

NATIONAL INDUSTRIAL POLICY

**A STRATEGIC
PLAN FOR
GROWTH AND
DEVELOPMENT**



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April 25, 1996

FOREWORD

OFFICE OF THE PRIME MINISTER

Jamaica House
Kingston, Jamaica

The Jamaican economy is today at a crossroads in its development.

During the past two decades, we have achieved uneven levels of growth. Far-reaching changes in the international environment have necessitated radical adjustments to our economy. These adjustments have had a high social cost, and poverty and unemployment remain major problems.

However, in recent years, significant progress has been made in managing this process of adjustment to the new world economic environment through liberalisation of the trade regime, deregulation of the domestic economy, privatisation, exercise of fiscal and monetary discipline, and adoption of measures to ease the burden of adjustment on the poor. These achievements culminated this past year in successful termination of our 18 year old borrowing relationship with the International Monetary Fund (IMF).

At the same time there has been remarkable growth and diversification in particular sectors of the economy. The tourism sector has achieved the rank of a first-tier world-class industry. New centres of growth have also emerged in the apparel industry and in other areas of non-traditional exports, such as fresh produce, processed foods, and services (cultural products and entertainment).

But important and pressing problems still remain to be tackled. We continue to experience persistently high rates of inflation, depreciation of the real value of the currency, deficit in the balance of payments, unemployment of significant numbers of the work force,

and continuing inequality in the distribution of income. The Government's budget continues to carry a heavy burden of debt service payments. This has limited the room for supporting other economic and social programmes geared to long-term development. A sense of "adjustment fatigue" has set in, arising from the successive programmes of structural adjustment pursued throughout this period.

Long-term growth of production has been at a low rate overall, slightly less than one percent per annum in real GDP during 1975-1994. Correspondingly, growth of per capita income has been sluggish. We remain in the lower-middle-income range of countries. In the dynamic world in which we live today, if our present economic performance continues, we will continue to lose position. However, there is an alternative path open to us. We can seize the opportunity of the moment and make a concerted effort to move ahead so as to propel the country into the upper echelon of the world's countries. This is the path that we must take.

CHARTING THE COURSE FOR THE FUTURE

We have taken stock of the economy we have inherited and are determined to chart the course for a more prosperous economic future with a better quality of life for the Jamaican people.

Let us start now to prepare for the road ahead, with all its challenges and its potential. Let 1996 be the year in which we move forward boldly by building up the momentum of growth and development to take the country into the 21st century.

In seeking to forge ahead, we must now turn to a sharpened focus on the issues of investment, productivity, and growth. We must fashion policies which adequately address these issues. We are obliged to modernise the economy so as to cope with the increasing pressures of international competition. We must prepare our workforce for facing the requirements of the new era of knowledge-intensive work processes and an information-driven society. And we must do all of this while continuing to foster an economic environment of stability and predictability, supported by firm and sound economic management.

THE TASK THAT WE FACE

As an indication of the size of the task that confronts us, we would need to sustain growth at the rate of five per cent per annum in order to double our present level of per capita income by the year 2010.

At a minimum, we must set ourselves the goal of achieving a per capita income of \$4,000 by the year 2010. This requires an average annual growth in GDP of six per cent. Growth of this magnitude will not be easy. But this task is not beyond us. We were in fact able to sustain real growth of GDP at close to six per cent per annum during the entire quarter century 1950-1975.

There exists scope for building up to the same pace of growth in the period ahead by making use of existing excess capacity; by retooling and modernisation of plant and equipment; by introduction of modern production techniques in our factories and farms, and by applying science and technology to innovation in products and production processes.

As a nation, we have come a long way from our origins in a colonial slave society to the present. Along the way, we have accomplished a great deal in every area of national life — from science and academics to entertainment and sports. We are called upon now to make the required effort to move us forward. There are vast and rich possibilities open to us for continued development. We have the strength and ability to bring them to fruition.

The response to this challenge has to be a national effort. We must utilise our creativity and drive and release the energies and talents of all people. We must find the way to remove obstacles and constraints to growth by providing inducement mechanisms, and by opening new spaces for the exercise of innovation, dynamism, and enterprise. We must enlist the efforts of all our people by providing equal opportunity for all, especially small business, women, and our youth.

THE ROLE OF GOVERNMENT

The Government is taking the lead role.

The effort must proceed on a broad front because the problems involved are interrelated. Political change must proceed hand in hand with economic and social change. The problems involved are deeply rooted and systemic. There is need, therefore, to be realistic about what can be achieved in the short run. There are no panaceas, and no

quick fixes. There is need also to focus our efforts, instead of spreading them thinly, in order to make a significant impact. Definite policies and implementation procedures, based on long-term strategic planning, will ensure appropriate action to meet short, medium, and long-term goals.

A process has already been put into operation to bring about the constitutional reforms to lead to transparency, accountability, and collective decision-making in the institutions of government at all levels. This is important and necessary.

At the same time, the Government is committed to developing an integrated and structured approach to economic policy. The process of liberalisation does not relieve us from the necessity to manage the economy and guide its development. Accordingly, policies for stabilisation of the macro-economy must be integrated with policies for promoting growth and diversification of production. These policies, in turn, must be matched with a targeted social policy to provide a social safety net for the poor and disadvantaged and to achieve greater social equity among different socio-economic groups. Moreover, all of these policies must be made consistent with the goal of preserving our natural environment for future generations.

The process of policy making and implementation requires building consensus among all actors. To this end, the Government is committed to building and sustaining a Social Partnership, bringing together the leadership of the country in all areas: government, business, labour and non-governmental organisations, to work together with all our citizens towards achieving the national development goals of growth with stability, social equity, and conservation of the environment.

ROLE OF THE SOCIAL PARTNERS

The private sector is the main engine of growth.

The private sector must exercise the entrepreneurial dynamism needed to seize emerging economic opportunities for long-term productive investment and make the adjustments necessary to cope with the imperative of international competitiveness.

It must also contribute to the national effort to achieve greater social equity, to render service and support for change and development in

all spheres of our national life and in our local communities, and to manage better our natural environment.

Workers and their trade union organisations are integral members of the Partnership. Whatever their place of work, in factory or field, in public institutions or private firms, their contribution is crucial for the national drive towards increased production and productivity. They stand to benefit from the fruits of growth as well as from the broadening and deepening of their capabilities through access to new opportunities for education and training.

Better relations at the work-place, between workers and management, will make it possible to realize the potential for gains from growth and increased productivity. Both workers and management, buttressed by Government action, must strive to nurture such relations.

Government, private sector, and workers must work together in active partnership, to identify and pursue strategies for economic growth through international competitiveness.

Non-Governmental Organisations contribute in numerous ways to the welfare of our society and are an integral part of the process. They too have a place in the Social Partnership.

THE WAY FORWARD

Careful study and intensive consultations have been carried out by the Government on these matters over the past two years. Meetings and discussions have been held with numerous individuals, groups, and organisations. Many people have taken the opportunity to express their views on the issues in open fora and public conferences. Many have submitted written comments and proposals to be considered in the formulation of economic policy.

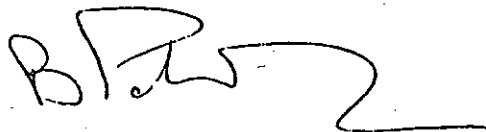
By actively utilising this process of consultation, the Government has sought to build a strong national consensus around the goals and measures of economic policy.

As the outcome of this process, the Government now confidently presents to the nation this NATIONAL INDUSTRIAL POLICY. It is intended to provide the necessary basis for a clear, coherent, and consistent set of policies to guide the Jamaican economy on a path of renewed growth and development. It is to pave the way for our entry into the 21st century.

A NOTE OF APPRECIATION

Finally, I would like to express my appreciation to all those persons and organisations who contributed to the process of development and preparation of this Policy: Government agencies, trade unions, business organisations, academia, non-governmental organisations, international organisations, and private consultants. The Policy has benefited from their contributions. Because of their active involvement and unstinting efforts, the Policy takes into consideration the realities of our situation, the views and ideas of a wide cross section of our society. It reflects the needs and aspirations of the Jamaican people.

We must now seek to strengthen and deepen this spirit of cooperation in the successful implementation of the Policy.



Rt. Hon. P. J. Patterson
Prime Minister
March 18, 1996

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EXECUTIVE SUMMARY

THE POLICY FRAMEWORK

GENERAL COMMITMENT

1. The National Industrial Policy is designed to confront directly, and deal systematically with the challenges of the present, and prepare the country to meet the 21st century fully equipped to cope with the challenges of the future. The commitment is for the long haul, with a time horizon of the next 15 years. It is necessary to make the start now to prepare for the road ahead.
2. Government is committed to taking a holistic and comprehensive approach to policy. This commitment is based on full recognition that there are interdependencies among different components of policy and, hence, policy in one area must take account of the impact-effects on other areas and the feedback-effects from those areas. Such interdependence points to the necessity for establishing consistency, integration, and coordination among the different policy areas.
3. The policy framework is goal-determined and performance-oriented. It is necessary that there be specific goals that are clearly and sharply defined, and that there are clear markers to judge performance in meeting the defined goals. Specific policies must be designed to achieve the stated goals, by utilising particular instruments and measures that are capable of being effective, with a minimum of bureaucratic delay and impedance.
4. There is to be a specific time-phasing and sequencing of the Policy, with definite priorities and policy measures to be adopted in each phase.

5. A well-functioning management system will be put in place in all the key agencies of Government to implement the Policy in each area and to monitor its operation. Central coordination of all the agencies and a clear line of authority, responsibility, and accountability will be established.

THE STRATEGIC PLAN

1. In keeping with this general commitment, the Strategic Plan that guides the specific policies to be pursued is outlined in Table ES.1.
2. There are four essential policy components or functional areas of the Strategic Plan.

These components are:

1. Macroeconomic policy
 2. Industrial strategy
 3. Social policy
 4. Environmental policy
3. Each of these components has prescribed goals, as indicated in Table ES.1. Each has its own commitments for specific interventions, in terms of particular programmes and activities as well as procedures for implementation.
 4. The policy components are intended to be mutually reinforcing and supportive of each other. There is no presumption of a rigid separation between them.
 5. Thus, for the industrial strategy to be successful, it is necessary that there exists an appropriate macroeconomic environment to allow effective decisions to be made for long-term investment in the productive sectors. This has certain imperatives for the conduct of macroeconomic policy itself. The industrial strategy, in turn, will serve to generate production, employment, income, and foreign exchange earnings, as a base for sustaining macroeconomic policy.
 6. An appropriate social policy will be pursued in tandem with all other policies, so as to ensure participation by all social groups, equality of opportunity and access, and equity in sharing the fruits of our efforts. This will provide a solid basis for social stability, which is a necessary condition for the success of economic policy.

Table ES.1
STRATEGIC PLAN
Policy Matrix

OBJECTIVES	POLICIES	INTERVENTIONS/ IMPLEMENTATION
Stability, Predictability, Credibility	Macroeconomic Policy	<ul style="list-style-type: none"> • Fiscal Controls • Monetary Controls • BOJ Autonomy • Social Partnership
Growth and Diversification through building International Competitiveness	<p>Industrial Strategy</p> <p>Investment Promotion</p> <ul style="list-style-type: none"> • Incentive System • Financing Mechanisms • Investment Policy <p>Infrastructure</p> <ul style="list-style-type: none"> • Physical Infrastructure • Human Resource Development • Science & Technology <p>Support Framework</p> <ul style="list-style-type: none"> • Trade Policy • Labour Market Policy • Competition Policy • Small Business Development • Public Sector Reform 	<ul style="list-style-type: none"> • Time-phased Sequence of Strategies • Targeting Strategic Sectors • Continuous Consultation between Government, Business, Labour, and NGOs
Equity	<p>Social Policy</p> <ul style="list-style-type: none"> • Poverty Alleviation • Gender Perspective 	<ul style="list-style-type: none"> • Social Agenda
Conservation of Environment	Environmental Policy	<ul style="list-style-type: none"> • Incentives • Regulation/ Enforcement • Public Education

Only if everyone has a stake in it, can the overall policy be supported and made effective.

The Policy's guiding principle is to safeguard and advance the welfare of the Jamaican people. It is a people-centred policy, focused on the human needs of the Jamaican people.

7. Economic activities of production and consumption and the process of economic growth have direct consequences and impacts on the natural environment. To provide adequate safeguards against these effects, environmental policy will be vigorously pursued, with the establishment of appropriate mechanisms for regulation and enforcement. This policy will, in turn, serve to sustain and preserve our natural heritage for continued use by present and future generations.

INDUSTRIAL POLICY: THE STRATEGIC FOCUS

1. Industrial policy is concerned with investment, productivity and growth in the sectors producing tradeable goods and services in the economy. Through growth of output and productivity and diversification of production, the aim is to achieve a sustainable basis for reducing unemployment and poverty and increasing income of the Jamaican people.
2. The strategic focus of the Policy is (a) export push, through building and sustaining targeted areas of competitive advantage in the national economy, and (b) efficient import substitution, consistent with the focus on international competitiveness as the key element of the policy.
3. The appropriate competitive strategy for Jamaica is to focus on exploiting the specific advantages that give the country an edge in the international market-place (natural resources, human-resource specialties and talents, cultural products, geographical location) and on creating niches by a strategy of product differentiation (in terms of product quality, name recognition, and other distinctive characteristics).
4. The core of the process of building competitive advantage is investment. This concerns investment by Jamaica-based firms in upgrading and expanding production facilities, in research and development, and in marketing and distribution. It also concerns investment by the state in physical infrastructure, in human resources, and in science and technology.

5. By selective interventions and targeted allocations of taxes and expenditure, the Government seeks to create conditions at both the macroeconomic and microeconomic levels, which serve to facilitate and stimulate investment in the economy.
6. The Policy seeks to provide a competitive environment in which all Jamaica-based firms are in a position to operate at internationally competitive levels. Hence, most of the interventions will apply across-the-board to all firms whose operations will allow them to capitalise on the policy interventions. This is so in the case of the efforts to create macroeconomic stability, to improve the investment climate, and to provide a system of incentives and a support framework for firms.
7. At the same time, consistent with the strategy of export push, the incentive system will be skewed in favour of firms that are seeking to penetrate external markets. Infrastructure development and the support framework will be geared to meet the needs of targeted sectors in a demand-led approach.
8. Industrial Policy is based on the positive commitment to a market-driven economy. But it is not a policy of "development by invitation". It is an activist policy geared to ensuring growth and development of the productive base of the Jamaican economy by adoption of focused policy interventions in an active partnership between the state and private sector.
9. Industrial Policy, because of its strategic focus, requires integration and coordination among many different areas of policy so as to ensure consistency, effectiveness, and an economy of effort. All of these policy areas will be brought within a framework that links them directly to Industrial Policy as the central element of the policy-mix.
10. The basic framework of policy coordination is illustrated in Figure ES.1.

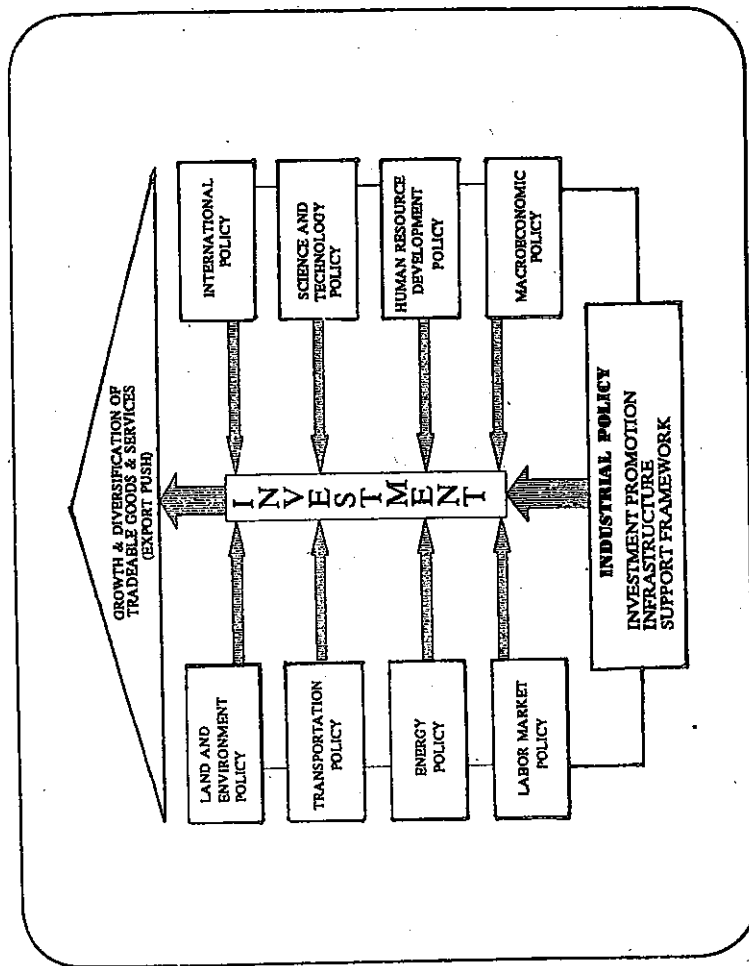


Figure ES. 1 Policy Integration and Coordination

TARGETING STRATEGIC SECTORS

1. Strategic analysis has been carried out by teams of experts through systematic research, and direct consultation in many different sectors of the Jamaican economy, in order to assess the competitive position of the sectors in terms of strengths, weaknesses, and opportunities. Strategic analysis will be continued along these lines, in order to strengthen and deepen the basis of information for policy formulation and action.
2. On the basis of analysis done to date, it is possible to identify five sector-groups, as indicated in Figure ES.2, that constitute strategic industry clusters. Within each cluster there are one or two leading industries/sectors, or growth poles, with a strong capacity and potential for significant long-term expansion. These clusters are targets of the Policy for long-term development of the economy. (The numbers associated with the clusters do not represent a ranking of the clusters.)
3. Because of the existence or potential of strong linkages and spill-overs among industries/sectors within each cluster, there are opportunities for establishing a dynamic synergy that can serve to reinforce growth within the cluster and throughout the economy as a whole.
4. There are also identified constraints, in the operating environment of firms and in their internal conditions of production, that affect their performance through the crucial variables of cost, risk, and return on investment. The Policy is aimed at directly addressing these constraints.
5. Under the Industrial Policy, an arsenal of core policies will be deployed to improve the general investment climate, to address sector-specific constraints, to enhance competitiveness of firms in the targeted sectors, and to prepare the workforce for meeting the challenges of the new era of knowledge-based and skill-intensive production.

