by STATIN in 1984 and has a base of January 1988. The previous series had a base of January 1975 and utilized findings from a survey conducted in the 1971/72 period. The revised series, although similar to the previous series, differs in the following respects:

- 1) In the revised index, the category 'Food and Drink' has two sub-categories added:
  - (a) baked products, cereals and breakfast drinks;
  - (b) fruit and vegetables.
- 2) In the 'Miscellaneous Expenses' category, two sub-categories have been removed, namely:
  - (a) recreation expenses,
  - (b) other miscellaneous expenses.
- 3) The revised CPI now has approximately 231 commodities, as compared with 274 from the previous series.
- 4) The weight of each category has also been revised (See Table 14).

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 points) and personal expenses (down 1.46 points). Surprisingly, the weight for housing has decreased from 8.87 to 7.86. In spite of the revision of the index, the GDP deflator may well be a more reliable measure of price movements in the economy.

### 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 basket of consumer purchases. Hence, it can be said that the GDP usually 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. Between 1983 and 1988, the situation was reversed. In 1988, the change in the GDP deflator was estimated to be 10.6 percent, approximately 1.8 percentage points higher than the 'official' inflation rate. However, in 1989, the situation was once again reversed with the change in the GDP deflator being 13.8 percent versus a 17.2 percent rate of inflation. (See Table 15).

### Outlook

According to PSOJ estimates, inflation as measured by the CPI is expected to be upwards of 20 percent for calendar 1990. This is expected given the further devaluation of the Jamaican dollar, the further reduction in subsidies, the introduction of the General Consumption Tax, the increases in National Insurance payments, the escalation in the irregularity of electricity supplies and the continuation of stringent demand management policies.

If, of course, there is further devaluation or rises in interest rates or world oil prices, then the CPI will increase significantly over the 20 percent projected base level.

TABLE 15

*GDP Deflator. All Groups. Point-to-Point*Mean Annual  
1980-1989

Year	Point-To-Point Annual	Mean Annual	% GDP Deflator
1980	29.0	27.0	18.6
1981	4.6	11.9	8.4
1982	6.5	6.5	9.2
1983	16.7	11.3	16.5
1984	31.2	27.8	34.9
1985	23.0	25.7	25.5
1986	10.4	14.7	17.5
1987	8.4	6.7	12.5
1988	8.8	8.2	15.5
1989	17.2	14.3	13.8

SOURCE: Statistical Institute of Jamaica and PSOJ Estimates

TABLE 16

*Quarterly Percentage Change for  
All Groups and Main Group Indices*

1988-1989

	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.
All Groups	1.3	1.2	2.7	4.9	2.6	5.1	3.2	5.3
Food & Drink	0.4	0.5	3.9	7.7	3.1	7.5	4.4	4.4
Fuels & Other Household Supplies	1.8	1.4	1.0	2.1	2.6	1.8	2.4	4.4
Housing	-3.9	4.8	0.6	2.8	1.5	5.1	-0.9	1.8
Household Furnishings & Furniture	-1.6	3.3	2.3	-0.5	1.4	1.8	3.3	3.1
Health Care & Personal Expenses	4.9	1.0	2.1	1.2	3.1	1.4	1.0	3.6
Personal Clothing, Footwear & Accessories	1.2	4.1	1.5	2.7	2.2	2.0	1.8	7.4
Transportation	-1.0	-0.4	2.3	-0.4	0.8	1.1	0.6	23.6
Miscellaneous	5.4	0.6	0.4	1.5	1.2	0.3	3.6	5.7

SOURCE: Statistical Institute Of Jamaica

# ENERGY

Jamaica's imports of petroleum products totaled 15.8 million barrels in 1989. This represents a 20.6 percent increase over 1988, which is the highest annual rate of change since 1986. The petroleum imports were valued at US\$284.7 million, a 43.3 percent increase. There was a 19.9 percent increase in the average price per barrel for petroleum, which moved from US\$15.1 per barrel in 1988 to US\$18.1 in 1989. The increase reversed the previous trend of an average annual decline of 16.2 percent in average price per barrel between 1985-1988. Consequently, the value of fuel imports as a percentage of total imports, which had been declining since 1985, also increased in 1989 by 13.9 percent, but is still under one-sixth of the total value of imports versus one-third or more up to 1986.

Jamaica's consumption of petroleum products was approximately 15.5 million barrels in 1989, - a 25 percent jump over the preceding year. Fuel oil accounted for 58.2 percent of total petroleum consumption, and also recorded the most significant positive change in consumption - a rise of 33.4 percent. This partly indicates the increase in bauxite/alumina output. Diesel fuel increased to 14.8 percent of total consumption, representing a rise of 665,000 barrels. Gasoline was 12.5 percent of consumption and aviation fuels, 7.4 percent. Total commercial and non-commercial energy consumption in 1989 is reported to have increased by 30.2 percent to approximately 16.7 million barrels of Fuel Oil Equivalent, compared with 12.8 million barrels of Fuel Oil Equivalent in 1988. The consumption of some

of the various petroleum products in terms of their sub-sectoral usage is discussed below.

## TRANSPORTATION

### Road

Gasoline consumption increased by 10.6 percent to 1.94 million barrels and automotive diesel jumped 36.5 percent to 1.8 million barrels. A part of the increase in diesel however, is attributable to a jump in demand by the Jamaica Public Service Company.

### Air Transportation

Turbo fuel accounts for over 98 percent of total aviation fuel, and has been growing at an average annual rate of 7.2 percent since 1986.

Increased consumption of turbo fuel and aviation gas are directly related to the increasing number of international flights and is therefore an indirect reflection of the state of the tourist industry.

### Marine Transportation

Marine diesel oil consumption increased by 58 percent in 1989, representing the greatest rate of growth of all petroleum products. This startling increase, reflects growth in the number of cruise ships which visited Jamaica in 1989.

TABLE 17

## Imports of Petroleum Products

1984-1989

Item	1985	1986	1987	1988r	1989	Percentage Change 1988/89
Volume (m.bbls) <sup>1</sup>	13.5	12.2	12.6	13.1	15.8	20.6
Value of Imports (US\$m)*	395.0	330.4	191.9	198.7	284.7	43.3
Fuel Imports as a %age of Total Imports	33.5	34.1	15.5	13.7	15.6	13.9
Average Price per Barrel (US\$)	28.3	27.1	15.1	15.1	18.1	19.9

\* Includes Bauxite

SOURCE: Ministry of Mining, Energy and Tourism

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

TABLE 18

# Jamaica's Consumption of Petroleum Products - 1985-1989

('000 Barrels)

Energy Source	1985	1986	1987	1988	1989	Percentage Change 1988/89
Aviation Fuel	998	928	1,044	1,064	1,148	7.9
Aviation Gas	12	7	9	12	14	16.7
Turbo Fuel	986	921	1,035	1,052	1,134	7.8
L.P.G. <sup>1</sup>	367	397	414	429	473	10.3
Kerosene	353	406	422	490	427	-12.9
Gasoline	1,504	1,569	1,682	1,760	1,947	10.6
Auto Diesel	1,143	1,167	1,168	1,306	1,783	36.5
Marine Diesel	178	171	185	324	512	58.0
Fuel Oil	7,082	6,460	6,789	6,774	9,037	33.4
Asphalt	43	64	80	162	95	-41.4
Lubricants	62	92	115	83	107	28.9
TOTAL	11,730	11,254	11,899	12,392	15,529 <sup>2</sup>	25.0

<sup>1</sup> L.P.G. - Liquid Petroleum Gas<sup>2</sup> Includes estimate fuel consumption for Alpart based on actual alumina production for 1989.

