[BY PERMISSION OF THE CHAIRMAN]

JAMAICA SETS THE STAGE FOR THE TWENTY-FIRST CENTURY

"Jamaica is now a private sector-led, market-driven economy, having successfully completed a quiet economic revolution. Strategic global repositioning of the economy has established Jamaica as the business center of the Caribbean in the 21st century."

Ambassador Dr. Richard L. Bernal

After several years of economic difficulties, Jamaica is now poised to become a major economic powerhouse in the Caribbean. This "quiet revolution" currently underway is the result of the present government's firm commitment to a market-driven, private sector-led economy.

Since the late 1980s, Jamaica has taken several bold steps in a number of areas, resulting in changes not only in its internal economic structure, but also in its external trade relations. Through a coordinated process of structural adjustment and trade liberalization, a new more vibrant economy has emerged.

Economic growth has been positive, increasing from approximately 0.3% in 1991 to an estimated 2% in 1993 and 1994. Production of bauxite, the major export, has increased 11.9 million metric tons, the highest level since 1980. Tourism, another major foreign exchange earner, continues to see strong growth, with Jamaica being named top Caribbean destination by the International Travel Trade Gazette, supported by travel agents worldwide. With respect to agriculture, banana exports have grown significantly, with 78,577 tons exported in 1994, an increase of 1,800 tons over 1993. Finally, in the area of non-traditional exports, apparel exports from Jamaica to the U.S. have increased by 60% since 1989. This includes products from Jamaican subsidiaries of U.S. companies such as Hanes, Jockey, Fruit of the Loom and Polo.

Net International Reserves (NIR) have grown steadily, turning positive at the end of 1993 for the first time since 1976. As of December 1994, NIR stood at J$400 million, compared to minus J$830 million in 1984. This has improved Jamaica's creditworthiness in terms of the government's ability to attract commercial loans and trade credits. Jamaica is once again being viewed favorably by the financial markets, receiving a Bear Stearns rating (lower BB) for the first time in September 1994. This ranking is higher than Brazil, Turkey, Ecuador, Venezuela, Peru and the Dominican Republic. Jamaica's rating with Institutional Investor has also improved.

Major aspects of the "quiet economic revolution" include the following:

A. Trade Liberalization

Jamaica is fully committed to trade liberalization and is a signatory to the recently concluded Uruguay Round Agreement culminating in the formation of the new World Trade Organization (WTO). Jamaica is also a member of the Caribbean Common Market (CARICOM), which is a regional trading bloc consisting of the twelve English-speaking Caribbean countries with Haiti and Suriname as observers. In June of 1994, Jamaica was one of almost forty countries who signed the treaty forming the Association of Caribbean States (ACS) which includes such regional trading giants as Mexico and Colombia. Jamaica's membership in these trade groupings is indicative of the country's continued thrust towards overall trade liberalization and global free trade.

Moreover, Jamaica actively participates in several regional trade-liberalization arrangements with the United States (the Caribbean Basin Initiative - CBI), Europe (the Lomé Convention), Canada (CARIBCAN), and the other English-speaking countries in the Caribbean - the Caribbean Common Market [CARICOM])

The CBI, which allows duty free access of goods from the region to the US market has not only benefitted Jamaica and other countries in the region, but has resulted in increased US trade with CBI countries. In the past decade, two-way trade has grown rapidly exceeding $21 billion in 1993. It has also been estimated that US exports to the Latin American and Caribbean region will exceed those to Western Europe by the year 2000.

The process of trade liberalization which began in Jamaica in 1987 is essentially complete. By December 1991, the average tariff for the economy as a whole was 20.3%, having been reduced from an average tarriff of 49.9% in 1989. The current tariff range is 0% to 45%, but the majority of products carry rates of 10% or less, i.e. 58% of the tariff positions in the Harmonized System Classification bear a tariff of 10% or less. In April 1994, the government acted to further reduce duties on imported raw materials to 0%-5%, down from 5%-25% in 1993. Non-competing raw materials are now duty free, while non-competing capital goods carry a tariff rate of 5%. Duties on competing goods now range from 15%-25%, down from 20%-30%. Two additional phases of tariff reduction are scheduled for 1997 and 1998.

At the present time, import licenses are only required on certain hazardous chemicals, arms and ammunition. Hence, the United States has free access to the Jamaican market, and enjoys most-favored nation status. Tariffs apply to all countries, with CARICOM member countries enjoying some tariff concessions.

There are no non-tariff barriers and there have been no cases of restrictions on U.S. exports by standards, testing, labelling and certification. Government procurement practices allow U.S. firms and goods to compete freely. The Jamaica customs administration, while still attempting to improve its efficiency, has not and is not an impediment to U.S. exports or investors requiring imported inputs.

Jamaica has also signed a Bilateral Textiles Agreement with the United States, and was the first country to include provisions for anti-circumvention in the accord. The textile and apparel industry has played a crucial role in the development of Jamaica's economy in the last ten years. This industry is the single largest employer of labor in the country and generates almost $400 million in foreign exchange earnings annually. Significantly, roughly 80% of the cost of a finished garment assembled in Jamaica consists of US labor, fabric or other inputs, confirming that trade with Jamaica is actually beneficial to US industry. The Jamaican textiles and apparel industry is competitive in terms of labor cost and production and is a sound investment for foreign firms.