POLICY IMPLEMENTATION I: A SEQUENTIAL APPROACH

1. Implementation of the Policy will proceed according to a three-phased overlapping sequence of strategies, as shown in Table ES.2. The strategy in each phase has its own set of well-defined priorities and economic measures, designed to achieve definite results within the relevant time frame and to lay the groundwork for the next phase.

Table ES.2

Time-Phased Sequence of Implementation Strategies

1996	1997-1998	1999-2010
Phase 1 Short-term Strategy: establish Social Partnership		
Phase 2 Medium-term Strategy:	growth with stability	
Phase 3	Long-term Strategy:	export push and efficient import substitution.

2. In all phases of the implementation process, Social Policy will be interwoven with the economic measures adopted so as to imbue them with a gender perspective, to meet the social goal of equity through participation, and to provide a social safety net for the poor and vulnerable groups. To this end, the Social Agenda will be actively pursued on a continuing basis.
3. Throughout the process, Environmental Policy will also be programmed into economic decision-making procedures at all levels, and especially into activities at the sectoral and firm level.

Strategic Industry Clusters

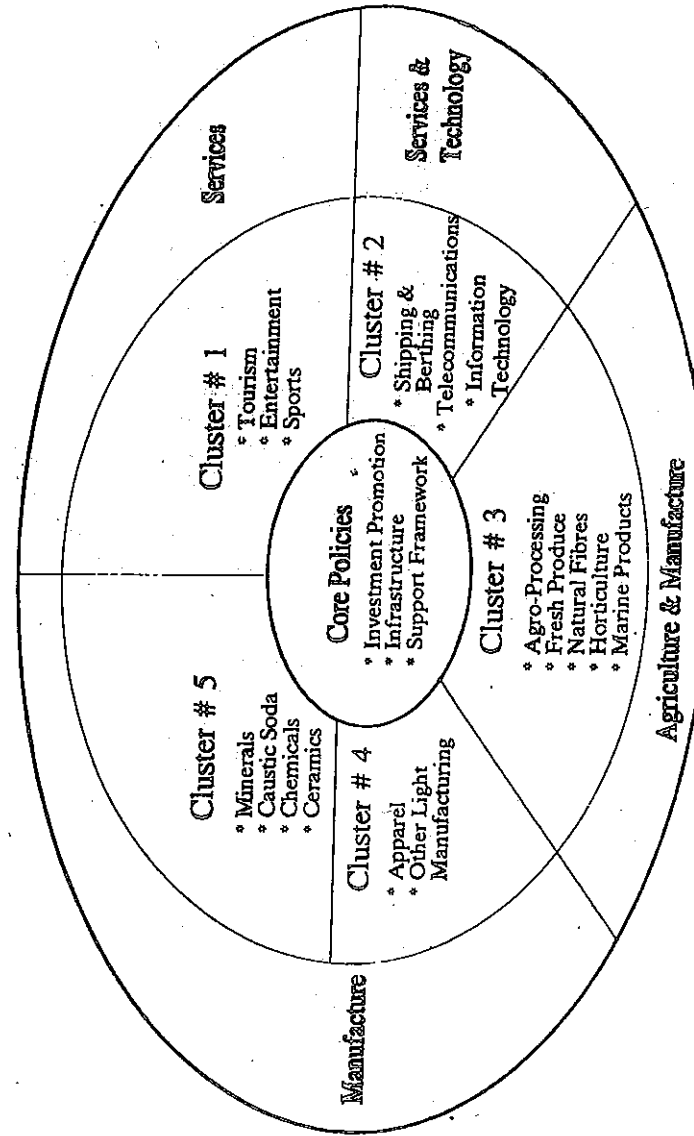


Figure ES. 2 Industrial Policy: Instruments and Targets

PHASE 1 (SHORT-TERM STRATEGY): ESTABLISHING THE CONDITIONS FOR A SOCIAL PARTNERSHIP

1. The first phase has a time horizon of one year. In this phase, which is now underway, various elements and components of the policy are being implemented in tandem with the move to establish and maintain the conditions for a Social Partnership and get it to work effectively. The Social Partnership is being organised around the goal of growth and development with stability.
2. The strategy is to concentrate on implementing a package of economic measures aimed at achieving macroeconomic stability, specified in terms of reduced inflation, decline in the level of interest rates, and exchange rate stability.
3. The Government is leading the way by taking the initiative in introducing these measures, as a matter of urgent and immediate priority. On the basis of these measures, the Government seeks to induce and call on all the major sectors of business and labour to adhere to a balanced adjustment of prices and incomes. At the same time, these measures will serve to prepare the way for orienting the economy to the medium-term strategic focus on growth with stability.

PHASE 2 (MEDIUM-TERM STRATEGY): GROWTH WITH STABILITY

1. The second phase, with a time horizon of three years, is geared to the twin priorities of maintaining the indispensable condition of macroeconomic stability and the complementary goal of stimulating investment and growth.
2. Measures to provide the appropriate environment of stability and predictability to facilitate long-term investment will be strengthened and reinforced. At the same time, the Policy is designed to shift the balance of investment decisions from short-term financial instruments to long-term investment in the productive sectors.
3. An aggressive export-expansion programme is to be pursued, based on proven strengths in dynamic sectors of the economy that are ripe for expansion. Government budgetary allocations to infrastructure, the incentive system, and a broad-based support framework, will be oriented to remedy bottlenecks and constraints facing producers in the targeted sectors.

PHASE 3 (LONG-TERM STRATEGY): EXPORT PUSH AND EFFICIENT IMPORT SUBSTITUTION

1. The third phase has a time horizon of 15 years. It will build on the groundwork laid in the previous phases. The Policy will focus on sustaining the results achieved by strengthening and deepening the measures already implemented, and by introducing new policy initiatives to accomplish the following long-term objectives:
 - diversify the structure of production and exports through product innovation, exploiting new niches, etc;
 - move up the hierarchy of industries and technologies towards more technology-intensive and skill-using activities;
 - establish a demand-based programme of human resource development;
 - increase productivity through sector-specific and micro-level programmes and incentives;
 - improve the scientific capability for innovation and product development;
 - upgrade and expand the base of physical infrastructure; and
 - increase national savings.

POLICY IMPLEMENTATION II: INSTITUTIONAL MECHANISMS

1. Central direction, coordination, integration, and monitoring of the overall Policy will be provided by an inter-ministerial council, headed by the Prime Minister. This is to be called the Development Council. The Development Council will seek to focus attention on meeting the fundamental objectives of the Policy and on assessing performance within the relevant time-frame.
2. The Council will be positioned within the Office of the Prime Minister. The Council will have at its service the necessary technical expertise and administrative support for policy research, analysis, strategic planning, and advice on economic matters.

POLICY IMPLEMENTATION III: PUBLIC SECTOR REFORM

1. The entire network of public sector agencies will be called upon to implement particular strategies, programmes, projects, and action plans, in line with the requirements of the overall Policy.

Those agencies must therefore be structured and operated in a manner consistent with timely, efficient, and effective implementation of policy.

2. The programme of administrative reform that is already in operation will be deepened and extended so as to put in place proper management systems, information systems linked to central data networks, upgrading of technical competencies of staff, appropriate compensation packages, and effective performance standards.

POLICY IMPLEMENTATION IV: ROLE OF THE SOCIAL PARTNERS

1. A consultative system will be put in place to allow systematic and regular interaction between the Government, business, labour, and NGOs. The aim is to promote an active partnership, on a continuing basis, so as to share ideas on policy and strategy formulation, to explore issues, and to resolve problems.
2. The existing National Planning Council constitutes one element of this system that, up to now, has served this purpose. It will be continued and strengthened in this role.
3. It will be supplemented and reinforced by the formation of Industry Advisory Councils with responsibility for focusing on industry-specific issues.
4. The Social Partners will decide the most appropriate machinery for consultations on monitoring whatever agreements are reached. This could include the National Planning Council.

PART I

STRATEGIC FOCUS

THE RATIONALE OF INDUSTRIAL POLICY

THE HISTORICAL BACKGROUND

1. In our continuing quest for improvement in our standard of living, the Jamaican people have had a long history of economic development with many ups and downs, periods of boom and periods of stagnation. This process of economic development has taken place under varying conditions and stages of economic specialisation in production for the world market. There are four main stages of that development.
2. The process started with a slave economy of sugar production that, in its heyday, was the jewel of the economic empire of the colonial powers.
3. In the second stage, a transition was made to a new economic order, based on banana production that, for a long time, provided a strong impetus for growth.
4. In the third phase, extending up to the 1930s, the production system experienced further diversification through growth of agricultural production in the areas of citrus, coffee, coconut, cocoa and pimento.
5. The next big wave of expansion came in the 1950s and 1960s with the development of an entirely new mineral industry: bauxite/alumina. This development was combined with the take-off of tourism and a significant growth in manufacturing.
6. Jamaica has today become a world leader in tourism. The bauxite/alumina industry now stands as the third largest in the world, with ten per cent of the world's production of bauxite and eight per cent of alumina. In recent years, new centres of growth have

emerged in the apparel industry, in other areas of non-traditional exports like fresh produce, and processed foods, and in services (including cultural products and entertainment).

7. However, we cannot now afford to rest on our laurels. We are living in a new era in which the contemporary world economic environment calls for change to our own economic strategies. Moreover, despite our economic successes, too many of our people continue to be beset with problems of unemployment and poverty and the lack of basic social amenities.

A systematic assessment of our strengths and weaknesses has been undertaken, and as a result, this Industrial Policy has been designed to chart the way forward as we create a new momentum for growth and prosperity in which all of our people can share.

THE COMPETITIVE CHALLENGE

1. Far-reaching transformations are currently taking place in the world economy, such as to alter fundamentally the conditions of competition that confront us as producers and as a nation. All countries participating in this economic arena, big and small, strong and weak, face the imperative of adjustment to these transformations. Each must strive, in its own way, to utilize all available mechanisms, means, and resources, to adapt to the changing circumstances in order to keep up with or ahead of the competition, or else lose out in the competitive race.
2. The competitive challenge facing Jamaica at this time comes from many sources:
 - First is the global tendency to reduce trade barriers, emerging out of the Uruguay round of GATT, culminating in the formation of WTO, and continuing to occur in various ways even now as nations accommodate to the pressures of the movement for free trade.
 - On the other side, there is the dual tendency to form regional trade blocs, such as NAFTA, that devise complex measures to stimulate trade and investment among members and pose threats to the competitive position of non-members.
 - At the same time, traditional patterns of preferential treatment in trade and aid under the Lomé agreement between Europe and its former colonial states such as Jamaica, are gradually being eroded and could be eliminated.

- Dramatic political changes in Eastern Europe and China have thrust into the arena of competition many countries and producers that were previously out of the race.
- The technological requirements of competition are undergoing rapid change with new innovations in the technologies of production, transportation, communication, and information processing.
- Global financial systems are being restructured, with associated changes in mechanisms of finance, access to investment financing, and patterns of international mobility of capital.
- Transnational forms of corporate organisation have adapted to these changes by strengthening and deepening their global reach so as to bring them into direct competition (and cooperation) with national firms.

3. For Jamaica, there are challenges and threats as well as opportunities and advantages in these developments. The key point is that this situation poses the necessity for a creative response to seize the opportunities and meet the challenges head-on.
4. An essential feature of the situation is that Jamaica is placed in the position of being a late comer, coming from far behind not only the advanced industrial countries, but also others (the so-called newly industrialized countries or NICs) that have forged ahead in the past 25 years, in terms of levels of income, consumption, productivity, technology, and diversification of the production base. The challenge, then, is to struggle to catch up, while in the meantime, the rest of the world is not standing still and some countries are rapidly moving ahead.
5. In this respect, Jamaica's position is not unique; it is like that of many other similarly placed countries today. However, taking the long-term viewpoint, there are many historical antecedents of countries in a similar position that were able to catch up (relatively speaking), for instance, Germany, France, and the USA in relation to Britain in the nineteenth century, Japan and the Asian Tigers in relation to all of Europe and North America in the twentieth century. There are useful lessons to be learnt from these antecedents. But every country has to try to find its own creative solutions, using whatever means are available, and appropriate to the times and conditions in which it operates.

THE RATIONALE FOR INDUSTRIAL POLICY

1. The rationale for industrial policy comes in part from the need to develop a creative response to these challenges.
2. There is an urgent need also to develop and implement our own form of industrial policy to advance the interests of our national economy in response to such activities of our competitors. Indeed, some analysts see a pattern of "corporatism" in the design of national economic policy by "developmentalist states". Others see, in the current trend towards regionalism in trade policy, the co-existence of both cooperative and non-cooperative-game strategies among national economies. In this dynamic context of formation of country strategies with a dual potential for conflict and cooperation, a country that is unprepared for organising an adequate response is likely to be outmanoeuvred.
3. The rationale for industrial policy is based in addition, on recognition of an elementary historical generalisation, namely, that market forces by themselves, without the supportive role of the state, cannot suffice to bring about sustained development of the productive base of the economy. Policy and action by the state are needed.
4. What form of policy, what kind of action, and what structure of the state itself are appropriate? The currently heralded experience of the East Asian NICs, exhibits a range of possible types or models, not just one. Earlier experience of the European countries offers different models. Other models of more recent vintage, also relatively successful, are those of Chile, Costa Rica, Mauritius, Ireland and New Zealand. Our fellow members of CARICOM, Trinidad & Tobago and Barbados, as examples closer to home, are currently laying down the framework of their own approach.
5. For Jamaica, the idea of an industrial policy is not in itself new. In a broad sense, namely as a set of policy guidelines on the economic strategy to be pursued by the country and the initiatives and practices to be carried out by various public and private agencies in pursuit of that strategy, "industrial policy" has existed in various forms throughout our history. This was as much so in the early era of sugar and slave economy as in the successive phases of the free-labour, agriculture-based, export economy, and in the more recent phase of the emergence of bauxite/

alumina, tourism exports accompanied by protected import-substitution in the manufacturing sector.¹

6. It must be said, furthermore, that one constant throughout our history has been the crucial role assigned to exports in economic policy. Therefore, this feature of industrial policy, also, is not new. In a sense, our economic survival as a nation has always depended on exports. Of course, if this was so in the past, it has become much more so today. As one index of this trend, in just the past quarter-century the share of exports of goods and non-factor services in GDP has mushroomed from around 30 per cent to 60 per cent. This development heightens very much the significance of exports for economic policy.
7. What is fundamentally new is the nature of the contemporary world arena and the position that the country occupies in this arena. In this respect, the initial conditions are much different today from those prevailing in previous times. Consequently, the policy regime adopted in those times cannot be considered appropriate today.
8. Concretely, the policy regime prevailing up to, say, ten years ago, was grounded in a structure of trade preferences with guaranteed access to export markets (in terms of quotas and prices), widespread protection of the domestic market, restrictive regulations administered by a highly centralized bureaucracy, public ownership and operation of a wide range of economic activities.
9. Various elements of this structure remain still today, but the structure as a whole is now being changed. The change is made inevitable, in part, by the pressure of changes occurring in the world at large. It is made necessary also by the lessons of our own experience.²
10. Given this change, the time has come for working out a new policy approach that is consistent with new conditions. In this changed environment, what must drive the new approach and what, then, distinguishes it from all previous policy, is the focus on international competitiveness as the key element of policy.

¹ In the early colonial period, existence of an economic policy in this sense was perhaps more implicit than explicit, but the clear outlines of such a policy can be drawn from close analysis of the actual policies and programmes of the colonial regime. A turning point occurs with the "Moyne Commission" Report (Report of the West India Royal Commission Cmd. 6607 H.M.S.O., 1945), after which there begins to appear a clear and explicit articulation of economic policy, incorporating elements of an industrial policy, within the broader framework of a National Plan for development. The last such Plan in this sequence is the Jamaica Five Year Development Plan 1990-1995 (PIOJ, 1990).

² There exists, by this time, a large cumulative literature of research and analysis, by Caribbean scholars and others, that critically examines the record of economic policy and performance in Jamaica and other Caribbean countries over the past forty years or so and points to some important lessons to be learnt from this experience. There is now widespread agreement that many elements of the policy regime, at both the micro and macro-levels, have had adverse consequences, especially as regards creation of a structure of dynamic firms capable of withstanding the pressures of international competition.