SOURCE: Ministry of Mining, Energy and Tourism

## Asphalt

The use of asphalt declined 41.4 percent in 1989, however, the previous year's consumption was an unusually high 162,000 barrels, because of the post-hurricane road repair programme.

## Household Sector

In 1989 there was an increase of 10.3 percent in the use of LPG (cooking gas), while kerosene consumption declined by 63,000 barrels - a fall of 12.9 percent. The drop in kerosene usage probably reflects a greater vigour in suppressing the illegal practice of adulterating highly taxed and therefore expensive gasoline and automotive diesel with kerosene, which is subsidized and therefore comparatively cheap.

## MANUFACTURING

### Bauxite and Alumina

The bauxite-alumina industry's consumption of petroleum products increased by 5.8 percent in 1989. The increased fuel consumption stems from heightened activity in the sector caused by the reopening of another bauxite company and high capacity utilization in existing plants.

### Cement

Some 419 thousand barrels of petroleum products were used by the cement industry. This represented a 4.6 percent decline in consumption, as the company shifted part of its energy consumption to coal, which is a cheaper fuel than oil.

### Sugar and Other Manufacturing

The sugar companies recorded a substantial increase of 41.8 percent in the consumption of petroleum products, with fuel oil (Bunker C) accounting for 69.4 percent of total consumption. Other manufacturing activities grew by 63.2 percent. These substantial rates of increase are related to the overall real rate of growth of 7.0 percent by manufacturing in 1989.

### Jamaica Public Service Company (JPS)

JPS fuel consumption increased by 22.6 percent in 1989 to a level of 3.8 million barrels as against 3.1 million barrels in 1988. This increase is attributed to local demand for increased electricity generation, and also, the greater use of the company's gas turbines (which use diesel) and older steam units. Consequently, there

TABLE 19

# *Fuel Consumption by Bauxite/Alumina Companies*

## 1985-1989

('000 Barrels)

Product	1985	1986	1987	1988	1989
Aviation Gas	0.5	0.6	0.5	0.5	0.6
Premium Gas	5.9	2.7	3.2	2.5	2.4
Automotive Diesel Oil	74.8	79.6	76.0	78.2	73.9
Marine Diesel Oil	61.8	63.9	76.7	80.7	101.5
Kerosene Oil *	0.0	0.0	0.0	0.0	0.0
Fuel Oil - Bunker C	3,059.6	2,114.7	2,114.0	2,104.9	2,312.3
Fuel Oil - Low Vanadium	681.3	993.9	1, 208.9	1, 058.6	1, 028.3
<b>TOTAL</b>	<b>3,883.9</b>	<b>3,255.4</b>	<b>3,479.3</b>	<b>3,325.4</b>	<b>3,519.0</b>
Bauxite Fuel Consumption as a %age of Jamaica's Fuel Consumption	33.0	29.0	30.0	27.0	23.0

\* Kerosene - Annual Consumption is less than (0.1) thousand barrels.

SOURCE: Ministry of Mining, Energy and Tourism

was a 169.8 percent increase in automotive diesel between 1988 and 1989, compared to only 10.2 percent increase in fuel oil consumption by the company.

Sales of electricity increased 13.9 percent in 1989, as against a decline of 4.4 percent in 1988, the year of hurricane Gilbert.

As shown by Table 20, the greatest rates of change in electricity sales were recorded by street-lighting and government which averaged 27.2 percent. Their impact on total sales is, however, marginal, accounting for only 8.9 percent compared to residential and industry (small), which increased by an average of 14.4 percent, but accounts for 79.6 percent of total sales.

## Developments in the Energy Sector and Policy Implications

In 1989, a total of 33.9 thousand generators and electric motors were imported into the island as against 13.4 thousand in 1988. This level of imports represents a 153.8 percent increase over 1988. The rise in the use

of generators by both households and businesses probably reflects a carryover from the post-hurricane period when areas of the country were without JPS supply for up to three months. Subsequently, there has been a growing unreliability as JPS base-load capacity has been revealed to be inadequate to meet demand. There was a 33.3 percent increase in electricity rates in 1989, in addition to a surcharge imposed by the JPS in the 1980s. This represents "excess tax burden" and has reduced the price competitiveness of Jamaican manufactured exports.

Jamaica is almost totally dependent on petroleum imports for the energy requirements of the economy, despite a small hydro-electric capacity and the recent installation of a coal-fired generating unit at the cement plant. The country is therefore vulnerable to price shocks on the international oil market. Last year the average price rose by US\$3 while the exchange rate of the Jamaican dollar moved from J\$5.50 to 7.00 to US\$1.00. Traditional government policy (and the JPS is a state owned utility) is to use the business or commercial sector to subsidize the household sector in electricity rates, a situation which is exacerbated by a

TABLE 20

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

Category	1985	1986	1987	1988	1989
Residential	340,344	367,674	417,116	406,955	467,951
Government	97,928	88,421	89,999	82,197	95,915
Street Lighting	29,497	29,304	31,037	25,796	35,504
Industry - Small	516,426	555,697	636,654	620,534	706,256
- Large	154,007	171,576	163,927	145,888	158,466
Other	9,143	14,310	14,839	13,261	11,525
<b>TOTAL</b>	<b>1,147,345</b>	<b>1,226,982</b>	<b>1,353,572</b>	<b>1,294,630</b>	<b>1,475,617</b>

SOURCE: Ministry of Mining, Energy and Tourism

high rate of electricity stealing and distribution loss. All these factors must be coupled with the high energy intensity of the economy, expressed as a measure of the relationship between aggregate output and energy demand. Jamaica's energy intensity last year increased by 24.5 percent to 7.82 barrels of oil equivalent per thousand dollar of Gross Domestic Product. Clearly, without a substantial reduction of this ratio, actual aggregate output will continue to be below its real

potential.

Finally, an effective and economically rational energy policy must take account of environmental impact and other social costs related to the use of fuels (e.g. acid rain, discharge of particulates and the greenhouse effect) as well as the long-term effect of watershed destruction on hydropower generation.