B. Investment Incentives

In keeping with its commitment to trade liberalization, and an open investment regime, Jamaica has indicated an interest in acceding to the North American Free Trade Agreement (NAFTA). Jamaica can now meet all the reciprocity requirements necessary for membership in the NAFTA, having signed a Bilateral Investment Treaty (BIT), and an Intellectual Property Rights Agreement (IPR).

The BIT provides a stable and predictable framework for US investment in Jamaica. The agreement allows US investors virtually free and open access to the Jamaican market and also provides for unlimited repatriation of profits from investment. Jamaica has signed similar agreements with several other countries, including the U.K., Holland, Switzerland and is currently in negotiations with China.

Adequate protection of intellectual property rights is critical to the global competitiveness of firms and service industries worldwide. Under the IPR agreement, Jamaica will accord such protection to firms and industries thus paving the way for increased trade and investment between Jamaican and US firms. Both agreements go beyond the requirements for the NAFTA.

C. Privatization

In the context of market reforms, the government has undertaken a comprehensive privatization program. To date, the national airline (Air Jamaica), telecommunications, several hotels and all government-owned sugar companies have been privatized. Negotiations are currently underway for the privatization of PETROJAM, the state-owned petroleum corporation, and the Jamaica Railway Corporation. As part of the privatization initiative, Jamaica also has in place a debt-equity program.

D. **Market-determined Exchange Rate**

As of September 1991, the foreign exchange market has been completely liberalized, with firms and individuals free to hold as much foreign exchange as needed. All exchange controls have been abolished and the government has introduced a "cambio system" of licensed foreign exchange dealers which includes local hotels. As a result of this as well as fiscal and monetary policy changes, the Jamaican dollar has remained stable relative to the U.S. dollar at 33:1 since February 1994. This stability in the exchange rate has had a positive impact on inflation, which fell to 22% on an annualized basis in August 1994, down from 37% in March. Rates for October and November 1994 registered 1.3% and 0.7% respectively.

E. **Fiscal Discipline**

The government has curbed public spending considerably over the last few years. In 1991/92 the public sector saw a deficit equivalent to 0.4% of GDP. By 1992/93, this has moved to a surplus of 2.2% of GDP, and to 2% of GDP in 1993/94. In tandem with fiscal restraint, steps have been taken to rationalize the civil service to limit costs and improve efficiency. The government work force has been reduced by more than 20%, and the number of government departments has also fallen. Further restructuring of government agencies is underway.

F. **Tax Measures**

Tax reform has been one of the key components of the government's reform program. Recent initiatives include: raising consumption taxes with the introduction of a value-added tax (the GCT) in 1991; improving tax enforcement; broadening the tax base for withholding taxes on wages and interest income and increasing licensing fees as well as property taxes. As of 1993, the upper ceiling on personal income tax rates was lowered from 33 1/3% to 25%. In addition, the personal income tax threshold has been increased to J$35,000, effective January 1, 1995. As of January 1995, income tax waivers are being granted to investments in the private sector venture capital company, Jamaica Production Fund. This in effect will broaden the range of financial services available to local companies.

Finally, import tax rates have been lowered and stamp duties abolished. Most significantly for American firms operating in Jamaica, the government has also signed a double taxation agreement with the U.S.

G. **Financial Intermediation**

Commercial bank credit ceilings have been abolished. Open market operations and changes in reserve requirements for the commercial

banks now control credit. Interest rates are also determined by the free market.

Steps are also being taken to strengthen the institutional capacity of the Bank of Jamaica. The Bank has begun to turn over to commercial banks many of its responsibilities as a bank for the public sector. The government has begun to take over its own liabilities, thus reducing Bank of Jamaica losses.

The Jamaican stock market is once again on an upswing, with the Bank's tight liquidity policies and a more stable exchange rate. The stock market index gained 27% in 1994, and advanced by 18% in the first two days of 1995. The stock market is the largest in the Caribbean, both in terms of the number of companies listed (45) and capitalization (US$1.5 billion as of December 1994). It was rated the top-performer for 1992 by the International Finance Corporation, registering growth of 202% in real terms. It is also part of a larger Caribbean stock market network.

H. **Human Resources**

Government wage guidelines for the private sector have been eliminated. At the present time, only the minimum wage is set by government. Jamaica has a highly literate work force from which semi-skilled, technical and managerial personnel can be sourced. Existing labor laws and institutions are in place to protect the interests of both employees and employers.

I. **Price Liberalization**

Price liberalization has accelerated since 1989. Price controls are now limited to a few items and general food subsidies have been replaced by targeted subsidies aimed at the poor.

In the final analysis, Jamaica recognizes that ongoing adaptation to global trends via structural transformation of the domestic economy is vital for long-term development and prosperity. Jamaica stands ready to take advantage of the current global environment to achieve sustained growth into the twenty-first century.

Embassy of Jamaica, Washington D.C.
February 3, 1995