11. Industrial policy, in this new approach, cannot be a return to notions of centralized planning on the basis of state directed and operated "commanding heights" of the economy. It cannot be a return to restrictive policies of protectionism that reward inefficient firms and penalize consumers, and to administrative controls that build an anti-export bias into the economy. It cannot be the continued operation, without modification, of fiscal and other incentive schemes that fail to ensure key performance criteria in terms of productive efficiency, export growth, and increase of national value-added.
12. Industrial policy does require, on the other hand, continuous long-range strategic analysis and planning on the part of both state agencies and private firms as the basis for determining, in their respective spheres, policy and action oriented towards the goal of building international competitiveness. It requires concerted and joint action between the state and private sector, working in partnership to identify areas in which such action may serve that goal. It requires coordination of the activities of key state agencies to achieve consistent and effective implementation of policy. And it requires political leadership that galvanizes action in all areas related to achieving the overall goal.
13. These requirements evidently point in the direction of institutional reform and modernization as a necessary condition for pursuing this approach to industrial policy.
14. As concerns state institutions and agencies, the need for such reform is already recognized here in Jamaica (see Nettleford Committee Report, 1992). In other countries, there are ongoing discussions on "reinventing government" and on "governance"
15. As concerns firms in the private-sector, the need for their modernization must be recognized to have at least equal importance. Diagnostic sector studies carried out for the Industrial Policy Project have identified some of the key problems in this area. A recent study of Jamaican firms in four leading export sectors also highlights some of the problems (see AED/USAID, 1994).
16. It follows from the foregoing arguments, that industrial policy is not a one-time thing. It does not begin and end with "the document" Furthermore, it does not happen overnight. Rather, it is a continuous ongoing process that has its own internal dynamic and feeds on its own momentum. It also involves a necessary commitment for the long haul.

THE STRATEGY OF INDUSTRIAL POLICY

PRINCIPLES OF INDUSTRIAL POLICY FOR JAMAICA

The National Industrial Policy is to be based on the following principles.

1. Industrial policy is about investment, productivity and growth in the productive sectors of the economy.

It is only through such growth that a sustainable basis can be created for dealing with the deep problems of unemployment and poverty in our society.

2. In Jamaica, growth essentially means the export of goods and services.

This is the primary source, directly and indirectly, of income and employment. It is the chief source of the foreign exchange needed to acquire the imports from the rest of the world that are a necessary input to both consumption and production. It is also the locus of the main dynamic of growth and development in the economy. Given the small size of the domestic market, there is no alternative avenue for sustained growth other than through exports.

3. The strategic focus of the Policy, therefore, is export push.

The basic issue in industrial policy is: how best to create the appropriate conditions that are necessary to promote continued expansion of exports through growth of existing lines of production of tradeable goods and services and diversification into new lines.

4. The strategic focus of the Policy also includes exploiting possibilities for efficient import substitution.

Wherever such possibilities exist, they should be encouraged. They can make a definite contribution on the foreign exchange side, through saving of foreign exchange, and on the employment side, as well as in reducing the cost of inputs to exporters.

However, in the contemporary context of a liberalised economy, import substitution must be founded on competitiveness based on productive efficiency in relation to prevailing standards in the international market-place. Furthermore, insofar as import substitution is efficient in this sense, it may become possible to mount on this basis, a platform for successful export growth.

Therefore, in both cases of export expansion and import substitution, the imperative of meeting the challenge of world-market conditions remains paramount. And there is no necessary contradiction, but rather mutual compatibility, between them.

5. Thus, the key concern of industrial policy turns uniquely on the effort to build and sustain competitiveness in relation to the international market-place.

International competitiveness, or competitive advantage, in this context, relates to the ability to compete across many different dimensions of the product: price, quality, design, packaging, delivery time, range and variety of products, innovation in new products. It is rooted in a flexible and dynamic structure of production that produces a changing mix of goods and services which can win for themselves a place ("niche") in the international market in competition against rivals. It rests on identifiable capabilities at the level of the firm, at the industry level, and in the social environment.

In these respects, competitive advantage is not a matter of a fixed production structure predetermined by a given and unchanging set of endowments. It is a matter of a constantly evolving structure of production, carved out of inherited initial conditions and incremental adjustments, utilising ongoing developments in science and technology and the learning that comes from education, training, and experience of the work force.

Competitive advantage, in this sense, does not simply exist. It has to be created.

6. The core of the process of building competitive advantage is investment.

This concerns investment by firms in replacing depreciated equipment, in expanding and upgrading production facilities, in research and development, and in marketing and distribution. It also concerns investment by the state in physical infrastructure, in human resources, and in science and technology.

7. Most investment is driven by profitability, certainly investment by firms, and also by the state in the larger sense of social rate of return. Therefore, the focus of industrial policy is centered on the conditions which govern profitability, i.e. the cost, risk, and return involved in undertaking investment.

Industrial policy seeks to create conditions, at both the macroeconomic and microeconomic level, which serve to reduce cost and risk and raise the expected relative return on investment in the sectors that produce tradeable goods and services.

8. Investment by firms and expenditure by the state (on both current and capital account) are necessarily interlinked (e.g. through provision of infrastructure, education and training, information services, government contracts). These linkages are a key factor in determining profitability of investment.

Industrial policy seeks to exploit these linkages by selective interventions and targeted allocations of taxes and expenditure so as to build up the base of competitive advantage for the national economy.

9. The Policy seeks to provide a competitive environment (a level playing field), in which all Jamaica-based firms are in a position to operate at internationally competitive levels.

Hence, most of the interventions will apply across-the-board to all firms whose operations allow them to capitalize on the policy interventions. This is so in the case of the efforts to create macroeconomic stability, to improve the investment climate, and to provide a system of incentives and a support framework for firms.

At the same time, consistent with the strategy of export push, the incentive system will be skewed in favour of firms that are seeking to penetrate external markets.

Infrastructure development and the support framework will be geared to meet the needs of targeted sectors in a demand-led approach.

10. Industrial policy is based on the positive commitment to a market-driven economy. But it is not a passive policy of "development by invitation". It is an activist policy geared to ensuring growth and development of the productive base of the Jamaican economy by adoption of focused policy interventions in an active partnership between the state and private sector.

A COMPETITIVE STRATEGY FOR JAMAICA

1. In principle, the competitive rivals of Jamaica, are the whole world of producers who now produce the same (or related) tradeable goods and services as Jamaica currently does.
2. But, taking a more dynamic view, competition must be seen in terms of the attractiveness of a country for new investment in both current and potential new product lines. From this standpoint, given the international mobility of capital, and allowing for differences in transportation costs, Jamaica's competitive rivals are the whole world.
3. In this context, for a small country like Jamaica, with a structure of firms that are small relative to the world average, and a long history of protection from the vagaries and pressures of world competition, competitive strategy may appear overwhelming because of the size of the "world out there" and the edge that others have.
4. The way out of this dilemma is to choose the right competitive strategy.
5. The correct competitive strategy for Jamaica requires a sharp focus on exploiting the specific advantages that give the country an edge in the international market-place (natural resources, human-resource specialties and talents, cultural products, geographical location, etc.) and on creating niches by a strategy of product differentiation (in terms of quality, name recognition, image, and other distinctive characteristics).

6. The small size of our economy is not, as such, an inherent disadvantage when the whole world, not just the domestic market, is targeted. Small size can be a distinct advantage, because winning a small share of the world market makes a big difference for Jamaica without "spoiling" the market. Focusing on the domestic market alone has the disadvantage of limiting the field of competition and the ability to compete. Broadening the market to include the regional market, in the form of CARICOM or the Association of Caribbean States (ACS), opens up a wider range of opportunities and challenges, and can provide a stepping-stone into the world market.

7. As regards competitive strategy of firms in the contemporary environment of world competition, a relevant strategy for Jamaican firms, derived from analysis of abundant empirical data, is that of the "intelligent enterprise". It is based on the principle that the source of competitive advantage at the firm level lies in focusing on the development of core competencies that allow the firm to perform up to the level of international best-practice and acquiring complementary inputs through sub-contracting networks. In this conception, creating networks of interdependent firms is a key element of building competitive advantage. It is linked to deliberate strategies of cost-effective sourcing of inputs, targeting markets for expansion through collective action, and building strategic alliances with local and international firms.

LEARNING FROM EXPERIENCE

1. From examination of the history of Jamaica's economic development and the current structure of the Jamaican economy, a number of features appear that are important for considering prospective lines and directions of future development of the economy, and hence, the role of industrial policy in that development.
2. One is that the main centers of traditional economic activity are almost all based on the same nexus of advantages in natural resources, low-wage unskilled labour, and guaranteed markets.
3. Development of the mineral industry, (bauxite/alumina) brought to the economic structure for the first time, a major center of production that is highly capital-intensive, science-and research-oriented, and uses high-wage, high-skill labour. But its market is still a relatively sheltered one insofar as it is structured within

the branch-plant, intermediate-input and transfer-pricing operations of the vertically integrated transnational firms that own (jointly with government) and operate production.

4. Growth of manufacture took place mainly through import-substitution within the framework of a highly protected domestic market, and specific structure of income-tax and import-duty concessions and related incentives, and was mostly oriented to assembly-type activities using low-wage labour.
5. The tourist industry is a predominantly service-oriented industry which also rests to a significant extent, on the advantages of natural resources and geographical location. However, it is the only industry in Jamaica that has managed to reach the rank of a first-tier world-class industry (outclassing bauxite/alumina in this respect), starting from a very small and informal base, functioning largely on the basis of national ownership and control, and facing fully the imperative of international competition.
6. The tourist industry represents, therefore, the prime example, from Jamaica's own experience (as distinct from that of other countries), of the process of building and sustaining international competitiveness.
7. There has been a specific industrial policy in operation in the tourist industry from the start. It has taken the form of a highly structured and evolving pattern of support by government, ranging from fiscal incentives, and subsidised advertising, to the building of infrastructure and direct government ownership of hotel facilities. At the same time, the private-sector of local (national) entrepreneurs has exhibited a great deal of dynamism in terms of their capacity to penetrate international markets using creative marketing strategies, strategic alliances with foreign multinationals, mobilisation and leveraging of finance, and modern styles of corporate management.
8. This symbiosis of government support and private sector dynamism constitutes the appropriate reference model and learning experience on which to base Jamaica's strategy for future growth and development.
9. The National Industrial Policy seeks to apply the lessons of this experience, with appropriate modifications, to other sectors of the economy in the present-day environment. The tourist industry

itself, having now reached a relatively mature stage, currently faces the imperative to keep running in order to stay ahead of the game. The requirements of this new stage need to be addressed by current policy.

TRANSFORMING THE STRUCTURE OF THE JAMAICAN ECONOMY

1. The Industrial Policy seeks to promote transformation of the structure of the Jamaican economy by expansion of existing activities with a demonstrated capacity for continued growth, and promotion of new activities in targeted areas. In this regard, the Policy will pursue a diversified pattern of growth based, not on one big engine, but on a diversified portfolio of different growth opportunities.
2. There exists a notable global tendency for a shift away from natural-resource-based primary products, towards knowledge-based and human-resource-intensive goods and services. In Jamaica's case, there still exists significant growth opportunities from exploiting existing natural-resource-based industries and developing new ones through research and exploration. Some areas of traditional manufacture also offer significant prospects. A way must be found to give full play to such opportunities and prospects.
3. At the same time, the Policy seeks to position the economy to move into relevant niches of the new growth-sectors in knowledge-based and human-resource-intensive industries, producing both goods and services. To move in this direction, emphasis must be placed on developing the quality and adaptability of the labour force and enhancing the intellectual capital of the nation through education and training. In the currently unfolding environment of the information revolution, these factors are decisive in influencing the capacity for growth.
4. So far as the wage-structure of employment is concerned, there are complex issues involved for industrial policy.
5. As long as there exists widespread unemployment (currently estimated at 16 per cent of the labour force), the Policy must allow scope for expansion of productive activities which are competitive at the existing wage for unskilled labour and, in this

way, create opportunities for absorption of the large pool of unemployed and underemployed labour. One example of this in Jamaica's recent experience is the growth of the apparel industry. To the extent that there are opportunities for taking advantage of high wage, high productivity niches in such industries and for building backward and forward linkages with other sectors, such opportunities must, of course, be exploited.

6. However, a country that has managed to build up a structure of particular industries on the basis of "low-wage" labour may lose out in international competition simply because other competitors enter the market at a wage which is lower still. Jamaica's competitive position in this respect, in the case of the apparel industry, is shown in Tables A.8 and A.9 in the Appendix. Moreover, as the domestic wage inevitably rises, a country may lose existing industries for that reason also. This sort of scissors effect is especially likely, and has been shown by various studies, to occur in "footloose industries" of the assembly and turn-key type.
7. Of course, even in the absence of a change in its wage relative to other countries, a country may also lose production and employment in particular industries, because of technological changes on a global level or because of global restructuring of the industry.
8. The existence of these effects places a premium on flexibility and adaptability in industrial policy, in terms of building into the policy adequate mechanisms for dealing with adjustment to the dislocations arising from these effects.
9. To achieve the status of a high-wage economy entails a far-reaching process of transformation of the economic base. The key to this process is the twin factors of investment in new higher-productivity, higher-skill economic activities and investment in human resources through education and training. This is the other leg on which the Industrial Policy must stand.
10. In general, therefore, as concerns the structure of employment and production, the National Industrial Policy will pursue a strategy of walking on two legs. In the short term, the Policy will seek to promote growth opportunities that make use of existing natural resources and production capabilities and increase employment of the existing labour force. In the long term, the Policy will seek to diversify by moving up the ladder to high-wage, high-skill, high-productivity activities.

THE PROCESS OF ECONOMIC RESTRUCTURING

1. It is necessary to recognise that building competitive advantage is a dynamic process. This entails that there will be some shake out from the process, due both to changing global conditions and to evolving capabilities, costs, and supply conditions of domestic producers.
2. At the level of the firm, there is no doubt that some firms will close down, and must be allowed to do so, as a consequence of their inability to cope with the requirements of competition in an open trading environment. This is a necessary implication of pursuing a policy focused on international competitiveness. At the same time, other firms, the more dynamically efficient ones, will survive and grow by developing adaptive capabilities and coping mechanisms.
3. At the level of the industry or sector as a whole, what one should observe therefore, as this process works itself out, is a process of restructuring as strategic shifts, new alliances, entries, and exits, are made by different firms. The sector or industry as a whole may continue to operate, with a changing composition of firms that are on a stronger footing to find new opportunities for growth through diversification. This process has been going on for some time in the Jamaican economy, specifically in the sectors of traditional agricultural exports, like sugar and bananas. A similar process has become evident in recent years in the manufacturing sector.
4. The role of industrial policy in this context is: (a) to provide the appropriate support mechanisms that would allow efficient firms to survive and grow, and (b) to create the appropriate conditions for new profitable investment opportunities to emerge.

WHAT ROLE FOR PROTECTION?

1. In the past, Jamaica's trade regime was characterised by high tariff and non-tariff barriers. Nominal import tariffs exceeded 200 per cent for several items. The measured effective rate of protection ranged from negative rates to 220 per cent and the average rate was among the highest in the Caribbean. The process of dismantling this regime started in 1987 and is continuing today.

2. The main lesson to be learned from Jamaica's experience is that there are high costs of such a policy regime, especially as it has been pursued in the past in the form of blanket protection of manufacturing industry to promote import substitution. The short-term gains in employment that this policy ostensibly provides have to be set against those costs.
3. The most immediate cost is that which the consumer bears from having to pay higher prices for imported goods or for domestic substitutes that may often be of poor quality. Another is the cost in output foregone, from the proliferation of rent-seeking activities involved in securing access to import restrictions by those who benefit from them, and from the administration of such restrictions by public agencies.
4. From the standpoint of the goal of export expansion through international competitiveness, a policy of protection sets up basic contradictions and obstacles to the pursuit of that goal. This is because it directly, and indirectly, raises the cost of inputs to the exporter and, thereby, places the exporter at a competitive disadvantage in relation to other exporters in other countries. It also biases the structure of incentives for investment in favour of sheltered import-substituting activities that yield high and relatively risk-free returns, and against riskier investment in exports. This anti-export bias has been shown to be a significant factor which explains the relatively poor export performance of Jamaica and other Caribbean countries in past years.
5. The cost of such anti-export/pro-import substitution bias is usually thought of in terms of the static efficiency losses associated with the shift of resources towards production of high-cost import substitutes. But no less significant, and perhaps more important in the long-term, is the dynamic effect that it has of building into the economy an investment inertia through creation of a structure of firms which thrive on safe and secure returns in sheltered activities with monopoly privileges and, in the process, fail to develop the learning experiences necessary to mount competitive strategies to deal with international competition.
6. Of course, given the existence of protected industries to start with, there are adjustment costs involved in removing protection and moving to a more open trade regime. An argument can be made, in this case, for phasing of the adjustment process so as to reduce the "shock effect" of the adjustment and allow time for affected

firms and sectors to make the adjustment in accordance with an announced, and firm, schedule.

7. Naturally, the option to introduce protection should be held in reserve. The need to use it as a defensive weapon is clear in cases where dumping can be proved to exist. This requires maintaining a vigilant anti-dumping policy. The need for such vigilance is especially great in the case of fledgeling industries that are seeking to establish their feet in the domestic market with a view to subsequent penetration of export markets. Such a strategy of building an export platform in the domestic and CARICOM market is a proven strategy for successful export expansion in Jamaica
8. If there is to be protection in other cases, it has to be handled on a case-by-case basis, and the case must be established on demonstrable and acceptable grounds. It is important also, to have a clear and explicit understanding of the overriding social goal that is to be achieved (whether employment or food security, for example) and try to avoid conflict with other goals, specifically with the goal of competitiveness in exports.
9. On economic grounds, the strongest case for protection, consistent with the goal of competitiveness, is based on the "infant industry argument". It is that an industry with the potential to become competitive is not likely to develop in the absence of protection, because there are large costs (indivisibilities) in getting started, and unit costs fall as the industry expands because producers gain the advantages of learning from experience and economies of scale. This argument points to a need for:
 - (a) limiting protection to demonstrable cases of this sort;
 - (b) having an explicit time frame during which the industry must become competitive; and
 - (c) establishing a definite schedule for termination of protection.
10. Countries that have used protection creatively in this way, as did some of the Asian NICs for instance, were in fact able to create a base for sustainable economic growth under a regime of import substitution, and subsequently made the shift to a strategy of export-led growth. Jamaica missed the opportunity for making that transition in the 1970s and 1980s and must now design a strategy for picking up the momentum under wholly new conditions.
11. In the contemporary international environment, any new initiative of protection must of course be consistent with rules and commitments subscribed to by the Government of Jamaica under

the Uruguay-Round agreements and the evolving supervisory and monitoring role of WTO (see Ministry Paper No. 3, GOJ, 1995).