# MANUFACTURING

## Overview

Real manufacturing GDP recorded a 7.1 percent increase moving from \$331.8m & in 1988 to \$355.2m in 1989. This share of GDP represents the highest level to be attained since 1984, and it is 11.3 percent above average manufacturing GDP for the period 1984-89. Consistent with this change, the Index of Manufacturing Production is estimated to have increased by 3.4 percent compared to 0.8 percent in 1988. This increase in output is accounted for by substantial growth in the beverages and tobacco, chemicals and chemical products and non-metallic minerals sub-sectors. Advances of commercial bank credit to the manufacturing sector, which ranks second among the top five users, has been increasing at an average annual rate of 19.2 percent.

Real manufacturing between 1984-89 has been growing at an average annual rate of 2.3 percent. However, labour force in the sector has been growing at a higher average annual rate of 7.0 percent except for 1988-89 when employment fell by 1.6 percent and manufacturing GDP nevertheless increased considerably. This

trend is worrying as it shows that overall labour productivity has been falling. Data compiled by other researchers shows that GDP per employed worker in manufacturing has declined by an average annual rate of 7.1 percent between 1984-88.

The dilemma of the manufacturing sector seems to be reinforced by the following constraints, some of which have been identified by the government in its five-year development plan:

- 1) excessively high loan rates;
- 2) excessive taxes and other tariff disincentives;
- 3) a general policy environment which is in fact biased in favour of importing and retailing activity rather than manufacturing, especially small-scale enterprises;
- 4) the high cost of factory construction and rental;
- 5) outdated technology, machinery and equipment which retard the competitiveness of the manufacturing sector;

TABLE 21

## *Selected Economic Indicators of Manufacturing*

Indicators	1983	1984	1985	1986	1987	1988	1989p
Manufacturing Share of GDP (Constant Prices in J\$M)	310.8	297.8	299.0	306.1	325.3	331.8	355.2
Percentage Contribution to GDP (Constant Prices)	16.0	15.5	16.3	16.4	16.4	16.5	16.9
Rate of Growth (Constant Prices)	1.9	-4.2	0.4	2.4	6.3	2.0	7.0
Employed Labour Force in Manufacturing -at October - in thousands	91.3	98.7	100.6	115.3	138.2	136.0	133.8
Percent of Employed Labour (at October)	12.6	12.7	12.9	14.1	16.2	15.8	15.4
3GDP per Employed Worker (Annual Percentage Change)	-7.9	-10.4	-1.1	-7.1	-11.9	-5.0	N/A
4GDP per Employed Worker (\$'000)	3.4	3.0	3.0	2.7	2.4	2.5	2.6

p - Preliminary

1 - Level of employment based on the year average

3 - from Country Studies Division

2 - Level of employment based on year average

4 - from Country Studies Division

SOURCE: Compiled from data published by the Planning Institute of Jamaica, STATIN and the National Development Foundation

- 6) inadequacy of technical assistance and support services to assist exporters to penetrate new markets;
- 7) Government bureaucracy, particularly in the areas of customs procedures and licensing arrangements, and unreliable utilities.

### Performance of the Manufacturing Sector Investment in Manufacturing

There was a dramatic decline of 72.3 percent (\$78.79m to \$21.79m) in the value of new (JAMPRO-supported) investment in the sector. The Planning Institute of Jamaica submitted that this downturn in investment resulted from the following factors:

- (a) the general softening of the US apparel market;
- (b) the cutbacks in promotional activity during the year owing to financial constraints;
- (c) erosion of Jamaica's competitive edge as an investment location within the Caribbean as a result of factors such as high factory rental rates and utility costs.

Industrial unrest and low labour productivity in garment manufacturing are other contributory factors.

On the other hand, the depreciation of the Jamaican dollar which began in the latter half of the year should have had a favourable marginal impact on Jamaica's international competitiveness.

The number of projects implemented declined by 51.8 percent, from 56 to 27 projects between 1988-89. The most significant decline both in terms of the number of projects and value of investment was recorded by textile and apparel products, which fell by 65.8 percent and 69.9 percent respectively. Other manufacturing projects increased from 4 to 10 projects in 1989, and the value of investment moved from J\$2.64m to J\$6.42m in 1989.

### Manufacturing Exports

Manufacturing exports declined by 6.9 percent or US\$23.6m in 1989. Non-traditional exports which accounted for 72.2 percent of total exports increased by a mere 2.0 percent over 1988, while traditional manufactured exports, primarily rum and sugar, declined by 24.1 percent. All non-traditional exports except for processed food, chemicals and chemical products, and miscellaneous manufactures, and traditional exports (except for rum) showed negative percentage changes over 1988. There was substantial slowing in the growth of miscellaneous manufactures which consists of approximately 90 percent apparel exports. In 1989, this

TABLE 22

### *New JNIP-Supported Projects Implemented in Manufacturing 1987-1989*

Sector	1987		1988p		1989	
	No.	J\$M	No.	J\$M	No.	J\$M
Food Processing	4	14.8	4	0.9	2	2.2
Textile & Apparel Products	41	87.4	38	43.7	13	13.1
Chemicals & Chemical Products	3	19.4	1	0.5	0	-
Furniture & Wood Products	3	7.4	4	15.2	1	0.0
Electrical and Electronics	3	1.8	3	2.3	-	-
Paper and Paper Products	-	-	1	10.3	-	-
Footwear	1	5.5	1	3.3	1	0.1
Other Manufacturing	16	6.7	4	2.6	10	6.4
<b>TOTAL</b>	<b>71</b>	<b>143.0</b>	<b>56</b>	<b>78.8</b>	<b>27</b>	<b>21.8</b>

p - Preliminary

SOURCE: Compiled from JAMPRO reports

TABLE 23

## *Value of Exports for the Manufacturing Sector* **1988-1989**

US\$ Million

Category	1988	1989p	Percentage Change 1989/88
<b>Non-Traditional</b>	224.7	229.1	2.0
Processed Foods	19.1	20.6	7.9
Beverages & Tobacco	23.0	19.9	-13.5
Mineral Fuels	18.8	16.4	-12.8
Chemicals & Chemical Products	20.1	23.1	14.9
Manufactured Goods	13.1	18.5	41.2
Machinery & Trans. Equipment	4.7	4.3	-8.5
Miscellaneous Manufactures	125.8	126.3	0.3
<b>Traditional</b>	116.2	88.2	-24.1
Sugar	91.9	67.1	-27.0
Rum	13.7	16.1	17.5
Other Food Products	10.6	5.0	-52.8
<b>TOTAL</b>	340.9	317.3	-6.9

p - Preliminary

SOURCE: Compiled from data supplied by STATIN

sub-sector accounted for 55.1 percent of total non-traditional exports, and it has been growing erratically but at an average annual rate of 34.6 percent between 1984 and 1988. The 0.3 percent growth of 1989 is the lowest ever recorded. Implicitly, Jamaica needs to create new export manufactures and to diversify the overall manufacturing base so that the sector as a whole is less dependent on any one product group.

### **Non-Traditional Manufactured Exports to Third Countries and CARICOM**

Jamaica's export of non-traditional commodities to extra-regional markets which has been growing erratically at an average annual rate of 27.0 percent (1985-88), had only a marginal 0.7 percent growth in 1989. Exports of beverages and tobacco, mineral fuels, machinery and transport equipment and miscellaneous manufactures declined by an average of 19.7 percent over 1988, while exports from the other categories increased by an average of 27.5 percent.