Developing countries like Jamaica have some leeway under the rules and this offers an opportunity to be exploited as warranted by the Industrial Policy. This calls for adapting Jamaica's trade policy to the requirements of the National Industrial Policy.

CHAPTER THREE

SIZE AND SCOPE OF THE REQUIRED EFFORT

THE RECORD OF RECENT ECONOMIC PERFORMANCE

1. In seeking to determine the requirements and capabilities for future growth, it is useful to examine the main features of the growth-dynamic that has occurred in the recent past. This provides a standard, or base-line, against which to gauge the projection of future performance and the national effort required to achieve the growth objectives.
2. To this end, Tables A.1 through A.5 in the Appendix present features of the production structure in terms of the sectoral composition of output, employment, labour productivity, exports, saving and investment in recent years, as well as details of the sectoral growth-dynamic in terms of average annual growth rates of the different sectors for different sub-periods, over the 45-year period 1950-1994.
3. Looking first at the longterm pattern of growth, it is evident that, in the first half of this period, i.e. 1950-1973, growth of GDP occurs at a remarkably high and sustained rate overall, of five per cent to six per cent. In terms of sectoral composition, it is driven by mining and manufacture. This is accompanied by rapid expansion of construction and basic infrastructure (electricity, water, transport, storage, and communication), with other services responding in like manner (especially finance and insurance, and government). The Agricultural Sector does not keep pace over most of this period, though it picks up in the later years, 1969-73.
4. The period 1974-1985 is one of generalised decline or stagnation in most sectors of the economy (with zero to negative growth rates

overall). The decline is led (just as in the earlier growth phase) by mining and manufacture, and carries with it the sectors of construction, transportation, and distribution. One exception is the finance and insurance services sector which continues to expand throughout, though at a reduced rate. The government services sector also continues to grow at a high rate for a while, but a decline sets in during 1981-85. The agricultural sector, undergoes a sharp increase in growth, continuing to display a strong countercyclical tendency.

5. The economy as a whole, enjoyed a short-lived spurt of growth in 1987-1990. Since then the rate has become slower and there has been a decline in mining and manufacture. Agriculture and some of the services sectors have been the growth leaders in this latest phase.
6. Within agriculture, it is domestic and non-traditional agricultural exports that provided the momentum of growth. Traditional agricultural exports, on the other hand, have generally declined.
7. In manufacture, growth has come mainly from food processing, beverages, apparel, leather products, furniture, rubber and plastic products, and non-metallic products, with an overall pattern of highly uneven growth. The overall growth rate of the sector has been low on average in the past 20 years and declining to negative from the peak reached in the late 1980s.
8. Performance of the services sectors has been uneven. The construction, installation and distribution sectors tended to fluctuate quite sharply, in line with broader fluctuations in the economy. In contrast, the sectors of finance, insurance, real estate, and business services have maintained positive growth rates overall. The finance and insurance services sector is a clear leader in growth over the entire period, with a sharp acceleration from the middle 1980s to the present.
9. Special significance is attached to the performance of export services. Altogether, non-factor services now make up more than half, 54.4 per cent in 1994, of total exports of goods and non-factor services. Here, the tourist sector has played a key role. Since the 1980s it has grown at an annual average rate of 10.5 per cent. As a foreign exchange earner it now outranks the sectors of traditional agriculture and mining, and represents 34.4 per cent of total export earnings in 1994, up from 17.4 per cent in 1980. The other services component of exports has also grown

substantially. A part of this component is attributable to the growth of the music and entertainment industry. There are also new areas emerging in financial services, information processing, and consulting. Additionally, shipping services have also become an increasingly important service sector.

10. The dominant weight in exports has shifted quite clearly to services. In terms of the structure of employment and gross product, services also dominate (see Table A.2).
11. Looking now at the productivity side of the picture, one finds that there are very large differences in labour productivity between different sectors of the economy (see Table A.2).³ This difference is such as to constitute a striking element of dualism in the economic structure. An important feature of this dualism is that the sectors with the higher shares of both employment and output are concentrated in the range of lower productivity. The mining sector and the electricity-gas-water sector have the highest productivity levels, averaging ten times the national average. The services sectors as a group, have a much lower productivity level than these two.
12. Recent trends have tended to compound this feature of the situation (see Table A.3). The biggest improvements in productivity during 1986 to 1994 have been occurring in the goods-producing sectors of the economy (with the exception of the construction sector). The agricultural sector in particular, the sector of lowest productivity, has shown significant improvement. In contrast, the services-producing sectors have had very moderate productivity increases.

POSITIONING THE ECONOMY FOR FUTURE GROWTH

1. With an overall growth rate of GDP of just under one per cent per year on average since 1974, the Jamaican economy has experienced more than two decades of very low growth. Allowing for population growth, there has actually been a decline in per capita terms. This performance contrasts sharply with the previous quarter century.

³ Labour productivity is measured here as the ratio of sectoral GDP in constant prices to total employment in each sector. This is a rough measure that allows assessment of relative orders of magnitude and trends over time.

2. Though there has been stagnation or decline in aggregate terms since 1974, the economy has nevertheless, experienced a marked degree of structural change during this period. However, the pattern of structural change has concentrated output and employment in some of the services sectors and agriculture, which are generally at the low-end of the productivity scale. The services sectors have shown only a moderate productivity increase.
3. It appears, therefore, that the shift towards a services-dominated economy, while it holds out the prospect of gains in employment, output, and export earnings, is not sufficient to provide a sustained increase in the general level of productivity and, correspondingly, in average income levels.
4. This poses a challenge for industrial policy. The Policy must not only address the requirements for restoring growth in the aggregate economy or at the macroeconomic level. It must focus also on the problem of productivity at the sectoral and firm level. In particular, it must create mechanisms and measures geared to improving productivity all round in the economy, while promoting new areas of high-productivity economic activity. It must focus also on the special needs of the lowest productivity sectors. Since many of the firms in these sectors are small, it also requires attention to the specific problems and needs of small businesses.
5. As far as overall growth is concerned, a key long-term objective of the National Industrial Policy is to restore growth in the economy to at least the level achieved in the previous growth phase, i.e. a growth rate of six per cent per annum. In the short-term, accelerated growth is constrained by domestic absorptive capacity and by availability of foreign exchange resources. Therefore, this objective is to be achieved by moving in steps, and following a sequenced strategy of addressing specific priorities, so as to build up the momentum. Starting from the current situation of very low growth, and by putting in place the core components of the Industrial Policy as outlined in this document, it is expected to reach a target of six per cent growth by the last year of the millenium, and to enter the 21st century in a new phase of high growth.
6. In its strategy for improving productivity in the Jamaican economy, the National Industrial Policy will focus on the following crucial factors:

- (1) improvements in the technology of production at the firm level in targeted sectors of the economy;
- (2) development of the human resource base, in terms of general education, training of the labour force, and application of scientific knowledge to production through research and development;
- (3) restructuring of the production base of the economy towards higher value-added and higher productivity activities; and
- (4) upgrading the technical and managerial capabilities of the small business sector.

GROWTH THROUGH EXPORT PUSH

1. While GDP growth has lagged, export growth has nevertheless occurred at a fast rate. In the past decade, total exports of goods and non-factor services grew at an annual average rate of 7.4 per cent, more than twice the growth rate of GDP (3.4 per cent) during the same period.
2. Among the broad components of exports, performance has been very uneven. Traditional exports grew rapidly during the 1980s to regain their position of pre-eminence among exports in 1990, but have fallen off since then, back to the 1989 level, in the past few years. Within merchandise exports, the momentum has been carried by the non-traditional sector which grew at the remarkable rate of 12.1 per cent during the decade. Export services have done better than merchandise exports and, as noted earlier, now constitute the larger share of exports, with tourism playing the leading role.
3. In order to assess the existing competitive capabilities of Jamaican industries for undertaking the export push, a detailed analysis of available data was done on international market trends (for merchandise exports) and Jamaica's performance in relation to those trends, focusing on the Organisation for Economic Cooperation and Development (OECD) market and Jamaica's changing market share relative to the overall evolution of the market during the period 1980-1993. The analysis yielded a classification of performance in terms of four distinct categories, with shares of each in Jamaica's total merchandise exports as follows:

• Rising stars	32.93 per cent
• Declining stars	16.43 per cent
• Missed opportunities	7.24 per cent
• Mixed performers	43.40 per cent

4. The rising stars are the top performers and most dynamic, with a growing market share of a growing market. They constitute about a third of total exports. They represent a significant platform for building continued growth, insofar as their market continues to be growing sectors of global trade.
5. The apparel sector is the largest component of this category, with a 28.8 per cent share of exports in 1993. It is followed by the food and beverage group, with a 2.6 per cent share, consisting of non-traditional food crops, fresh and frozen fish, ornamental fish, processed foods, and non-alcoholic drinks. Then there is a wide diversity of other product lines, ranging from raw materials (limestone, gypsum), and processed materials (oils and fats), to chemicals (essential oils and perfumes), and light manufactures (leather and rubber products, footwear, textiles, and metal manufactures). Taken together, they form only a very small share (1.5 per cent) of exports at present, and individually are miniscule. However, their past performance indicates a good potential for future growth.
6. The declining stars are a small share, 16.43 per cent of exports. Though declining, they are stars nevertheless, because of increasing market share, and they can also provide a vehicle for growth. But they are vulnerable because they operate in sectors that are a declining share of global trade. This means that the strategy should definitely be looking elsewhere for new vehicles for growth.
7. The traditional lines of agricultural exports predominate in this category, and there is a wide range of smaller items consisting of raw materials, chemicals and manufactures.
8. The missed opportunities are the smallest share, 7.24 per cent. They are losing competitive ground, because of declining market share. But they are also operating in dynamic market sectors. A strategy aimed at strengthening their competitive capabilities is warranted in order to allow them to take advantage of available opportunities for expansion.
9. Alcoholic beverages are the largest component of this category (3.82 per cent). It also includes preserved and prepared fruits and vegetables (0.46 per cent), a dynamic segment of the processed foods market which offers strong opportunities for growth.
10. The mixed performers have an uneven record of performance, though generally showing a declining market share in a declining market. They are the largest share, 43.4 per cent of total exports.

The bauxite/alumina sector is the largest component of the group and has its own special conditions. There may be further gains to be had from the growth of these sectors, but in the long term the strategy should also be looking elsewhere for new growth vehicles.

11. What emerges from this analysis is that there are clearly identifiable centers of export dynamism, based on the examined record of past performance and international market trends. They can be a focal point for future growth. This is consistent with an essential principle of the Industrial Policy, i.e. to start from existing centers of strength and build on them to achieve further growth. It is clear, of course, that past performance is no guarantee of future success. This makes it necessary to conceive the Policy in dynamic terms, i.e. in accordance with the ongoing evolution of the international market, anticipated changes in market demand and supply conditions, and the developing potential of Jamaica-based producers as they adapt to the requirements of competition and are strengthened by the interventions of the Industrial Policy itself.
12. At the same time, there is a need to look towards the emergence and creation of new centres for sustaining the overall momentum of growth. In this sense, a push for continuing product diversification has to be a built-in element of the policy. Herein lies the real challenge for industrial policy i.e. the need to keep running in order just to stay in the competitive race.
13. To sustain future growth of national income at the rate necessary to raise per capita income significantly, a large effort of all round export expansion will be required, at a much greater rate than in the past decade. Taking the target of \$4,000 for per capita income in 2010, what does this imply for exports? Judging from past performance, it takes export growth of about 2 per cent per annum to sustain a one per cent growth of GDP. Therefore, it will take export growth at 14 per cent per annum to achieve that target. This is almost double the export growth rate of the past decade.
14. Thus, in order to move the Jamaican economy forward, exporters will have to double their efforts. The National Industrial Policy aims to provide the support framework to facilitate that effort.

SAVING AND INVESTMENT

1. Analysis of trends in Jamaica's saving rate shows that, over the period 1970-93, domestic savings have been well below 20 per cent of GDP and have fallen to as low as seven per cent in some years. The average rate for this period was 15.6 per cent. This compares with an average of 24.3 per cent for all developing countries and 27.5 per cent for the high growth Asian economies, for the same period. Owing to the low domestic saving rate, a substantial part of the investment that occurred during this period was financed by foreign saving. Foreign financing amounted to 33.5 per cent of gross domestic investment on average, was as high as 70.5 per cent in its peak year (1985) and, with the exception of 1986, 1988, and 1992, not lower than 20 per cent. By contrast, developing countries in general, finance over 95 per cent of their investments with domestic savings.
2. Several factors have affected the mobilisation of savings during this period: high rates of inflation, an unstable exchange rate, negative real interest rates on passbook savings, the existence of large fiscal deficits, and capital flight.
3. In recent years the situation has improved significantly. The saving rate averaged 21.2 per cent during 1988-92, well above the average of 14 per cent for the period 1969-87. Factors contributing to this turnaround include the adoption of fiscal policy measures, giving rise to a fiscal surplus on government account. In addition, significant changes in the Jamaican financial sector, evident in rapid growth in the number and types of financial institutions, their branch network, and the services and instruments offered to the public, have deepened financial intermediation and encouraged private savings. Nevertheless, the gap between domestic saving and total investment, amounting to 23.3 per cent of gross accumulation during 1988-92, continues to be high.
4. To restore growth in the Jamaican economy, an essential component of the Policy is to raise the national savings rate. In the medium term, an appropriate target is to move the rate from the recent level of 21 per cent (average 1990-92) to the current average of 25 per cent for developing economies. It would take a much greater effort to move the rate to the current average of 30 per cent for the Asian economies. This seems an unlikely prospect in the medium term, but a worthwhile goal for the long term. In the interim, this means that a significant savings gap would remain to be filled by foreign financing.

5. The National Industrial Policy aims to develop the policies and implement measures that would meet the twin requirement of raising national savings and sourcing foreign financing for investment and growth in the Jamaican economy.
6. On the side of investment, the record of recent performance shows a fairly high rate of investment, with gross fixed capital formation averaging 30 per cent of GDP in 1990-94. This is significantly higher than the average of 22 per cent for the previous period 1969-89, and higher than the average of 23 per cent for middle income economies in 1993, though not quite as high as the average of 35 per cent for the Asian economies. Despite this high rate of investment, however, growth of output has been low, implying a low overall efficiency of investment (high incremental capital-output ratio — see Table A.5) associated with a buildup of excess capacity in some sectors of the economy, as well as some diversion of investment into low output-generating sectors.⁴
7. The existence of this high rate of investment in recent years suggests that the need in the short-term is not so much to raise the overall rate of investment as it is (a) to redirect the flow of investment from short-term, low output-yielding activities, into long term high-productivity activities and (b) to increase the utilization rate and efficiency of existing productive capacity. The existence of excess capacity points to the possibility of a quick acceleration of growth without substantial new investment in the sectors where such capacity already exists and can operate efficiently, as in bauxite/alumina and tourism for instance. To sustain high growth in the long term would of course require an increased rate of investment. This is the long-term focus of the National Industrial Policy.

GROWTH WITH EQUITY

1. Alongside the dualistic structure of economic production in the Jamaican economy, there exists a persistent dualistic structure of incomes. A high proportion of families continue to live in conditions of poverty and deprivation. In addition, chronic and persis-

⁴ The sharp rise in the incremental capital-output ratio after 1990 is an implication of the reported estimates of national income. But it does seem problematical that such a high rate of investment should be associated with the low measured growth rates of GDP for this period. It becomes more problematical when one takes account of the high growth rates of exports for the same period, which should properly have generated much larger output growth than actually reported, given the historical value of the export-growth multiplier. It seems likely that there is some amount of under-reporting of income. The reported estimates are explicitly identified as "preliminary". Some clarification of the problem is called for in the revision of the estimates.

tently high rates of unemployment of the labour force have existed for a long time. These conditions pose a major challenge for policy.

2. Within the specific framework of industrial policy, there is a definite role, and potentially wide scope, to make a contribution to alleviation and relief of these problems. This arises, for instance, from the potentially large spinoffs as well as direct gains for the small-business sector (the sector of highest direct employment-generation) from growth of exports. It arises also from the benefits for development of entrepreneurial initiative in that sector from an industrial policy that focuses on direct support for small business, deregulation, and improving the efficiency of public agencies.
3. Moreover, industrial policy necessarily entails, as a cornerstone of the Policy, a strategy of human resource development through education and training of the labor force. This strategy, when integrated and combined with that of export-push, has the potential of creating a "virtuous circle" of development that significantly impacts on the problems of unemployment and poverty.
4. The challenge that the National Industrial Policy faces, is to ensure success in building up the productive base of the economy so as to provide thereby, a sustainable basis on which to tackle the social problems of unemployment and poverty.
5. Economic growth in the past has not proved sufficient to improve significantly the structure of incomes. Therefore, these problems need to be addressed within the broader framework of an explicitly designed and targeted social policy.

THE PUBLIC SECTOR RESOURCE CONSTRAINT

1. It will be necessary to adapt Government's budgetary allocations to accommodate policy priorities. It must however, be recognised that there is limited room for manoeuvre in the short term within the existing size and commitments of the Budget.
2. As a requirement of structural adjustment, the Government sector has been operating within the long-term scenario as a declining share of the overall economy. In terms of GDP, the current share of Government is now slightly less than seven per cent, which represents a 50 per cent decline from the peak level of 13 per cent in the 1970s. At the current share, growth of the

economy will generate a larger absolute quantity of resources for the disposal of government. But in the short-term the total size of resources is strictly limited. The amount available for expenditure is further constrained by the Government's commitment to a targeted fiscal surplus as an indispensable condition for maintaining macroeconomic stability.

3. As to the composition of the total Budget, Table A.6 presents a picture of the trade-offs involved. Debt service, which constitutes a claim on resources that the Government must meet, is the largest component. Though declining in the last year, it still represents a substantial proportion of the total budget. Within the remainder, General Administration is a diminishing share, reflecting the commitment to reducing the size of the Government establishment. Security Services are an increasing share, corresponding to the requirement for providing a safe and secure environment for the citizens. The share of Social Services has increased sharply in the last two years to meet priorities in the areas of education, health and welfare. Given these adjustments, cutbacks have had to be made in Economic Services.
4. In the long term, the Government aims to reduce the total stock of debt to a smaller proportion of GDP. However, debt service is likely to increase in the near term, as interest costs are currently rising faster than revenues, and rescheduling arrangements under the Paris Club agreement came to an end in December 1995. At the same time, effective implementation of key elements of the Industrial Policy in the areas of physical infrastructure and human resource development, as well as meeting broader social goals for expanding social services, will require increased allocations in these areas.
5. In order to deal with these conflicting requirements, Government is committed to change the way in which resources are managed. This entails the following:
 - (a) to increase revenue collection by an aggressive arrears collection drive;
 - (b) to improve efficiency in tax administration so as to increase compliance;
 - (c) to reform the financial management system and the budgeting procedures of the state;
 - (d) to strengthen and deepen the administrative reform and public sector modernisation programmes so as to achieve efficiencies in cost and delivery of services, with a leaner structure of government agencies.

PART II

CORE POLICIES

MACROECONOMIC POLICY

THE PROBLEM OF MACROECONOMIC INSTABILITY

1. Macroeconomic instability in Jamaica is represented by two related conditions:
 - (a) instability in the internal value of the Jamaican currency as reflected in high rates of inflation, averaging 23 per cent per year over the period 1974-94; and
 - (b) instability in the external value of the Jamaican currency, as reflected in depreciation of the Jamaican dollar relative to its United States counterpart at an average rate of 19 per cent per year over the same period (US inflation averaged about five per cent per year).
2. Inflation reached a peak in 1992 at a rate of 80 per cent, in the aftermath of the liberalisation of the Jamaican foreign exchange system. Policies developed since then have succeeded in reducing the inflation rate to 25 per cent in the past year. Nevertheless, the rate remains stubbornly high. It is significantly higher than that of other countries which are Jamaica's leading trade partners and competitors.
3. The persistence of this high rate of inflation is, itself, a causal factor in maintaining a cycle of inflationary expectations. The cycle has been fed by cost and demand factors and, at differing intervals, by the process of money creation and financing of deficits in the Government's Budget.
4. This situation is simply not sustainable without serious consequences for the country's capacity to compete in terms of trade and investment, and for social stability. It is therefore a matter of the first priority and an indispensable condition for success of the Industrial Policy. The Government is resolved to bring this problem under control.

APPROACHES TO ACHIEVING MACROECONOMIC STABILITY

1. Past approaches aimed at achieving macroeconomic stability have focused primarily on several policy instruments: efforts to fix exchange rates by various mechanisms; attempts at the use of incomes policies; and pervasive use of monetary policy. Meanwhile, recurrent fiscal deficits have helped to feed inflationary pressures. For example, over the period 1963-93, Bank of Jamaica net credit to the overall public sector, to finance recurrent deficits, represented 68 per cent of the growth of money supply (as represented by M2).
2. The policy measures of more recent years have attempted to utilise fiscal measures in the fight against inflation. From a deficit of some 17 per cent of GDP in 1980, then one of the world's highest relative deficits, the Government has gradually moved its fiscal accounts to a cash surplus position (defined as revenues plus grants less capital and recurrent expenditure net of amortisation of debt principal). In 1994/1995 the targeted fiscal surplus was J\$2.1 billion, representing three per cent of Government revenue and about two per cent of GDP. This represents a sizeable reversal of the previous situation and a substantial achievement.
3. At the same time, however, the supply of money has increased in the context of the build up of foreign exchange reserves, expansion of credit to the private sector, and drawing down of Government balances held at the Bank of Jamaica (BoJ). The use of monetary policy to arrest the growth of money supply has resulted in an environment of tight liquidity and associated high interest rates. Existence of an inflation rate that is higher than the rate of Jamaica's principal trading partners has put pressure on the foreign exchange rate and this, in turn, has had a feedback effect on the inflation rate. Interventions have been made in the foreign exchange market to ensure that currency depreciation does not proceed more rapidly than is warranted by the underlying fundamentals.

A NEW APPROACH TO ACHIEVING MACROECONOMIC STABILITY

The Government is prepared to move to a new approach in the fight against inflation in order to create, during the current year, the conditions that will allow achievement of the investment and growth objectives of the National Industrial Policy.

OBJECTIVES

- Government policy initiatives are designed to achieve the following:
- (a) bring about reduction in inflation and in interest rates;
 - (b) maintain an internationally competitive exchange rate;
 - (c) create a macroeconomic environment of stability, predictability, and credibility; and
 - (d) restore growth in the overall level of output and employment.

POLICIES

1. The Government is committed to adopting a binding anti-inflationary position that differs from previous efforts to control inflation. In so doing, it will orient its policies around inflation and exchange rate targets geared to the goals of macroeconomic stability and international competitiveness.
2. The anti-inflationary position will include continued use of fiscal policies as a key weapon in inflation control.
3. The general fiscal-policy goal is to continue to run end-of-year fiscal surpluses as long as is required. The fiscal-surplus target for the first year of the Policy is three per cent of Gross Domestic Product. This involves a significant increase over the previous year's fiscal-surplus target of 1.6 per cent in 1994/1995.
4. In order to generate a surplus of this magnitude, the Government will pursue focused efforts at adjustment on both the revenue and expenditure side of the Budget.
5. Tight fiscal policies will be fully complemented by other efforts to control the growth of money supply. Thus, for example, the Government will tightly manage sterilisation of acquisitions of foreign exchange that contribute to the build-up of the Net International Reserves.
6. With respect to control of money supply, the Government's anti-inflationary position will be institutionalised through the movement to establish the Bank of Jamaica (BoJ) as an independent Central Bank. The principal objectives of the Bank will be the control of money-supply and inflation, and management of the foreign exchange system. The Bank, in conjunction with the Government, will set and announce definite targets for inflation and adopt requisite measures to achieve the targets. The

Governor of the Bank will be required to report regularly to Parliament on the conduct and performance of the policies of the Bank.

7. The Central Government is moving to operate government financial accounts through the commercial banks. The Bank will cease most of its functions as banker to the government. Thereby, money supply growth through net credit to the public sector will be eliminated. The new relationship will put the Bank in a position to focus on the control of money supply growth through the credit it extends to the private sector.
8. In this respect, monetary policies will continue to be used. However, with cessation of normal banking relations between the government and the BoJ, combined with tight fiscal policies, the interest rates required to control inflation will be lower than those that have obtained in the past when monetary policy served, at least in part, to correct a prior expansion of liquidity due to the issue of net credit to the public sector.

NEED FOR A SOCIAL PARTNERSHIP

1. To break the cycle of inflationary expectations entails a complex process of adjustment by all economic actors. All must play a part in this process. Hence there is need for a Social Partnership that is oriented to a balanced adjustment of prices and incomes. To be viable and sustainable, the Social Partnership must be based on credibility of policies, acceptable performance standards for all parties, and voluntary compliance.
2. In this process, the Government is determined to play a leadership role. In particular, the Government is taking the initiative to put in place a specific set of measures that will produce demonstrable and tangible results. Together these measures offer significant incentives for all economic actors. On the strength of these measures, the Government seeks to obtain an agreement among leaders of the private sector (business firms, financial institutions), trade unions, public sector employees, and non-governmental organisations, to commit to making their contribution to the national effort by actively participating in the Social Partnership.

THE COST AND BENEFIT OF MACROECONOMIC STABILITY

1. The Government recognises that there is a cost associated with the approach it is proposing to take to achieve macroeconomic stability. This cost is captured largely in the requirement of an increase in the fiscal surplus. Taking the 1995/1996 financial year, the estimated level of revenue and loan receipts is approximately J\$83 billion, while GDP for 1995/1996 is estimated at J\$160 billion. The fiscal surplus target of three per cent of GDP would therefore constitute J\$4.8 billion, representing 5.8 per cent of estimated revenue.
2. The Government will adopt several measures for generating a surplus of this magnitude. These include:
 - (a) development of a centralised treasury-management-system to bring greater efficiency in the use of Government's cash and near-cash balances throughout the fiscal year and to administer the internal and foreign debt obligations;
 - (b) creating efficiencies in personnel deployment through the Administrative Reform Programme, and,
 - (c) continued efforts at improvement in tax collection and financial management of Government-funded projects.
3. It is expected, however, that the benefits of macroeconomic stability will outweigh the costs. Achieving macroeconomic stability will create a more favourable environment for the growth of economic activity in the private sector. Other initiatives to be taken in the National Industrial Policy will provide an additional stimulus to growth. The possibility of offsetting the costs associated with reduced Government spending is predicated on realising the benefits of such growth. For this to occur, the private sector is expected to deliver in terms of economic performance.

INVESTMENT PROMOTION AND EXPORT PUSH

REDUCING TRANSACTIONS COSTS AND DISINCENTIVES FOR INVESTMENT

1. Investment is the prime mover in the growth of the Jamaican economy. Most investment is driven by profitability. Hence, the focus of industrial policy is centred on the conditions which govern profitability, i.e. the cost, risk and return involved in undertaking investment.
2. From the standpoint of industrial policy geared to building competitive advantage, a central concern is to address the factors which raise operating costs of Jamaica-based firms, increase risk, and reduce return on investment relative to the global structure of costs, risks, and returns faced by counterpart firms in other countries. The objective is to ensure that Jamaica-based firms achieve competitive parity with their counterparts in other countries.
3. Detailed studies conducted at the firm level within many different sectors of the Jamaican economy, indicate a broad range of factors which contribute to increasing the costs of operating business activities in Jamaica (see Box 5.1). Some of these factors are external to the firm, located in the environment in which firms operate. Others are internal to the firm, related to their internal conditions of production, organisation, decision-making and control. By increasing costs (either direct operating costs or transactions costs), these factors serve as disincentives to investment and expansion of production.

BOX 5.1 IDENTIFYING FACTORS THAT RAISE OPERATING AND TRANSACTIONS COSTS, INCREASE RISK, AND REDUCE RETURN ON INVESTMENT.

Studies of many sectors of the Jamaican economy reveal the following factors as relevant (with differences in degree and incidence among sectors and firms):

ENVIRONMENTAL FACTORS

- (A) **FINANCE**
Cost of, and access to, credit for working capital and long-term investment, especially for small and medium enterprises.
- (B) **INFRASTRUCTURE**
This relates to a number of factors:
- the transportation system, for people and freight, by road and rail.
 - roads, their condition has deteriorated in some areas.
 - electricity, regularity and reliability of supply.
 - water supply, especially for irrigation in certain agricultural areas.
 - sewage facilities, in certain urban centres and communities.
 - security; praedial larceny.
- (C) **SUPPLY OF SKILLED LABOUR/QUALITY OF LABOUR**
General education and skills of the workforce. Level of technical knowledge and specific technical competencies in product design, engineering, materials analysis, etc. Work ethic.
- (D) **COST AND SUPPLY OF INPUTS**
Cost of imported inputs, chiefly raw materials, capital goods, and spare parts. Regularity and reliability of domestic supply of: agricultural products for food processing, livestock for leather, packaging, supply of building space.
- (E) **GOVERNMENT ADMINISTRATION**
Associated with regulation, control, application procedures and operation of public agencies.
- (F) **SUPPLY OF AND ACCESS TO INFORMATION**
Related to knowledge of market conditions, supply networks, and technical conditions: process technology, product specification, and quality control. Access to the distribution chain. Weakness of agricultural extension services. Low level of research and development.
- (G) **THE INDUSTRIAL RELATIONS CLIMATE**
Incidence of industrial actions. Mechanisms for dispute settlement.

INTERNAL FACTORS

- (A) **ORGANISATION OF PRODUCTION**
Limited use of flexible specialisation, just-in-time, and other best-practice methods. Lack of efficient, incentives-oriented payment system.
- (B) **TECHNOLOGY**
Limited use of computer control devices, information systems software and hardware, computer networks, and opportunities for application of information technology. Use of obsolete equipment and lack of repair.
- (C) **MANAGERIAL WEAKNESSES**
Related to delegation of authority, assignment of specialised tasks, attention to "systems control" and worker productivity-incentive schemes, and knowledge of management practices that have proved successful in other firms and in other countries.
- (D) **ENTREPRENEURIAL DYNAMISM**
Risk aversion and investment inertia. Lack of strategic analysis and forward thinking as regards trends in national, regional and global markets, in technology, and investment finance.
- (E) **LABOUR-MANAGEMENT RELATIONS**
Work-place norms and working conditions. Lack of mechanisms for worker initiative and participation in decision-making. Wage bargaining mechanisms, conflict resolution, trade union practices.

4. The Government is committed to a strategy of systematically addressing these factors. Progress is being made in this direction through existing programmes and activities, as for instance in the areas of telecommunications, electricity supply, road construction, transportation, port and airport facilities, sewage, water supply and training of the work force. A further concentrated effort is planned, focused on both immediate short-term needs and long-term development.
5. Ensuring macro-economic stability is, in and of itself, an important feature of the overall strategy, because it allows for greater predictability and reduced risk in investment decisions. Additionally, it influences other aspects of Jamaica's investment climate. But this is not the only element that needs to be addressed.
6. Accumulated evidence from other countries' experience (e.g. some of the Asian economies), indicates that macroeconomic stability, though necessary and indispensable, is not a sufficient condition for economic growth and structural change. More directed and selective interventions are also needed. This is because there are significant sources of market failure arising from such factors as increasing returns to scale, externalities, imperfect information, coordination costs, and existence of public goods. These factors serve as barriers to development, if reliance is placed solely on market forces.

OBJECTIVES

- (a) To ensure that firms operating in all sectors of the Jamaican economy achieve competitive parity with their counterparts in other countries;
- (b) to focus investment activity on targeted areas of competitive advantage in the economy;
- (c) to support the push for expansion and diversification of exports, and,
- (d) to increase the overall rate of investment and saving.

STRATEGY

1. The essential thrust of the policy approach to be adopted in dealing with these factors is an integrated strategy consisting of the following three elements:
 - (1) a system of incentives that is performance-oriented and based on simple, uniform, transparent rules and measurable criteria, with the balance shifted from an emphasis on fiscal incentives to production-oriented incentives and export-market access;
 - (2) a time-phased and broad-based strategy for addressing directly the disincentives through policies designed to reduce them at their source, and,
 - (3) an activist strategy of investment packaging that seeks to mobilise, facilitate, and focus investment activity in targeted strategic sectors of the economy.
2. It will not be possible to remove all disincentives in the short-term. It is for this reason that the Government proposes to continue fiscal incentive programmes in its effort to provide a supportive framework for investment and growth of internationally competitive business operations in Jamaica.
3. Moreover, in the present competitive world environment, every country, as well as regions within countries, competes intensely to win a share of world investment and world markets by designing its own package of incentives. It is necessary to keep up with the competition, not simply by copying what others do, but by being selective and innovative in designing a flexible system that is best suited to our own conditions.
4. There are constraints on this strategy. An important one comes from the fiscal burden of fiscal incentives in terms of revenue foregone. Another comes from being locked into the requirement of harmonisation of fiscal incentives with other members of CARICOM. A third comes from the requirement of consistency with international regulations under WTO and other agencies. But, given these constraints, there is room for innovation and new initiatives.
5. The core of any new initiatives must be consistent with the strategic thrust of the industrial policy. Accordingly, given the key role identified for export push, the incentive system will be structured in favour of firms that are seeking to penetrate external markets.

6. Essential criteria to be applied in identifying targets of opportunity for investment promotion include the following:
 - export performance and potential;
 - efficient import substitution;
 - increasing national value-added;
 - strengthening linkages (inter/intra industry) within the local economy;
 - use of local natural resources;
 - employment potential;
 - enhancing the level of skill and technical experience of the workforce;
 - food security;
 - creative use of the nation's cultural heritage;
 - environmental friendliness.

POLICIES

A. FISCAL INCENTIVES

1. The economic role of fiscal incentives is guided by three basic considerations:
 - (a) they provide an offset to distortions in prices and costs arising from the disincentive factors outlined earlier;
 - (b) they serve to equalise advantages of the fiscal regime faced by Jamaica-based firms with regimes faced by competitors in other countries, and,
 - (c) they may be used to discriminate in favour of activities which are deemed to have priority preference for strategic reasons.
2. Though they are well recognised to be important in creating a supportive framework for investment, fiscal incentives are no panacea for industrial competitiveness and growth of the Jamaican economy. Their potential role has possibly been exaggerated when discussions of Government policy would revolve almost completely around possible permutations and combinations of fiscal incentives.
3. Currently, Jamaica has many different incentive schemes, inherited from past policies and programmes. These include: the Export Industry Encouragement Act (EIEA); the Jamaica Export Free Zone Act; the Bauxite and Alumina Act; Approved Farmer Status Legislation; the Motion Picture Encouragement Act; the Hotel Incentives and Resort Cottages Act; the International Finance Companies Act; the Modernisation of Industry

Programme; the Urban Renewal Act, and the Accelerated Depreciation Programme.