Traditional manufactured exports to regional (CARI-

COM) markets which have been growing at an average annual rate of 0.8 percent (1985-88), increased by 9.4 percent in 1989 to US\$64.2m. However, in terms of export levels, 1989's performance was 29.5 percent below the 1983 record export value of US\$91.1m. All sectors showed positive changes over 1988, except for processed foods and beverages and tobacco, which declined by an average of 20.1 percent compared to an overall average increase in export value of 19.9 percent in the other sub-sectors. The increase in CARICOM exports seems to stem from a revitalization of intra-regional trade with renewed commitments and a reduction in trade barriers.

### **Prospects for the Manufacturing Sector**

Developments in Europe and other major international developments, (Uruguay Round, Lome IV and US/Canada Free Trade Agreement) as well as Caribbean integration will present Jamaica with challenges and opportunities.

Future manufacturing growth will be dependent upon Jamaica's ability to diversify its economic base by developing alternative - and high value added, - export

activities. Market-oriented policy reform, an infusion of supply-side strategies, removal of manufacturing disincentives, technological innovations and a revitalization of entrepreneurial activity are the requisite factors.

There should be a relaxation of credit, reduction in commercial banks liquidity ratio and allowance for the market mechanism to determine the allocation of

loanable funds at competitive interest rates.

To the extent that the expected rationalization of indirect taxes and expansion of the tax base through the introduction of the General Consumption Tax and the revised corporate income tax do not increase manufacturing costs, there should be some increase in manufacturing output in the last quarter of 1990.

TABLE 24

*Non-Traditional Manufactured Exports, 1983-1988*

US\$ Million

SITC Sections	1984	1985	1986	1987	1988	1989	% Change 1989/88
Processed Foods	20.0	19.2	18.4	19.3	19.1	20.6	7.9
Beverages & Tobacco	20.0	19.6	19.3	22.8	23.0	19.9	-13.5
Mineral Fuels	18.6	27.9	18.0	13.6	18.8	16.4	-12.8
Chemicals	17.9	16.9	15.7	21.1	20.1	23.1	14.9
Manufactured Goods	11.1	7.7	7.4	9.2	13.1	18.5	41.2
Machinery & Trans. Equipment	2.8	2.8	2.3	3.0	4.7	4.3	-8.5
Miscellaneous Manufactures	45.7	46.2	63.9	117.7	125.9	126.3	0.3
TOTAL	136.1	140.3	145.0	206.7	224.7	229.1	2.0

SOURCE: Compiled from data supplied by STATIN

TABLE 25

*Non-Traditional Manufactured Exports  
to Third Countries 1984-1989*

US\$ Million

SITC Sections	1984	1985	1986	1987	1988r	1989p	% Change 1989/88
Processed Foods	5.6	13.5	11.1	10.5	8.4	12.2	45.2
Beverages & Tobacco	8.5	15.0	14.4	17.7	17.1	15.1	-11.7
Mineral Fuels	16.2	25.3	14.4	10.9	12.1	8.5	-29.8
Chemicals	4.1	5.0	4.1	8.0	5.6	6.7	19.6
Manufactured Goods	0.9	1.7	1.9	3.0	3.4	4.0	17.6
Machinery & Trans. Equipment	0.4	1.4	0.9	1.3	1.9	1.2	-36.8
Miscellaneous Manufactures	33.1	39.2	57.2	110.4	117.5	117.2	-0.3
TOTAL	68.8	101.1	104.0	161.8	166.0	164.9	-0.7

p - Preliminary

r - Revised

SOURCE: Compiled from data supplied by STATIN

TABLE 26

# *Non-Traditional Manufactured Exports to CARICOM 1984-1989*

US\$ Million

SITC Sections	1984	1985	1986	1987	1988r	1989p	% Change 1989/88
Processed Foods	14.4	5.7	7.3	8.8	10.7	8.4	-21.5
Beverages & Tobacco	11.5	4.6	4.8	5.1	5.9	4.8	-18.6
Mineral Fuels	2.4	2.6	3.3	2.7	6.7	7.9	17.9
Chemicals	13.8	11.9	11.8	13.1	14.5	16.4	13.1
Manufactured Goods	10.2	6.0	5.3	6.2	9.7	14.5	49.5
Machinery & Trans. Equipment	2.4	1.4	1.4	1.7	2.8	3.1	10.7
Miscellaneous Manufactures	12.6	7.0	7.1	7.3	8.4	9.1	8.3
<b>TOTAL</b>	<b>67.3</b>	<b>39.2</b>	<b>41.0</b>	<b>44.9</b>	<b>58.7</b>	<b>64.2</b>	<b>9.4</b>

p - Preliminary

r - Revised

SOURCE: Compiled from data supplied by STATIN

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# MINING

The seven major western industrial economies averaged 3.3 percent growth in 1989 and have been growing at an average annual GNP/GDP rate of 3.4 percent since 1986. Growth in the international economy is reflected in rising average annual rates of growth in the consumption of raw materials.

The average cash price of aluminium on the London Metals Exchange (LME) in 1989 was US\$0.89 per pound, 22.6 percent less than the price in 1988. Approximating this price was the Average Realized Price (ARP) of US\$0.92 per pound for ALCAN, ALCOA, Reynolds and Kaiser. This is one of the best indicators

TABLE 27

## *World Consumption Of Major Raw Materials* *Average Annual Rates of Growth In Consumption* (Percentage)

	1969/71- 1979/81	1979/81- 1984/86	Projected 1984/86-2000
Metals and Minerals	2.75	0.61	1.32
Copper	2.49	0.86	1.44
Iron Ore	2.01	-0.43	0.68
Tin	0.22	-3.21	-1.05
Nickel	2.83	0.97	1.06
Bauxite	4.21	0.14	1.95
Lead	1.52	0.21	0.42
Zinc	1.31	1.84	1.27

TABLE 28

## *Western World Primary Aluminium Consumption* *1985-1989* (<sup>'000</sup> Tonnes)

COUNTRY	1985	1986	1987	1988r	1989
United States	4,282	4,317	4,536	4,598	4,459
Japan	1,783	1,805	1,750	2,115	2,126
France	586	593	616	645	654
Germany	1,158	1,187	1,186	1,233	1,249
Italy	470	510	548	581	596
United Kingdom	350	389	384	427	415
Other <sup>1</sup>	4,004	4,182	4,631	4,781	4,855
TOTAL	12,633	12,983	13,651	14,380	14,354

r Revised

<sup>1</sup> Refers to non-Socialist world but including Yugoslavia

SOURCE: Jamaica Bauxite Institute

of the price for Jamaica's bauxite. The apparent decline in the price of bauxite was attributed to the de-stocking process by consumers, the reduced rate of consumption and, to a lesser extent, increased supply.