4. The general thrust of the various schemes has been to provide income tax concessions in the form of multi-year tax holidays and duty waivers and moratoria for firms in specified sectors (operated in some cases through import-duty-drawback schemes). This is true, for example, of the EIEA (usually interpreted to apply to manufacturing firms) and the Hotel Incentives and Resort Cottages Act (oriented to accommodation in the tourism industry).
5. It is generally agreed that the existing incentive schemes suffer from various deficiencies. One is that they are rather blunt instruments for providing assistance to firms because of the general nature of the schemes. It is in this regard that they are to be viewed as only one element of a much broader package for creating a competitive environment from which Jamaica-based firms can successfully operate internationally. In addition to the bluntness of the measures, they also suffer in their incentive goals because the income tax relief component is only relevant to profitable firms. Moreover, their effectiveness has been limited in some cases (as for instance, the import-duty drawback scheme) by delays in administration of the scheme.
6. Other deficiencies include the fact that the programmes are often not time-bound nor are they tightly linked to performance. This has meant that there is no effective mechanism to guarantee performance according to appropriate standards.
7. In its policy approach, the Government seeks to re-orient fiscal incentives in the direction of making them:
 - more transparent, simple, and automatic;
 - based on quantifiable and easily monitored performance standards;
 - more flexible so that a broader cross-section of firms can benefit from their provisions, and,
 - oriented equally to services, agriculture, and manufacturing activity.
8. In the long term, the Government seeks to re-examine the whole structure of the existing incentive regime to make it compatible with this approach. This is made necessary also by the evolving structure of international rules and regulations emerging from the Uruguay Round agreements and the role of WTO and by the

requirement of harmonisation of fiscal incentives with other members of CARICOM. In addition, it is necessary to keep up with the international competition in this intensely competitive field in order to remain on a level playing field with other countries.

9. In the short term, the focus of immediate attention is on the EIEA. This programme, in particular, suffers from the deficiency that it is rigid in its requirements for obtaining tax relief, i.e. it is restricted to firms that plan to be 100 per cent exporters. Since many firms enter into export markets from the platform of a presence in local markets, and indeed, use their local presence to support their export activities, the rigidity of the EIEA limits the extent to which local firms can be supported in their efforts to expand into international markets. The EIEA has also tended to focus too narrowly on manufacturing activity.
10. As a new initiative, the Government proposes to establish a more flexible programme of incentives under the EIEA, consistent with the general thrust of trade policy and evolving international rules.
11. Under the ongoing programme of tariff reform, imports of non-competing raw materials attract a zero rate of duty. The duty on imports of capital goods is zero for firms which qualify under the EIEA and has been reduced to five per cent for other firms. The Government is moving to establish a position of zero tariff on non-competing capital goods for all firms. The programme of tariff reform will continue according to the schedule for phasing down the Common External Tariff under agreement with CARICOM during the five-year period ending January 1, 1998.

B. TAX REFORM

1. In the medium-to long-term, the strategy calls for comprehensive review of the whole system of taxation as an extension of the process of tax administration reform that is now underway, with the aim of structuring the tax system to continue to facilitate investment and growth.
2. Successive administrations have recognised the need for developing a simple, equitable, and effective taxation system that will stimulate economic growth. During the 1980s, Government embarked on comprehensive reforms covering policy and administration. Though substantial policy reforms were effected, administrative reform lagged. Consequently, Government initiated

in 1995, with the assistance of the World Bank, a new phase of tax reform represented by the Tax Administration Reform Project.

3. The focus of this project is on raising revenues without raising taxes, primarily through administrative reform. The tax benefits of administrative reform will contribute to macroeconomic stability. Improvements in the efficiency of the departments will enable them to promote tax compliance and collect more taxes. Additional resources will then be available on a sustainable basis to finance budgetary needs, reduce dependence on foreign borrowing, and eventually enable a reduction in tax rates. Administrative reform will also assist private sector development by reducing the transactions costs involved in tax compliance.
4. As an extension of this process, Government will examine the existing structure of taxation, with a view to adapting the whole system to meet requirements of the National Industrial Policy for promoting saving, investment, productivity, and international competitiveness.
5. A significant step in this direction was taken with the recent revamping of the Accelerated Depreciation Programme, so that firms can now depreciate plant and equipment over two years.
6. As a further step, the Government now proposes to make interest on certain types of saving deposits free of withholding tax. Owners of such deposits would still be subject to the regular personal income tax on interest earnings. The following conditions would govern such deposits: (a) they must be held for a minimum of seven years; (b) the schemes in which such deposits are invested must be approved by the Minister of Finance, and, (c) investment of the funds will be authorised for a limited range of projects and programmes.

C. SHIFTING THE BALANCE TO PRODUCTION AND MARKET ACCESS

1. Although the Government will continue to provide incentives for investment linked to exports, it is also recognised that incentive programmes have tended to place excessive reliance on the use of fiscal incentives. The fundamental concerns of firms seeking to invest and move into export markets relate not only to the fiscal regime but also to problems of technology and market access. There is need for a more balanced approach to dealing with these problems.

2. To compete successfully at the standards of their rivals in other countries, Jamaica-based firms must enter into the new world of technology based on flexible manufacturing production, sophisticated information systems, and the use of advanced methods of product design and quality control. To this end, they will need to engage in a dynamic process of retooling plant and equipment, technological upgrading and modernisation. They must also develop systematic strategies for targeting and penetrating export niche-markets, based on attractive product packaging, name-brand identification, advertising campaigns, accessing distribution channels, and crossing over into mainstream markets.
3. A major stimulus to this effort, on the production side, is provided by the ongoing programme of tariff reform, as it affects, in particular, the import duties on raw materials and capital goods. All Jamaica-based firms, regardless of the sector or industry in which they operate, can benefit in their retooling efforts from the stimulus provided by existing and planned tariff reductions.
4. Going further in addressing these problems, the Government is promoting development of a range of services, organisational support, sector-specific technical assistance and training, focused on relieving constraints facing firms in terms of production technology, management, marketing, and access to information.
5. A major thrust in this direction is being pursued by Jamaica's economic development agency, JAMPRO. As one of its primary strategic functions, this organisation has been engaged in developing and implementing specific measures to assist firms in acquiring and adapting the technology necessary for their operations and in identifying markets for their outputs. JAMPRO's role in this regard will be continued and strengthened.
6. The focus on technology assistance is critical because of the poor state of technology in many Jamaican firms. A key role in addressing this issue is being played by specialised technical centres that are designed to relate to such firms, in an interactive and proactive way, to identify and respond to their needs. JAMPRO, in conjunction with organisations such as HEART, has been engaged in the establishment and nurturing of such technical centres to provide training of workers and technical advice to firms, particularly smaller firms. These centres, such as the Apparel Technical Centre, the Craft Centre, the Furniture and Wooden Products Resource Centre, and the Capital Goods

Technical Centre, will continue to be strengthened to provide assistance of this nature. Where necessary, other centres will be established.

7. A particular focus of the production and marketing assistance programmes is on creating linkages and developing networks among firms operating in related areas so as to enhance their mutual support. In this orientation, small firms will be linked with larger firms, ideally in subcontracting arrangements in which the larger firms, which are themselves beneficiaries of assistance, operate as catalysts for technological improvements in smaller firms.
8. Many firms have highly distinctive technical and marketing needs, and corresponding requirements of specialised assistance, which such firms are in the best position to identify. The Government will introduce an important new initiative in the strategy to provide support to such firms. This will take the form of a matching grant programme, designed to cover a proportion of the cost of obtaining specialised technical and marketing assistance.

D. FINANCING MECHANISMS

1. The cost of capital is an obviously critical element in the investment decision. In recent years, the cost of capital to Jamaica-based firms has been high. This is largely a result of the instability that has characterised the Jamaican macroeconomic environment and the attempts to control this instability through monetary policy. Firms also rely more heavily on debt than on equity financing and this gives rise to a higher liability of interest payments.
2. It might be argued that, in a high-inflation environment, high nominal interest rates might actually correspond to low real interest rates, and investors should be expected to pay positive real interest rates. As against this, however, it must be recognised that, in the context of high levels of inflation and the efforts to control such inflation through monetary policy, distortions are created throughout the economy which impact negatively on investment decisions, and especially on the choice between short-term and long term investments. It is therefore necessary for policy to address directly and deal with the existence of such distortions, in order to shift the balance of investment decisions from short-term to long term instruments. This is a matter of central concern for industrial policy in its goal to promote long term growth and development of the Jamaican economy.

3. Government is concerned also to maintain an open competitive environment in the financial system that allows efficient operation of the credit mechanism to channel funds to investors.

4. Given its commitment to reduce disincentives associated with operating business in Jamaica, the Government will adopt a multi-pronged strategy and sequenced approach to dealing with the distorted and high real costs of capital, facing Jamaican firms.

5. In the short term, while the policies to stabilise the macroeconomy begin to take hold, the Government will continue to provide loans on concessionary terms through the development banks so that Jamaican investors will not have to bear fully the brunt of capital costs that are uncompetitive in relation to the costs faced by competitors in other countries. In so doing, efforts will be made to ensure that interest rates on loans compensate for the distortions in the economic environment without completely overriding the discipline of the market.

6. The Government's strategy for providing capital to firms for productive activities will operate through the public sector financial institutions: the National Development Bank (NDB), the Agricultural Credit Bank (ACB), the National Investment Bank of Jamaica (NIBJ); the Micro Investment Development Agency (MIDA); the Self-Start-Fund (SSF); the Jamaica Venture Fund (JVF); and the Export-Import Bank (EX-IM Bank).

7. It is recognised that, despite the wide range of institutions available for providing funding to productive enterprises, the ability of these institutions to provide capital to such enterprises has been constrained by a number of factors.

8. One such factor is the policy decision that has obtained since 1980 in which the larger development banks (the NDB and ACB) have engaged in indirect lending of funds through other financial institutions rather than directly to business entities. Another is the requirement that interest rates to the productive sector should be at market interest rates in order to avoid distortions in the market for credit. A third factor is the limited availability of capital for purposes of on-lending.

9. The Government will revisit the issue of direct lending to selective entities within the productive sector. The present system of exclusive indirect lending has left a significant financing gap in the market. There is no historical evidence that this gap can be closed without resorting to selective direct lending.

10. Accordingly, the Government is prepared to reconsider those circumstances in which direct lending could become available to the productive sector by the public sector development banks. In addition, the Government has already adopted a policy whereby the development banks can enter the Venture Capital Market, thus sharing the risks of long-term loan capital with the commercial banks.

11. Further, the Government has adopted a policy of differential interest rates which will allow the productive sectors of the economy to gain access to funds at lower interest rates than obtain generally within the market. Because of the potential problems of market distortion, the Government's policy is that the gap between interest rates has to be carefully monitored and cannot be excessive. Further, there will be careful monitoring of loans to ensure that they are directed towards the appropriate activities.

12. The issue of expanding the pool of available capital will be addressed through continued efforts to gain access to various international sources of capital, and more aggressive efforts to tap into local capital markets for long-term and venture capital sources. Specific steps in this direction include the recent offer by Government of a J\$1 billion bond on the local capital market and preparation of a US\$50 million offer in the foreign capital market. In continuation of these moves, the Government will float bonds periodically to provide a pool of longer term capital. It is also committed to:

- (a) developing a range of instruments for increasing saving rates within the economy, and,
- (b) moving to pension arrangements which will provide Jamaican corporate entities and individuals with an incentive to participate in such schemes.

13. The process of providing additional sources of loan capital will be complemented through the provision of equity capital by the state. The NIBJ, operating as the Government's investment arm, will participate on a minority ownership basis in business entities for set time periods, with well-established clauses for exit from the investment. The NIBJ will provide financial assistance for firms requiring an equity infusion for venture capital or loan refinancing purposes. The NIBJ's involvement will be evaluated on a case-by-case basis, and will be governed by criteria consistent with the strategic direction identified within the National Industrial Policy. In this equity participation role, the NIBJ will operate in a manner similar to that of the International Finance Corpora-

tion, an affiliate organisation of the World Bank Group, that takes minority equity positions in companies in developing countries with the expectation of an exit over time.

14. The Government strongly encourages and calls upon the commercial banking sector to play a complementary role in the credit allocation process. Examples of such mechanisms recently put in place include (a) the Micro Enterprise Project for on-lending by a commercial bank to the small business sector, capitalised by the Government of the Netherlands and Government of Jamaica, and, (b) the European Union Credit Scheme disbursed in a similar manner. Going beyond these, there is precedent for the nation's commercial banks to provide differential credit rates that allow productive activities to gain credit at lower relative rates. As a short-term policy, this practice is to be encouraged in order to relieve the financial burden on firms that are currently operating with a liability structure heavily weighted with high interest-rate debt.

15. In the medium- and long-term, the cost of capital to Jamaica-based firms will be reduced in a significant manner through the policies focused on achieving macroeconomic stability detailed in the previous chapter. This is an essential objective of the Government's strategy. The effects of the policies geared to macro-stability will be felt immediately as nominal interest rates decline in response to reduction in inflation. It is anticipated that the reduction in real interest rates to levels that are competitive with low-inflation countries will occur with a lag, after some two years of the policy measures outlined being in place.

16. As macro-stability becomes entrenched, real interest rates decline, and credibility is affirmed, it is expected that a continuing shift in the orientation of private investable funds will occur towards investment in long-term instruments, including equity capital and venture capital. This shift will fuel the drive for increased investment in the productive sectors and accelerate growth of the national economy.

17. It is expected also that, in this process, firms will significantly re-orient their behaviour to focus on increasing injections of equity capital to finance their investment activity.

18. The Stock Market is expected to play a crucial role in the mobilisation of finance for investment, through the exchange of securities. The Government's policy is aimed at building an active securities market that is attractive to both local and over-

seas investors. To this end, the Securities Commission is being strengthened by amendments to the Securities Act. In addition, the macroeconomic policy already discussed will contribute to stabilising the fundamentals to warrant the investment in equities.

E. INVESTMENT FACILITATION

1. Investment facilitation is a key element of the policy. In the past year, the Government has established an Investment Facilitation Board with the following objectives:
 - to address directly, complaints regarding delays experienced in processing investment projects;
 - to formulate necessary measures leading to speedy processing of investment projects;
 - to act as a register of all major investment proposals, with continuous updates on the status of investment projects, and,
 - to generate fortnightly reports to the Office of the Prime Minister on the status of investment projects and indicate, where necessary, decisions to be taken by the Prime Minister or Cabinet.
2. A review has been made of all the steps, procedures, documentation, and relevant agencies involved in the investment approval process. The complexity of some projects, the adequacy of the information submitted in proposals, and the need for compliance with the requirements of relevant agencies, all contribute to the length of time required for approval.
3. Recommendations have been made to reduce the number of agencies involved, to computerise and simplify application procedures, and to make the process transparent and user friendly. These recommendations are being implemented with due speed and urgency.
4. The Board's role in monitoring and accelerating the investment approval process will be continued and strengthened. It will serve as a cross-functional, multi-ministry, and multi-agency centre for investment facilitation.

F. INVESTMENT PACKAGING

1. Going beyond investment facilitation as such, special emphasis is being placed on investment packaging, as a strategy for mobilising and focusing investment activity in targeted sectors and projects. It is an activist strategy involving:

- continuous collection and analysis of up-to-date information on local and global trends, feasibility studies and pre-investment analysis;
- co-ordination of relevant inputs from key state-agencies (JAMPRO, SRC, UDC, NDB, ACB, NIBJ);
- consultations and team-work with key actors and specialists in the local private sector;
- promotion of joint ventures and strategic alliances with international firms; and
- securing access, continuous presence, and prominence in major investment markets abroad through direct representation by appointed agents and affiliation with leading investment houses.

2. A major effort is being made in this area. This effort has already begun to yield results in terms of active investor interest, investment proposals and actual commitments. JAMPRO is to play an important coordinating role, and this agency is being geared up to perform key functions in this area. Formation of specialist teams from the public and private sector to plan and move forward the investment process in particular sectors is a key element of the approach.
3. Investment packaging is a highly targeted approach where efforts are made to influence the investment and location decisions of identified firms and groups of investors. Specific projects that are targets of opportunity have already been identified in the following areas: agro-processing, industrial minerals, transportation, energy, manufacture, tourism, information technology, and entertainment. Others will emerge from further work.
4. The Government's policy of privatisation of existing Government-owned activities in different areas of the economy has also opened up a wide range of new investment opportunities.
5. In pursuing this approach, the Government will seek to exercise flexibility in the granting of incentives in order to allow for designing creative incentive packages for specific large-scale projects in competition with other countries.

G. PROMOTING FOREIGN INVESTMENT

1. The inadequacy of domestic capital to sustain significant economic growth and development, makes it necessary to intensify efforts

- at attracting foreign capital to supplement the domestic investment pool. These efforts will be directed to accessing all forms of foreign capital, including direct investment (ownership of physical assets), and indirect or portfolio investment (acquisition of publicly issued corporate stocks, shares, or bonds and purchase of government bonds and debentures).
2. Apart from loan funds and guarantees raised through the international financial agencies, previous efforts of investment promotion were mostly oriented to private Foreign Direct Investment (FDI). Jamaica gained significant successes in this area, despite the fact that up to 1990 FDI flows were not a significant part of capital flows to developing countries.
 3. However, the structure of foreign investment flows has changed significantly in the 1990s. There has been a noticeable increase in Foreign Indirect Investment (FII) to Latin America and the Caribbean, with 40 per cent of all new foreign investments coming from mutual funds and other stock and bond investors. The growing significance of financial markets as a source of investment capital for developing countries points to this being a potentially useful market segment for Jamaica to access. Competition in this market is intensifying, from other countries in Asia and Latin America as well as the new emerging markets in Eastern Europe. Special steps will now be taken to promote Jamaica's investment opportunities in this market segment.
 4. Investment packaging is a key element of the Government's policy in this area. The strategy is to provide a link between all local agencies involved in the investment process and institutional investors such as mutual and pension fund managers in foreign financial markets.
 5. It is expected that investment banks, such as NIBJ, will become directly involved in capital mobilisation activities such as floating bonds and privatisation of public pension schemes. Activities such as these will assist with the establishment of mutual funds and capital market instruments which can provide long-term financing to industry.
 6. Ongoing and future measures for financial market liberalisation, fine-tuning of the regulatory system, and integration with other capital markets in the Caribbean, will further strengthen the effort of investment promotion.

7. Furthermore, it is expected that the domestic financial sector, which has expanded significantly over the past 15 years to achieve a high level of sophistication, will play an increasingly important role in this effort.
8. The Government is cognisant of the volatility of the international capital market, especially with respect to portfolio investment and short-term instruments. It recognises that the most important safeguard against such volatility is maintaining the fundamentals, in terms of macroeconomic stability, strong commitment to market-oriented reforms, a facilitating trade regime, and a competitive structure of costs and risks. These are crucial elements of the Government's industrial policy, which will make it possible to continue to attract financing from the world's major capital markets.

H. INCREASING NATIONAL SAVINGS

1. Saving and investment are inextricably interlinked. When investment is taking place, increased saving occurs, not only because of the increase in income generated but also because of the demonstration effect. If opportunities for investment in real and financial instruments abound, the encouragement to save is greater.
2. Financial institutions play a crucial role in this process. Over the last two decades, the size of the Jamaican financial sector has expanded rapidly, increasing its level of sophistication and the degree of financial intermediation. Hence, there is greater access to formal savings institutions and some degree of choice among the kinds of instruments available for savings. Institutions oriented towards small savers (credit unions, building societies, and unit trusts) have grown in importance. However, traditional financial institutions (commercial banks and their offshoots, merchant banks, finance houses, and trust companies) continue to be the major mobilisers of savings.
3. Although some efforts to mobilise greater savings and improve access to saving institutions and instruments have occurred, the domestic saving rate in the Jamaican economy is still relatively low, both in comparison with other developing economies and in terms of the investment needs of the country. This situation puts the economy in a position of greater dependence on foreign savings to finance local investment. The medium- to long-term goal of the National Industrial Policy is to reduce significantly

the level of reliance on foreign savings for funding investment by increasing the rate of domestic savings.

4. In pursuing its long-term programme of tax reform, the Government will examine carefully the existing structure of taxation as it affects in particular, the pattern of saving and seek to remove disincentives where they exist and put in place mechanisms that favour saving.
5. A major area that is currently under study is that of pension funds. The Government is considering options for new initiatives in this area. A recommendation that employee participation in Pension Schemes be made "portable", is being considered.
6. Notwithstanding the growth in the number and variety of savings instruments that has taken place over the past two decades, there is still a need for further diversification. This is indicated by the frequent oversubscription of issues of Government paper, the continued existence of excess liquidity, the concentration of investments in real estate and land development, and the relatively small portion of saving from financial institutions such as insurance companies. The use of the MIDA bond shows one creative way in which government can contribute to the expansion of financial instruments, while influencing growth and allocation of savings. Government's policy is to continue to issue similar long-term bonds. Other innovations will be pursued in this area, including the issue of a Government Savings Bond.
7. Traditional methods of saving still persist. The "partner" system, for instance, continues to enjoy popularity among persons engaged in trading, farming, and as a collective saving scheme at the workplace. At least one financial institution has sought to use this concept in its effort to mobilise savings. The major drawback of the partner system is the tendency for savings mobilised by this route to be used for consumption rather than investment. Creation of investment opportunities through specific programmes in rural and urban communities, such as those operated by MIDA, is one way in which Government will seek to alter this orientation.

I. EXPORT PUSH

1. Exporters will be in a position to take advantage of the industrial policy interventions that apply across the board to all Jamaica-based firms. They are strongly encouraged to do so. They will benefit directly from such interventions, as well as indirectly

through the impact of interventions on the capabilities of their domestic suppliers.

2. The strategy of export push calls for focusing, in addition, on the special needs of export activity. It is recognised that export activity has its own special risks, costs, and pitfalls, especially because of factors operating in the external market. The Policy seeks to develop particular measures addressed to these needs and to respond proactively as warranted in particular circumstances.
3. A crucial element of the policy approach is the effort to maintain an internationally competitive exchange rate for the Jamaican dollar in relation to the currencies of Jamaica's trading partners. This commitment is an integral feature of macroeconomic policy.
4. Recently, the Government moved to establish Single Entity Free Zones by amendment of the existing Export Free Zones Act. Under this new policy, companies wishing to acquire the status of Free Zone operators, and hence qualify for benefits under the Act, without being located at any of the existing commercial free zones, can now apply to do so. Approved operators are required to locate in pre-determined industrial zones with the necessary infrastructure and to satisfy the environmental standards governing the location. This policy is expected to bring greater choice in location of production plants and/or offices in export manufacturing and therefore make Jamaica more accommodating to investors in that sector.
5. The special window for export financing through the Ex-Im Bank, will be maintained and strengthened, to provide pre- and post-shipment financing of exports in domestic currency and to support the export credit insurance scheme. Resources of the Bank will be replenished to increase the availability of funding for short-term credit at below-market rates to exporters (via direct lending and an interest rebate scheme). Renewed efforts will be made to obtain external lines of credit to allow exporters to access imported raw materials and equipment.
6. Proactive efforts of collaboration between Government and exporters will be pursued, as for instance in the current World Bank sponsored project for financing loans to exporters for market development, jointly undertaken with the Jamaica Exporters' Association. Opportunities for strengthening and deepening such collaboration will be pursued in the areas of applied scientific research in fresh produce and food processing, pest control,

meeting environmental standards, establishment of a one-stop station for shipments, and providing security for shipments.

7. A matter of special and immediate concern for facilitation of exports, relates to the testing requirements for certification of prescribed products (eg processed food, pharmaceuticals and cosmetics). The Government is examining the option of having the Bureau of Standards certify private laboratories to carry out this function.
8. JAMPRO, in its marketing thrust, will continue to provide direct support to exporters through provision of analysis and information on export markets, assistance in identifying market niches, penetrating distribution outlets, and direct contacts with the market through trade shows, organised visits by teams of exporters, and advertising. Market promotional activities of the sectors are, however, expected to be private sector led. The JAMPRO office in London will be developed to make it a focal point for promotional efforts in Europe while the office in New York City will be re-opened and a new office will be opened in Caracas, Venezuela, to target the Latin American market.
9. Jamaica Export Trading Company will continue to assist small enterprises to penetrate export markets through direct trading activity.
10. Government is seeking to establish, through collaborative efforts with the private sector, generic marketing of a Jamaica name-brand for export products. This should further enhance the export drive by creating a distinct and identifiable image for products made in Jamaica.
11. An annual National Award for Excellence in Exports will be established in order to provide national recognition for the significance of exports in the national drive for economic development and to reward achievement by outstanding exporters.
12. Firms producing for the domestic market also play a key role in the national strategy of building competitive advantage, both as suppliers to exporters and as efficient producers of import substitutes. The achievements of such firms will also be given national recognition. For this purpose, an annual National Competitiveness Award will be established.

J. ADDRESSING OTHER DISINCENTIVES

In addition to the areas identified earlier, the focus of the strategy for investment promotion through reducing disincentives is on the following areas that are judged to be of critical importance: (a) cost and availability of physical infrastructure, (b) costs of acquiring and training skilled labour for the world of work, (c) the industrial relations climate and (d) Government administrative obstacles and delays. These will be discussed in following chapters.

INFRASTRUCTURE DEVELOPMENT

REMEDYING INFRASTRUCTURAL DEFICIENCIES

1. Remedying infrastructural deficiencies represents a critical area in which difficult challenges face the nation. These challenges must be faced and dealt with if the nation is to move ahead in its goal of increasing prosperity and improving the quality of life of the people.
2. These challenges arise in the areas of physical infrastructure: energy, roads, transportation, water, irrigation and sewage systems, port and airport facilities and telecommunication systems. All of these areas provide necessary inputs to sustain production activity and improve productivity and efficiency, while contributing to the general quality of life. They are, therefore, of strategic importance to the growth and development of the Jamaican economy.
3. In addition, there are the fundamentally important and related areas of human resources, science, and technology, where there are pressing needs for general increase in the educational level of the society, for training and formation of skills in the context of a rapidly changing environment of technology and scientific knowledge, and for undertaking applied research and development addressed to solving problems in all areas of the economy and society.
4. A major challenge derives from the fact that remedying the deficiencies in these areas involves mobilising large amounts of finance and other resources to undertake meaningful projects. The limited financing available through the Government's budget represents a severe constraint on what can be done by this means.

OBJECTIVES

- (a) to upgrade and expand the base of physical and human infrastructure;
- (b) to improve the quality and scope of services provided;
- (c) to reduce the cost of provision of services so as to provide Jamaican firms with competitive parity in terms of the price paid for services, and
- (d) to improve the quality of life, the human skills, and creative capabilities of the Jamaican people.

STRATEGY

The Government's strategy in meeting these objectives involves the following general features to:

- (a) follow a demand-led approach in infrastructure development;
- (b) focus the provision of services on meeting the needs of targeted areas so as to have maximum impact on growth and development;
- (c) concentrate on achieving cost-efficiencies wherever they can be found;
- (d) supplement Government budget allocations by mobilising additional sources of funding and investment support, both from the local private sector and from external sources; and
- (e) introduce cost recovery mechanisms, wherever feasible and desirable, so as to ensure that the direct beneficiary pays and that the supply of services can be maintained and expanded.

POLICIES

1. As a matter of general policy to be pursued in all areas of infrastructure, the Government seeks to relieve the public-sector budget constraint by rationalisation of public administration functions in each of the relevant ministries and agencies, improvements in operational efficiency, better management of project costs, and adoption of cost recovery measures.
2. Specific strategies are being designed and corresponding policies pursued, so as to address the special problems, conditions and needs that arise in each area. In so doing, the Government will seek to maintain consistency, coordination, and integration with the strategic thrust of the Industrial Policy. Ongoing policies and programmes are also being adapted to this goal.

3. Comprehensive formulations of policy were recently developed in the particular areas of Energy Sector Policy and Land Policy. Reference may be made to the relevant documents. Others are currently being developed in the areas of transportation, water and sewage, and telecommunications. The Government attaches high priority to these policy areas and will seek to accelerate the decision-making and implementation process in each of them in tandem with the National Industrial Policy.

A. PHYSICAL INFRASTRUCTURE

ELECTRICITY GENERATION

1. From the standpoint of industrial policy, the most difficult challenge in the area of electricity generation concerns the issue of the price of electricity. The challenge is to provide Jamaican firms with competitive parity in terms of the cost of energy. Issues of the scope and quality of supplies are not unimportant, but can be more readily resolved.
2. A position of adequate supplies of electricity had largely been achieved by the Jamaica Public Service Company (JPSCo) prior to June 1994. The Company had a generating capacity of 560 megawatts to cope with a peak demand of 380 megawatts per year, providing a reserve margin of 47 per cent. That reserve margin was interrupted by an accident in 1994, but in recent months electricity supply has begun to increase so as to restore the reserve margin. By November 1995, JPSCo had a generating capacity of 606 megawatts to meet a peak demand of 424 megawatts, providing a reserve margin of 43 per cent. Of the total generating capacity, 114 megawatts was supplied by the private sector under Build-Own-Operate projects.
3. Assuring the quality of electricity supply has proved more problematic. But, even here, JPSCo is pursuing voltage standardisation and capacitor installation programmes to achieve a high quality of electricity supply. These programmes are ongoing and further improvements in the quality of electricity supply should occur as additional investments are made.
4. As with most infrastructure, ensuring both the adequacy and the quality of electricity supply is largely a problem of the availability of capital. In the case of electricity, however, the product is less of a public good than other elements of infrastructure. Consequently, it has a low priority as a claim on the Government's

limited capital budget. Given the ability to charge a price which reflects the economic cost of supply, the capital needed to expand and improve electricity supply can be generated from private sources.

5. The possibility of sourcing private capital for electricity generation in Jamaica is already well demonstrated. JPSCo has entered into three contracts to purchase 175 megawatts of electricity from private, independent power producers, of which 114 megawatts is already in operation. The total investment in private generating plants under these contracts will amount to over US\$200 million. In addition, the possibility of fully private operation of the entire electricity sector has been demonstrated by two proposals submitted by private companies to purchase majority shares of JPSCo.
6. The price of electricity results from a number of factors including: the method of electricity generation (e.g. from hydro, nuclear or thermal sources), the size of the electrical system, and the possibility of interconnection with other systems. Thermal sources of electricity, including oil and coal, are the most expensive forms, with hydro and nuclear being cheaper.
7. Countries with larger systems can generate electricity more cheaply. The size of the system determines the size of an individual generating plant and there are substantial construction economies of scale and some operational economies of scale in electricity generation. Furthermore, countries that can interconnect with other electrical systems can generate electricity more cheaply than countries that do not have this option. The possibility of interconnection allows two or more systems to share capacity, thus reducing the level of reserve capacity any single system has to maintain in order to meet reliability requirements.
8. Jamaica is likely to continue to have relatively high electricity costs primarily because of its relatively small system and its inability to interconnect with other suppliers due to its island geography. Reduction in rates can be achieved with improvements in efficiencies and the formulation and execution of innovative strategies. However, it must be recognised that such improvements will not allow electricity rates in Jamaica to move from the present level of US\$0.127 per kilowatt hour to the level that obtains in the United States of about US\$0.06 per kilowatt hour.

9. Table A.7 gives a comparison of Jamaica's electricity rate relative to the rates of neighbouring countries in the Caribbean and Latin America. Generally, the smaller Caribbean countries have higher rates while the larger Latin American countries with significant hydro installations have lower rates.
10. Although there are definite feasibility constraints to reducing electricity price for the industrial sector in the Jamaican context, alternative possibilities exist for such price reduction. One such possibility that has been used in some countries is cross-subsidisation in favour of the industrial sector.
11. It is not always obvious when cross-subsidization is taking place because electricity rates for the industrial sector are often lower than for other sectors of the economy, not for reasons of cross-subsidisation but because it is inherently cheaper to supply electricity to the industrial sector. Nevertheless, when the gap is as wide as is the case in countries such as Brazil and Chile, for example, it is reasonable to assume that cross-subsidisation is at work. Of course, the Ecuadorean case demonstrates that cross-subsidisation could be pursued in the opposite direction.
12. The Government of Jamaica does not support cross-subsidisation of the industrial sector as an approach to reducing electricity rates to the industrial sector. In part, this is because of the important concern for social equity as expressed in Government's overall policy framework.
13. Instead, the Government proposes an approach that involves efforts to reduce electricity cost through co-generation projects between JPSCo and large users of electricity. Co-generation would allow for efficiencies in the use of fuel and cost reduction due to the economies of scale associated with expansion of the electricity network. JPSCo currently has several co-generation prospects. The policy is to promote the active pursuit of these and other such projects with major industries such as bauxite/alumina, tourism, and the emerging non-metallic mineral sector.
14. The success of this approach is dependent on continued improvements in the operations of JPSCo. The Government is committed to establishing a regulatory system, through the Office of Utility Regulation, that will allow JPSCo to operate at maximum levels of efficiency. In the context of an appropriate regulatory framework and with separation from the Government's capital budget, JPSCo is expected to continue to reduce, significantly, power

system losses. In 1992 such losses were high relative to other middle-income developing countries, but they have been declining since then as the Company has focused attention on this problem. Introduction of the new regulatory system will proceed on the understanding that the Company improve its efficiencies and thus reduce electricity price over time.

15. Further, the Government has adopted a policy of private participation in the electricity sector. In the context of this policy, Government is currently considering the privatisation of JPSCo. Final decision on the matter of privatisation of the Company will be a function of the ability and willingness of prospective owners to cope effectively with the challenge of the price of electricity offered to users. This is viewed as a critical element in the National Industrial Policy because of the significant role that energy costs play in determining international competitiveness.

ROADS

1. In contrast to electricity service, roads may be regarded as largely public goods. Though the mechanism of toll roads is widely used, it is typically difficult for private business interests to recover the full costs of road construction and maintenance. Consequently, in the absence of Government intervention, there tends to be underprovision of this resource. Yet, the presence of adequately constructed and maintained roads is critical to national development.
2. The Government accepts its responsibility for the provision, maintenance, and expansion of the road network.
3. Currently, Jamaica has a network of 6521 kilometres of paved main roads. This amounts to a road density, defined in kilometres per million persons, of 2608 for Jamaica relative to an average of 2102 reported by the World Bank for 33 lower-middle-income countries in 1995. However, much of the network is in poor condition and continues to be far from adequate in scope.
4. In the development of its programme for road maintenance and construction, the Government proposes to target particular sectors. The objective is to support the development of sectors of the economy likely to generate additional resources rapidly, which can then be applied to the development of infrastructure that will benefit other sectors of the economy and the country at large.