It is projected, however, that world consumption of metals and minerals should grow at an average annual rate of 1.3 percent up to the year 2000. The average annual rate of growth in bauxite consumption, which averaged 4.2 percent between 1969/71 - 1979/81, but declined to 0.1 percent in the mid-1980s is projected to rise by an annual rate of 2.0 percent up to the year 2000. This trend in consumption should have a positive effect on prices, hence the World Bank projects that metal prices will recover somewhat from the 1986 level but will remain well below the levels of the 1970s.

Overall, consumption of primary aluminium by the western countries declined in 1989 by 0.2 percent. As shown by Table 28, consumption declined in the United States, (which accounts for almost one-third of world consumption) and the United Kingdom by an average of 2.9 percent. However, consumption in the other group of countries grew by an average rate of 1.5 percent.

Despite the softening of prices, therefore, the general picture which is being projected suggests improvement and it should impact favourably on local bauxite/alumina production.

### Production and Export

There was a very strong recovery in Jamaica's bauxite/alumina output last year. Crude bauxite production increased by 32.9 percent (the highest since 1981) and exports by 19.9 percent. Total alumina production

also recorded a substantial increase of 46.7 percent above 1988. Alumina exports increased to 2,145.4 thousand tonnes, 36.2 percent over 1988. The highest rates of growth were recorded for shipments to Norway and Sweden, and Ghana, which averaged 313.5 percent increase.

The increased output was facilitated by the re-opening of Alpart alumina refinery, and incentive contribution from the new taxation regime. Companies are subject to a levy which is indexed to the price of metal, and also normal income tax on profits. However, the new system allows the rate of income tax deduction to be determined largely by changes in the profitability of the company. This revised tax regime appears to provide more incentive for boosting gross domestic investment and increasing production than any of the previous amendments to the levy which was instituted in 1974. Since that time, there was a period of disinvestment by the aluminium companies and a secular decline in output. There appears to be a real reversal of these trends at last and the significance of the developments in the past two years ought not to be underestimated.

### Foreign Exchange Earning

Preliminary figures indicate that gross sales of bauxite and alumina for 1989 amounted to US\$557.7m, 30.9 percent above 1988. This growth stems largely from a 19.9 percent increase in alumina sales which totalled US\$125.7m. However, the country's net foreign exchange earnings were US\$212.3m, a decrease of 6.9 percent when compared to the 1988 figure of US\$228.0m.

Table 29 *Jamaica's Bauxite/Alumina Production and Exports*  
1984-1988 ('000 Tonnes)

Year	Total Bauxite Production	Crude Bauxite Exports	Alumina Exports
1985	5,975.0	2,325.0	1,513.0
1986	6,905.9	2,913.0	1,575.0
1987	7,802.1	3,711.4	1,613.0
1988	7,260.9	3,494.4	1,513.9
1989	9,652.4	4,189.7	2,221.1

SOURCE: Jamaica Bauxite Institute



TABLE 30

## Foreign Exchange Earnings 1985-1989

US\$M

Year	Categories			Total
	Production Levy	Local Cash Inflows	Royalty	
1985	66.3	69.3	3.1	138.7
1986	72.1	89.1	4.0	165.2
1987	96.5	117.6	3.6	217.7
1988r	102.9	121.5	3.6	228.0
1989p	73.5	134.2	4.6	212.3

r - Revised

p - Provisional

SOURCE Jamaica Bauxite Institute

As shown by Table 30, the decline resulted from a 28.6 percent reduction in earnings from the new production levy/taxation regime. Payments for royalty however increased by US\$1 million, or 27.8 percent over 1988 - as a result of increased production which may have responded to the tax incentive. Local cash inflows increased by 10.4 percent above 1988. These inflows are used to finance capital and other expenditure such as the industry's new wage packages.

### Government's Medium-Term Framework for Mining

Government has outlined that their policy in the mining sector will be to ensure maximum production of bauxite and alumina and to develop other minerals such as limestone, marble and gypsum. Consistent with this outline, government seeks to stimulate the supply-side of the industry by shifting the bauxite levy regime (which had been based on production) to a taxation regime based more on profitability. This strategy should act as an incentive for increasing production, as the tax burden on mining companies would decrease during periods of unfavourable prices, hence, bauxite costs will now compare more favourably with most other sources of supply.

Another significant element of government's mining policy will be to ensure that the social costs (adverse environmental effects) are minimized. Government's proposed intervention through the monitoring of underground and surface water and the atmosphere for particulates and corrosive gases will be instrumen-

tal in dealing with these externalized costs. However, there should be policies that regulate residential and other interactive behaviour of citizens as well as tax policies which penalize the delinquent companies and reward the cooperative ones.

### Industrial Minerals

In 1989, all categories of industrial minerals except gypsum showed growth in production ranging from a low of 7.7 percent for marl and fill to 85.2 percent for marble production. Average annual growth for all minerals was 14.7 percent. In terms of export earnings, gypsum and limestone ranked as the two most important.

### Limestone

Limestone production in 1989 increased by 13.6 percent to 2.5 million cubic metres compared with 1988. This is an extraordinary increase beyond the average annual rate of growth of 3.1 percent between 1985-88. Total shipments for the year were estimated at 20,164 tonnes, which gained earnings of US\$158,320, with 72.6 percent of this value being accounted for by shipments of high purity limestone mainly to the USA and Trinidad to a lesser extent.

### Gypsum

Average annual gypsum production between 1985-88 was 154.5 thousand tonnes, but declined to a mere 78,000 tonnes in 1989. Jamaica Gypsum and Quarries,

which mines and ships gypsum was acquired by the state in the 1970s. Last year it was divested to the Caribbean Cement Company, which was itself privatised two years before. From 1989 gypsum output, approximately 55 percent valued at US\$279, 000 was exported to CARICOM and the remainder, valued at US\$118,303, to other Third World countries. This is a change from the traditional market in the USA. It has also been announced that gypsum exporting is being contracted to conserve our limited deposits for domestic uses.

### Other Industrial Minerals

Marble production for 1989 was 5,000 tonnes, an 85.2 percent increase over 1988. This represents the highest level since 1985 and production levels are projected to increase at a higher rate when the two new companies which started in 1988 increase capacity utilization.

Marl and fill production increased by 7.7 percent over 1988 to a level of 2,800 thousand cubic metres. This rate of growth reflects the increase in road improve-

ment programmes and, to a lesser extent, demand from building construction.

Sand and gravel recorded an 11.1 percent increase in output over 1988, the highest production level since 1985. This growth reflects increased demand by the construction and installation sector - which grew in real terms by 19.3 percent in 1989.

Silica sand output rebounded with 16.9 percent growth in 1989, after a 34.8 percent decline in 1988.

### Infrastructure Development and Disincentive

Whiting production and export is said to be well below potential because of the absence of port facilities and modern capital equipment. It is estimated that only 40 tonnes of low quality whiting was exported in 1989. Although several firms are reported to have examined the feasibility of establishing mines for the production and export of whiting (a product of high value-added on basic limestone) substantial development is said to hinge on government provision of port infrastructure.

TABLE 31

### *Production of Industrial Materials* 1985-1989

Mineral	1985	1986	1987	1988	1989
Gypsum ('000 tonnes)	179.00	117.0	176.3	145.50	78.01
Limestone ('000 tonnes)	1950.00	1,960.00	2,150.00	2,200.00	2,500.00
Marble ('000 tonnes)	0.05	0.20	0.50	2.70	5.00
Marl and Fill ('000 cubic metres)	2,300.00	2,600.00	2,800.00	2,600.00	2,800.00
Sand and Gravel ('000 cubic metres)	555.00	610.00	680.00	810.00	900.00
Silica Sand ('000 tonnes)	16.00	13.10	19.93	13.00	15.20

SOURCE: Ministry of Mining and Energy, Mines and Quarries Division.

# TOURISM

The tourism sector is the main engine of growth in the Jamaican economy. In 1989, gross visitor expenditure was estimated at US\$590m, with tourism's contribution to total foreign exchange receipts estimated to have risen by 29.2 over 1988. By 1992 foreign exchange earnings from tourism are projected to exceed US\$800m. Direct employment increased by 8.6 percent to 18,541 persons. This comprises employment in hotels, guest houses, resort cottages and apartments.

Tourism also accounts for advantageous linkage and multiplier effects with other sectors of the economy, notably agriculture, transportation, commerce and utilities. The nature of these symbiotic relationships are increasing and becoming more beneficial.

## Visitor Arrivals and Expenditure

Total visitor arrivals to the island during 1989 was 1,163,236, a 14.0 percent increase over the year before. Cruise ship passengers, which accounted for 38.2 percent of total visitor arrivals, showed the highest increase (20.8%) over 1988. Absolute increases were recorded in all categories of visitors as compared to 1988, when there were declines in stop-overs and armed-forces of 28.4 percent because of the effect of hurricane Gilbert. The year 1987, as a more typical year, therefore provides a better base for comparison.

Stop-over visitors and armed forces in 1989 were 3.3 percent and 33.7 percent, respectively below the levels attained in 1987, with stop-over being the more significant visitor category in both numbers and purchasing power. Evidently, it is cruise ship passengers which increased by 52 percent over 1987 and has been growing at an average annual rate of 14 percent, that account for the real growth in total visitor arrivals. Average length-of-stay (nights) by visitors increased by 2.9 percent in 1989. Europeans averaged 13 nights in 1989, compared to 8.3 nights for North American visitors.

Jamaica's main source of stop-over visitors nevertheless continues to be North America, with 67.3 percent from the United States and 14.9 percent from Canada compared with 13.5 percent from Europe and 4.3 percent from other regions.

In terms of absolute figures, the average annual percentage of stop-over visitors from North America has been falling by 2.0 percent, while there has been an 8.8 percent increase in visitors from Europe. While tourism marketing must be sustained in North America, it seems clear that the greater potential for growth lies in the Western Europe market of over 320 million people, of which slightly more than 50 percent are potential tourists. The greatest challenge, however,

TABLE 32

## *Stop-Over Visitors by Country of Origin* 1985-1989 by Percentage

Country of Origin	1985	1986	1987	1988r	1989
United States of America	75.8	74.5	73.8	71.0	67.3
Canada	14.4	15.2	14.9	14.3	14.9
United Kingdom	3.8	4.5	4.8	6.8	9.4
Other European Countries	1.7	1.8	3.1	3.9	4.1
Commonwealth Caribbean	2.5	2.3	2.0	2.2	2.3
Latin America	0.8	0.9	0.8	0.8	1.0
Other	1.0	0.8	0.6	0.8	1.0
<b>TOTAL</b>	<b>571,713</b>	<b>663,593</b>	<b>738,827</b>	<b>648,873</b>	<b>714,771</b>

SOURCE: Jamaica Tourist Board

TABLE 33

*Estimated Visitor Expenditure 1985-1989*

Year	Expenditure Per Person (US\$)			Cruise Passengers			Estimate of Visitor Expenditure US\$M	% Change Over Previous Year
	Stop-Over (Per Night)							
	Winter	Summer	Avg.	Winter	Summer	Avg.		
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	595.0	+15.3
1988	78	76	77.0	52	49	50.5	527.1	-11.8
1989p	81	76	78.0	44	51	48.0	607.4	15.2

p - Provisional

SOURCE: Jamaica Tourist Board

is less in raising the number of tourist arrivals and more in increasing average tourist expenditure, and hence its contribution to Gross Domestic Product. The propensity to spend by the visitors to the Caribbean islands is largely a function of the nature of our tourism product. By this is meant the quality and variety of visitor accommodation, attractions, activities and shopping which are available.

The visitor expenditure survey conducted by the Ministry of Tourism reveals that in 1989, there was a slight increase of 1.3 percent in average expenditure per person per night by stop-over visitors over 1988. Stop-overs average expenditure increased from US\$37.0m in 1988 to US\$78.0 in 1989, while average expenditure by cruise passengers declined by 5.0 percent in 1989, moving from US\$50.5m to US\$48.0m. Although the multiplier effects of tourist expenditure are definitely making a positive impact on the Jamaican economy,

actual figures are nevertheless too low to facilitate sustained economic growth for long-term development.

**Hotel Room Occupancy**

Consistent with the increase in stop-over visitors during 1989, average hotel room occupancy increased from 56.5 percent in 1988 to 59.1 percent in 1989. All regions showed increased percentage room occupancy except for Port Antonio, which declined from 35.7 percent to 21.7 percent. Negril and Montego Bay continue to rank highest in occupancy levels. The maintenance and continued development of tourism require infrastructure including communication and utilities, as well as environmental management. Unless this is fully understood, both the physical environment and the social ambience will deteriorate rapidly and the industry's contribution to the economy will fall off

TABLE 34

*Visitor Arrivals 1985-1989*

Category of Visitors	1985	1986	1987	1988	1989	%age of Total	% Change 1989/88
Stop-over Visitors	571,713	663,593	738,827	648,873	714,771	61.4	10.2
Cruise Ship Passengers	261,508	278,507	292,156	367,732	444,054	38.2	20.8
Armed Forces	13,495	12,521	6,651	3,688	4,411	0.4	19.6
TOTAL	846,716	954,621	1,037,634	1,020,293	1,163,236	100.0	14.0
Avg. Length of Stay (Nights)	9.8	10.2	10.2	10.3	10.6		2.9

SOURCE: Jamaica Tourist Board

instead of rising in accordance with its obvious potential.

### Investment

Commercial bank loans to tourism (which ranked fifth as a principal user of credit) increased by J\$161.4m or

35.8 percent in 1989. This rate of change in credit is a reflection of the growing private sector optimism in the industry. However, there is need for greater levels of investment expenditure in tourism and its related sectors. This is needed to allow the industry to remain as the mainspring of the domestic economy, and also to allow it to propel and foster sustained economic growth.

Table 35

### *Hotel Room Occupancy - 1985-1989*

(Percentage)

Area	1985	1986	1987	1988r	1989
Kingston & St. Andrew	36.2	34.6	40.4	48.3	51.3
Montego Bay	52.2	61.2	66.6	58.6	59.0
Ocho Rios	57.7	62.2	66.0	57.8	61.6
Port Antonio	24.9	28.5	38.1	35.7	21.7
Mandeville	24.5	35.2	33.4	40.2	41.7
Negril	69.2	74.2	68.5	61.3	70.1
Jamaica - Average	51.6	57.0	61.7	56.5	59.1

r - Revised

SOURCE: Jamaica Tourist Board

TABLE 36

### *Top Five Users Of Commercial Bank Credit in 1989*

	1985	1986	1987	1988	1989	%age of Total	% Change 1989/88
Construction & Land Development	612.2	636.9	897.4	1,319.8	1,729.1	23.2	31.0
Manufacturing	726.1	822.3	978.5	1,216.5	1,462.7	19.6	20.2
Transport, Storage & Communication	390.9	446.4	591.5	762.7	1,117.4	15.0	46.5
Agriculture	496.9	416.1	479.6	668.6	702.1	9.4	5.0
Tourism	184.9	236.1	321.6	451.0	612.4	8.2	35.8
TOTAL <sup>1</sup>	3,048.2	3,821.8	4,895.6	5,766.0	7,446.4		

<sup>1</sup> Shows total loans and advances for all sectors of the economy

SOURCE: Economic and Social Survey, Jamaica 1989.

# IMPLICATIONS OF EUROPE 1992 FOR THE CARIBBEAN

The plan to create a single internal market within the European Community by the end of 1992 is intended to remove all political, technical and fiscal barriers to the movement of people, goods and assets within the community and harmonize many of the economic and social policies of the member countries. "Europe 1992" is both part of an accelerating movement towards European integration and of a world-wide movement towards increased economic liberalization and deregulation. This is a very important phenomenon, more so because it is occurring simultaneously with other fundamental changes: a decline of socialism as an economic model and the proliferation of democratic regimes in the world.

protocol for sugar, a special one for bananas and another for rum, as well as special arrangements for rice, beef and veal. The Lome convention provides a subvention to support shortfalls in the average earnings of exports to the EC for agricultural commodities such as coffee, cocoa, bananas etc., special support to maintain mineral production and aid for development projects and disasters. From this arrangement, the Caribbean benefits largely from its sugar, bananas, rum and rice.

As shown by Table 37, there has been an annual average decline of 2.8 percent in the quantity of sugar

TABLE 37

## *Sugar Exports By Destination 1985-1989*

Destination	1985		1986		1987		1988		1989	
	Quantity (tonnes)	Value (fob) J\$'000	Quantity (tonnes)	Value (fob) J\$'000	Quantity (tonnes)	Value (fob) J\$'000	Quantity (tonnes)	Value (fob) J\$'000	Quantity (tonnes)	Value (fob) J\$'000
United Kingdom	126,222	213,970	126,217	310,870	124,479	383,600	138,583	441,030	120,744	341,110
USA	25,345	59,191	17,150	39,361	9,070	22,700	14,441	34,320	11,591	29,200
TOTAL	151,567	273,161	143,367	350,231	133,549	406,300	153,024	475,350	132,335	370,310

"Europe 1992" will have important effects on the Caribbean region's bananas, rum, sugar and investment.

### Current State of Trade

Because they were former colonies of Britain and other European countries, many of the Caribbean countries over the years have been benefiting from preferential trade arrangements for primary commodities. This arrangement is now embodied in the Lome convention which has been renewed thrice. The Lome convention gives non-reciprocal preferences for African, Caribbean and Pacific (ACP) trade to the EC markets, free and unlimited access for industrial products and preferential access for agricultural products. It has a special

exports (to the US and UK combined) between 1985-1989 while the value of exports has been increasing by 13.3 percent (Table 38). Sugar exports to the UK, though valued in pounds, are paid in US dollars. Table 38 shows that for the review period, the pound appreciated against the US dollar by an average annual rate of 7.86 percent, while the US dollar, which exchanged for J\$5.50 up to 1988 appreciated by 18.18 percent in 1989 against the Jamaica dollar. This shows that fluctuations in exchange rates account for a great percentage of Jamaica's annual increases in sugar earnings.

It is often argued that the poor state of Caribbean international trade results from unfavourable movements in the terms of trade, whereby import prices rise fast

TABLE 38

## *Selected Indicators of Jamaica's Preferential Trade with the EEC*

Jamaica	1985	1986	1987	1988	1989	Average Annual Price 1985-89
<b>A. Preferential Sugar Prices<sup>1</sup> (US\$ per tonne)</b>						
EEC Price	298	455	455	518	483	477.75
US Price	405	424	448	441	435	437.00
World Price (Range)	78.110	115-204	135-180	220-340	308-350	268.502
<b>B. Exchange Rates<sup>2</sup></b>						
£1 = US\$	1.444	1.4745	1.8715	1.8095	1.6055	
1 US\$ = J\$	5.50	5.50	5.50	5.50	6.50	

1 The Sugar Industry Board

2 Calculations based on the upper limits

3 International Financial Statistics - IMF and Bank of Jamaica

while export prices remain stable or rise only moderately. Between 1986-1989, however, the price of Jamaican sugar exports to the EEC rose by an average annual rate of 14.94 percent (Table 37). Additionally, the country was paid an average annual preferential price of US\$477.75 per tonne, which was 77.93 percent above world price, which averaged US\$268.5 per tonne for the same period. Jamaica's (and the Caribbean's) foreign exchange earnings from sugar have not only benefited from the favourable movements in exchange rates but also from high preferential prices.

This preferential sugar price is based upon the highly subsidized intervention price that is paid for beet sugar produced in the EC. There are no barriers to intra-EC sugar trade and the current sugar protocol allows for a guaranteed tonnage of about 430 thousand tonnes per annum.

However, with the stronger and more competitive internal market that will develop after 1992, it is likely that there will be a reduction in the intervention price and likewise the negotiated price for Caribbean sugar. Caribbean producers may find sugar production unprofitable, unless they increase efficiency and lower unit costs.

In the case of rum, the challenge is to persuade the EC as a whole to increase the preferential quota for this product. The new protocol on rum has been amended and national quotas will be phased out by 1994. What will replace this arrangement is not yet clear. There is another challenge to rum to prevent the

name for the product of the sugar cane also being used to describe other types of spiritous liquor currently being produced inside Europe. This illegitimate use of the name "rum", is a significant marketing disadvantage to Caribbean producers.

### Banana Exports

ACP bananas are exempted from import duties in the EC, 20 percent of whose market is met from those countries against 50 percent from Latin American countries and the remainder from other countries. The market shares for selected countries to the UK are shown in Table 39.

With the removal of tariffs and quotas, price and quality will become the factors determining success in the open market and some Caribbean countries may be marginalised. To illustrate: Jamaica's overall average quality assessment for 1988 and 1989 were 79.4 percent and 76.9 percent respectively. It was announced that as of January 1990, farmers with three consecutive quality assessments of less than 70 percent would be suspended from shipping to the United Kingdom. Fruit scarring, ripe fruit and green ripe, fruit rot, chemical residues and crown trimming are affecting the quality of Jamaican bananas on the UK market. The protocol on bananas has been renewed (Lome IV) and supplemented by an undertaking to maintain the advantages of traditional suppliers once the internal market for this product is completed. This provision must not be interpreted as a guarantee to maintain the

current export levels of individual countries. After 1992, some producers will increase efficiency and market forces will automatically redistribute shares – possibly with an increase to Latin American countries. The entry of the Dominican Republic into the ACP should accelerate this process.

The English-speaking Caribbean in the 1990s may find that sugar and bananas cannot compete in export markets without preferential support. It is imperative therefore that they diversify their economic base, increase the local value-added of their exports where possible and improve cost efficiency.

### Tourism

Tourism to developing country destinations forms only a small fraction of total tourism. There are 320 million western Europeans of whom slightly more than 50 per cent are potential tourists. This is a substantial market. Most Caribbean countries have the requisite physical geography, climate and other factors which together add up to comparative advantage in tourism.

function of the quality of our tourism product. Suppliers of tourism in the Caribbean will need to improve price, product quality and a variety of attractions before any substantial increase in arrivals and expenditure appear.

### Foreign Direct Investment

Already, the attraction of a large and dynamic single market is exercising a great pull effect on foreign direct investment (FDI) from transnational corporations (TNCs) based in Japan and the United States of America. Firms in individual European member-countries of the EC are also finding it more profitable to invest in other community countries. It appears too that many TNCs from the EC have already begun to position themselves through strategic alliances and acquisitions of a network of enterprises for the advent of the single internal market. The likely effect of these developments may be a decline of FDI flows to other regions, especially the developing countries of the Caribbean. Such a decline would be felt most heavily

TABLE 39

### *Percentage of the UK Banana Market Filled By Exporting Countries 1983-1989*

Selected Exporters	Average Annual Market Share Percent - 1983-89 <sup>1</sup>
Windward Islands	45.8
Dollar Bananas (Latin America)	25.8
Suriname	9.0
Jamaica	7.0
Belize	5.5

<sup>1</sup> Data for 1988 was not available.

Calculations are based on data from Banana Export Company Limited.

We must aggressively penetrate this market to increase our foreign exchange earnings, especially since the North American market for Caribbean destinations may be approaching saturation. Increasing the number of visitors from Europe ought not to be our only aim. Even more important is increasing average tourist expenditure and, hence, the sector's contribution to Gross Domestic Product. The propensity to spend by the visitors to the Caribbean islands is largely a

in labour-intensive industries supplying manufactured goods. However, natural resource industries (bauxite-alumina, limestone, marble and gypsum) would be affected to a smaller extent.

On the other hand, it is expected that competition within the EC will intensify to such an extent, that some TNCs may find it profitable to invest in developing countries. Such shifts in industrial location may



be sought either as markets or as low-cost sources of supply. The Caribbean may benefit from investment by firms from the developed countries which will eventually find it advantageous to invest in developing countries associated with the EC in the framework of the Lome convention. The present arrangement will allow them to improve their competitiveness and profitability in the European market. A similar phenomenon can be observed in some Caribbean countries with preferential access to the United States and Canadian markets.

Additionally, increased economic growth in the Economic Community is likely to increase the demand for imports from developing countries. This feature should lead to investment by foreign affiliates of European companies. However, the extent to which firms from the Caribbean will benefit from FDI will depend on their supply capabilities vis-a-vis both EC and non-EC firms. Further, their relative competitiveness will also be important, and will be determined in part by the policies adopted by the Commission of the European Communities towards trade and FDI between European Community and non-community countries, especially the developing countries.

### Developments in Eastern Europe

Eastern European countries are in the process of opening up to international trade and as a result will be less protected and dependent upon COMECON. They are going to be forced to become competitive and consequently one can expect them to undertake economic adjustment. The success of these programmes will be dependent upon access to medium to long-term finance, modern technology, raw materials and markets. Eastern Europe will be competing with developing countries for developmental aid, grants, investment, markets and preferential arrangements from the European community and other developed countries.

Shearer (1990) noted in a critique on Jamaica's foreign trade with Eastern Europe, that although we have traded with these countries for many years, trade had tended to be dominated by Jamaican pimento exports, with little being imported in exchange. In the case of USSR, pimento has always been significant, and more recently bauxite and alumina. However, these countries have generally sought to conduct trade on a barter basis with efforts to achieve a "balanced" or "partially balanced" trade and, as a consequence, have tended not to take an interest in promoting their goods commercially in the world market.

Government and private sector entities must realize that

this approach will change. And as their products become more differentiated and competitive, developing countries will experience increased competition as sources of supply. Competition will also increase the supply of services; for example, Eastern Europe should become an attractive tourist destination in the next 3-5 years. In terms of the demand for Jamaican exports, two essential questions must be addressed: What will we have to sell to these markets? And, what will they be interested in buying from us at prices that we regard as remunerative? Market research and product development will be crucial; we will have to monitor developments and investigate all possibilities for expanding our trade with Eastern European markets.

### The Caribbean

The region is likely to benefit from the "New Enterprise for the Americas", announced by President George Bush. This new deal is influenced by the recognition that free market reform is the key to sustained growth and political stability. The main elements that have been outlined to accomplish these objectives are increased trade, increased investment and the reduction of external debt. Although the initiative is designed to involve all countries of the Americas - North, Central and South, it is clear that the ones which are already associated for purposes of trade liberalization (e.g. CARICOM) and which respond readily with market-oriented investment reforms and full privatization - should receive the greatest benefit in the medium-term. The countries that accept this economic thrust will be better poised to benefit from the new provisions outlined by Lome IV, but also the provisions of the Uruguay Round which is still being negotiated.

### Conclusions

- 1) The country's historical approach to production of low value-added primary agricultural commodities and export marketing based largely on political considerations and preferences must now be augmented by real productive efficiency and international competitiveness. Caribbean countries have to diversify their economic base in the medium to long run by developing and exporting goods and services of a higher local value-added.
- 2) Increased export production will in turn depend on strengthening R&D and manpower training in such areas as -
  - a) product development and packaging;
  - b) computer literacy;

- c) foreign language competence;
  - d) marketing;
  - e) understanding laws and regulations governing trade in international markets.
- 3) We will need to promote cooperation in joint investment, coproduction, joint sales and technological collaboration with foreign entities. This is important as various venture businesses in Europe are looking for partners from developing countries. For the success of these strategies, there will be need for market-oriented policy reform by Caribbean countries to allow the private sector to play a more dynamic role in diversifying Caribbean economies and in stimulating growth.