5. The two sectors of the economy most affected by inadequacy of the existing road system, which are also two of the largest foreign-exchange earning sectors, are tourism and agriculture. The Government proposes that, in the short term, the resources available for road maintenance and construction be focused on roads that are directly linked to these sectors of the economy. The focus on these sectors will also benefit directly other sectors involved in moving freight or people around the nation.
6. In the 1995/1996 fiscal year, J\$2.125 billion of the J\$3.205 billion allocated for road programmes will focus on the agricultural and tourism sectors. Specific projects include:
 - J\$1.2 billion for rehabilitation of 483 kilometres of road falling in 25 rural townships;
 - J\$539m for the rural road rehabilitation improvement and maintenance programme (RRIP-II), with the specific objective providing access to rural areas in order to stimulate agricultural production, and,
 - J\$222m for the Northern Jamaica Development Project, to improve the infrastructure in tourism centres on the North Coast.

TRANSPORTATION

1. Details of the Government's Transportation Policy are now being developed. The Government's general approach has been to reduce its ownership in the transportation sector. However, urban transportation, in particular, is clearly an area in which Government intervention is critical, although costly.
2. In general, Government expects to be involved in the following interventions:
 - (a) subsidies to the urban transport sector to facilitate an effective movement of individuals within the country's urban regions;
 - (b) ownership of some of the rolling stock required by the transport system, with the equipment leased to the private sector at economically viable lease rates, and,
 - (c) provision of services that enable system-wide efficiencies, such as central repair and depot facilities.
3. A critical focus of the policy will be to create an appropriate balance between the need for competition among transportation suppliers and the need for proper organisation of the transportation service.

4. The rehabilitation of the rail network is an important ingredient in the transportation infrastructure. Government is privatising the Jamaica Railway Corporation. Both passenger and freight services are expected to resume shortly.

WATER AND SEWAGE

1. The Government's policy with respect to this area of infrastructure is to seek cost-recovery in the use of existing water and sewage facilities through the National Water Commission and to target the expansion of water and sewage networks to specific sectors.
2. Beyond the continued maintenance and improvement of urban water supply systems, there are two critical areas in which services need to be upgraded. These are the areas of agriculture and tourism. The Government will continue to expand irrigation facilities to agricultural belts across the country. An important continued area of focus will be the arid, but highly productive, southern agricultural parishes. Because of the significant costs associated with expansion of the network to cover all irrigable lands, the expansion will be conducted on a phased basis.
3. The focus of expansion of the sewage network will continue to be in the country's tourism belt. This is being facilitated mainly through the Northern Jamaica Development Project. The relevant sub-projects are:
 - (a) The Lucea/Negril Water Supply Sub-Project, which is designed to improve the water system serving the rural parish capital of Lucea and the township of Negril. The 1996/97 Budget for this sub-project is J\$330 million.
 - (b) The Montego Bay Sewerage Improvement Sub-Project seeks to expand service to an area of approximately 16 square kilometres around the city with the capacity to handle sewage flows up to the year 2015. Some \$150 million is targeted for expenditure during the 1996/97 fiscal year.

Other projects include the Montego Bay Water Supply Project which has targeted for expenditure some J\$115 million during the 1996/97 fiscal period, and the Ocho Rios Sewage Project with expected expenditure of \$90 million.

SEA PORTS AND AIRPORT FACILITIES

1. The existing structure of sea ports includes a mixture of privately and publicly owned facilities. Private ports include those owned by:
 - (a) the bauxite and alumina companies such as Port Kaiser in St Elizabeth and Port Esquivel in Clarendon, and,
 - (b) other private companies such as the Cement Company and Jamaica Flour Mills. Segments of the Port of Kingston are also privately owned by Kingston Wharves. The remainder of the Port of Kingston and the Port of Montego Bay is publicly owned by the Port Authority of Jamaica and managed by private firms.
2. Expansion of the sea ports is a crucial requirement to cope with the increase in freight flowing into and out of the island. Most Jamaican firms are dependent on one or both of these activities. The more congested the port, the greater the difficulty they face in effectively executing business transactions.
3. Expansion of port facilities has a strategic role in efforts to increase earnings from international transport markets. This is so with respect to increases in passenger traffic through the nation's airports, or freight traffic through the nation's sea ports. There are also opportunities for an increase in trans-shipment operations.
4. The Government's policy with respect to the sea ports is to seek to expand available capacity. This will be achieved in 1996 with the commissioning of additional berthing capacity at Gordon Cay. The berthing space available at the Port of Kingston is being effectively doubled with the creation of 610 metres space at a cost of about US\$80m. This expansion offers the opportunity and the challenge for increasing Jamaica's share of the regional trans-shipment market.
5. With respect to airports, the Government's policy is to expand and refurbish the two airports, at Kingston and Montego Bay. The focus will be on private sector participation in the airport facilities. Private sector participation will also be sought in the development of aerodromes throughout the island to facilitate intra-island air-transport of citizens and tourists.

TELECOMMUNICATIONS

1. The Government's policy on telecommunications is to promote continued expansion and technological updating of the network so as to provide services at competitive prices to subscribers.
2. The Government privatised the island's telecommunications system in the 1980s in order to gain private sector participation in the provision of capital for network expansion. It also sought to facilitate network expansion by providing a regulatory environment that would be conducive to such expansion. This goal has met with success as the network has expanded from 160,000 stations in service in 1988 to 412,000 stations in service in 1995.
3. Based upon the efficient operations of the telecommunications company, the favourable demand for its services both local and foreign, and the attractiveness of the regulatory environment, the Telecommunications Company of Jamaica (ToJ), the privatised firm, has become possibly the most profitable company in Jamaica. Profits in 1994/95 were able to anchor the self-financing of 84 per cent of capacity expansion in that year.
4. The challenge now facing ToJ is to provide telecommunication services to the Jamaican public at the lowest possible price and using the most advanced technology. The element of technology is critical since, of all the areas of infrastructure, this is the one in which technology is moving most rapidly. It is also an area that affects performance in all other sectors of the economy in terms of cost efficiency and, hence, is critical for building international competitiveness. Moreover, it is crucially linked to development of the information technology sector that is a targeted sector for long-term development of the Jamaican economy.
5. The comprehensive Telecommunications Policy that is currently being developed elaborates further on the policy issues in this area.

INDUSTRIAL PARKS/FREE ZONES

1. Government seeks to establish industrial parks or economic zones in different regions of the country to facilitate economic activity. Such zones provide various forms of infrastructure support. They allow firms operating in the zone to benefit, as

well, from reduction of transactions costs through agglomeration economies and removal of bureaucratic inefficiencies.

2. Such zones are also an important part of Government's overall policy to promote regional dispersion of economic activity across the whole country so as to provide direct economic benefits to people living in small towns and rural areas. A better spatial location of business activity in Jamaica is critical, given the present concentration of such activity (two-thirds of all manufacturing jobs), and of residential accommodation in the Greater Kingston Metropolitan Area.
3. Jamaica now has three such free zones: the Kingston Free Zone, the Garmex Free Zone (also in Kingston), and the Montego Bay Free Zone. The Government recently put in place a policy initiative designed to complement the existing free zone structure by allowing the establishment of Single Entity Free Zones through amendment of the existing Export Free Zones Act. Under this new policy, individual firms that qualify for free zone status can choose to locate in areas apart from the three current free zone locations.
4. A related policy initiative now being pursued is to establish industrial parks. Under this policy, land is being set aside in different parts of the country to be dedicated to industrial development. Consideration is being given to multi-purpose industrial parks in Kingston, Portmore, and Montego Bay, tourism-related development areas in Port Royal, Port Antonio, and Oracabessa, and transport-related development areas in Palisadoes and around the Kingston Harbour. The Government is seeking to involve the private sector in the actual development of these facilities.

B. HUMAN RESOURCE DEVELOPMENT

1. In order to pursue a coherent strategy of human resource development geared to the objective of long-term growth and social development, Government recognises the need to move towards a more comprehensive approach to the design of policy in this area. The large size of the existing gap between the demand for education and training and the capacity of existing institutions and programmes to deliver creates an imperative for this approach.
2. It is also necessary to examine closely how resources can be better used through re-allocation among competing claims within the education system and in response to changing priorities for

education and training. Government is committed to applying this approach in developing new ways to meet the needs for education and training.

3. Government also recognises that education is a social good, quite apart from its role in the economic process. Furthermore, it is one of the primary means for obtaining social equity. These criteria are to be included in the design of policy.
4. As to the requirements of a comprehensive policy, Government recognises that the rapidly changing environment of knowledge-based and skill-intensive production demands a more rounded, multi-skilled person, imbued with both general and specific knowledge, who can adapt and respond to new areas and opportunities of work in terms of performance and through retraining. This calls for building a culture of training from the bottom up, embodied in relevant institutions, in capable teachers, and in well-designed programmes of learning and training for both teachers and students.
5. At present, this perspective is embodied in the Programme for Reform of Secondary Education (ROSE), in the Restructured Training System under HEART/NTA, and in reforms taking place at the primary and early childhood levels. The Government aims to deepen and strengthen this approach throughout the whole education and training systems.
6. In particular, this approach now has to spread in earnest at the tertiary level. The process has already begun in terms of the articulation between the newly constituted University of Technology and the Community Colleges. As the next step, closer attention will be given to developing appropriate mechanisms and measures for articulation between all tertiary institutions: the University of the West Indies (UWI), Teachers' Colleges, Community Colleges, the College of Agriculture, and the Maritime Training Institute.

Consideration will be given, in particular, to ways of increasing capacity utilisation, allowing transfer of credit and movement of persons between institutions, establishing degree granting programmes in Teachers' Colleges to be certified and monitored by the UWI, and direct payment of tuition grants to students to allow freedom of choice among institutions and programmes. The University Council of Jamaica can play an evolving role in this process.

7. The immediate priority, in terms of resource allocation, is to focus on the needs of the primary and secondary levels.
8. In keeping with this priority, Government has introduced a new Student Loan Scheme which would, simultaneously, ensure that students pay for an acceptable percentage of the economic cost of their education (presently less than ten per cent) and guarantee that no qualified student would be denied access because of funding difficulties.
9. Government is committed to full funding of primary school education and maintenance of the current level of 100 per cent enrolment.
10. Significant enrolment gaps still exist at the lower secondary level (13 per cent) and at the upper secondary level (53 per cent). Owing to the lack of accommodation, a bottle-neck exists at the Common Entrance Examination. Government aims to eliminate the gap at the lower secondary level and, in the process, remove the pressured nature and role of the Common Entrance Examination.
11. In addition to the enrolment gap, there is also a gap in physical facilities. Demographic changes will likely release some facilities at the primary level, which can be transferred to the secondary level. Consideration will also be given to a rationalisation of the use of the plants of primary and all-age schools and generally to a more effective use of the shift system.
12. A critical problem exists in terms of educational needs of the existing work force, where 67 per cent of new job-seekers have no certification at all. Consideration is being given to developing a High School Equivalency Programme to meet the needs in this area.
13. Apart from Government efforts, the private sector can play an important role in meeting the needs for education and training. Private sector initiatives are already bringing significant benefits through such programmes as the Jamaica 2000 Project under which computer facilities have been provided, so far, in 80 schools, or 50 per cent of the country's 160 state-funded secondary schools. Efforts will be made to encourage private sector involvement in the tertiary system, especially in areas where huge gaps currently exist and are not being met by domestic programmes. This requires developing appropriate mechanisms to guarantee standards of performance, through monitoring and accreditation.

C. SCIENCE AND TECHNOLOGY

1. Government recognises that the process of building competitive advantage in the Jamaican economy is based on systematic application of science and technical knowledge to meet the needs of the economy in numerous areas, for improvement in efficiency of production methods, materials processing, product innovation, technical services in design, testing, and construction, improving physical infrastructure, pest control, crop disease and methods of managing environmental conservation.
2. A tight link will, therefore, be established between research and development (R&D) activities in science and technology and the thrust of the industrial policy. This will be done by making funding of institutions engaged in such activities more directly tied to their performance in undertaking projects oriented to meeting identified needs in the economy. Emphasis will be placed on problem-oriented research, focused on meeting demand in different areas of the economy.
3. A diverse set of demands currently exists, as indicated in ongoing projects in these institutions in the following areas: genetic improvement in cattle breeds, black sigatoka management in the banana industry, fertiliser response trials, integrated pest management, control of hypoglycin levels in canned ackees, processing of jams, jellies, and sauces, alternative irrigation systems, soil and water management technology for hillside agriculture, commercial white potato seed production, plant tissue culture, and algae biotechnology.
4. New demands will emerge consistent with the developments taking place in dynamic sectors of the economy. R&D activity can also help to lead the process by targeting product innovation and materials research, for instance, as related to unique natural resources, fibres, clays, fruits, and herbs found in Jamaica, and by creative efforts in software development in the rapidly growing field of information technology.
5. To the extent that these institutions gear themselves to this orientation they will be in an improved position to obtain additional funding sources to sustain their research activities through cost-recovery charges for services, thus relieving them from the constraint of limited budgets.
6. There are now 40 different agencies/institutions involved in different areas of R&D activity. They will be encouraged to rationalise their specialties and services so as to take advantage of cost-effective changes and synergies from interdependence among the different areas.
7. Information technology is an essential element in the strategy for applying science and technology to the transformation of the Jamaican economy. It is targeted as a sector for development and support by the National Industrial Policy, in accordance with the core policies for investment promotion and export push.

SUPPORT FRAMEWORK

KEY AREAS OF SUPPORT

In seeking to provide a broad-based support framework for investment and growth in the Jamaican economy, the National Industrial Policy will focus on a number of other specific areas that require special attention. These include the following key areas:

1. Trade policy
2. Competition policy
3. Small business development
4. Labour relations
5. Public sector reform

TRADE POLICY

1. Present policy, consistent with the Uruguay Round agreements and with regional trade agreements made with CARICOM, is to liberalise trade over time by reducing tariffs and non-tariff barriers. This process is now at an advanced stage. It will serve to place all firms in a position to acquire inputs at world market prices so that they can become competitive at the world level.
2. Measures will be put in place to ensure that Jamaican firms are not victims of unfair trade practices. These measures include:
 - effective enforcement of anti-dumping legislation
 - use of countervailing duties where necessary, and,
 - ensuring, through the Bureau of Standards and Customs Department, that imported goods meet the appropriate health, safety, and phyto-sanitary requirements.
3. The interests of Jamaican exporters in obtaining market access will be vigorously defended by diplomatic efforts to deal with non-tariff barriers in external markets.

4. Within CARICOM, the framework of deeper regional integration through the Single Market and Economy is being pursued. An important matter of concern for Jamaica relates to the adverse effect of the Oils and Fats Agreement. This matter is being examined in ongoing negotiations.
5. Widening of regional integration, to include Association of Caribbean States and FTAA, is a priority. The question of NAFTA parity remains open. Meanwhile, the absence of parity significantly erodes the attraction of Caribbean Basin Initiative II.
6. The future of EU/ACP trade relations after Lome IV, remains unknown. Government recognises that, in the long-term, non-reciprocal preferential access is likely to be discontinued. Through the National Industrial Policy, provision is being made for dealing with that eventuality so as to accommodate economic adjustments. Meanwhile, the short term strategy is to defend preferential status for Jamaican products in order to ease the transition.
7. The advanced programme of trade liberalisation and the introduction of the National Industrial Policy signal the need to review the mechanism for trade policy formulation so as to define Jamaica's strategic interests and to strengthen the process of strategic bargaining to defend those interests. This review will be done in conjunction with the requirement to submit the trade policy regime to scrutiny under the Trade Policy Review Mechanism of the World Trade Organisation. Government will seek to involve the widest representation of sectoral interests in the formulation of policy.

COMPETITION POLICY

1. An essential concern of the industrial policy is to provide a competitive environment (a level playing field) for the conduct of business activity in Jamaica. This entails that all legitimate business enterprises must have an equal opportunity to participate in the Jamaican economy. Additionally, the consumer must have the benefit of adequate and relevant information and be afforded meaningful choice.
2. These requirements follow from the Government's commitment to promote a market economy with the benefits that accrue therefrom, in terms of:
 - the economic efficiency which results from competition among different firms;

- lower prices and more choices for the consumer;
 - better quality of products and services, and,
 - increasing opportunities for existing and new businesses.
3. Competition in the domestic market-place has the added advantage of strengthening the capacity of Jamaica-based firms to cope with competition in the international market-place, which must become the reference point for economic decision-making and action in the context of trade liberalisation and the current trend towards a global economy.
 4. In pursuit of these goals, the Government passed the Fair Competition Act in 1993 and established the Fair Trading Commission (FTC) as the administrative body. Under the Act, certain conduct has been made illegal, for example: abuse of dominance, "tied" selling, price fixing, misleading advertising, double-ticketing. The Act provides for severe penalties in cases where breaches of the law are found to exist.
 5. The FTC functions as an enforcement agency to ensure compliance with the law. It has developed a programme of advisory opinions/guidelines to assist businesses in avoiding breaches of the law and to educate consumers as to their rights. It is involved in an active public education programme. It has also developed a close working relationship with the Bureau of Standards to ensure that better products and services are offered to the market. These programmes will be continued and new initiatives developed. The FTC is expected to play an evolving role in keeping with the development of the Jamaican economy and with changing global practices in business regulation and consumer protection.
 6. The Government is preparing new draft legislation to revise the Companies Act. The old Companies Act of 1965 is recognised to be obsolete in the context of the new business environment which has grown in both the value and volume of activity and has seen the emergence of new corporate structures and new institutions such as the Stock Exchange. The aims of the new Bill are to provide greater simplification of company formation, stimulate corporate investment, achieve greater corporate democracy by providing more meaningful rights and accountability to shareholders, provide a vehicle for employees to get a vested stake in their companies, and institute greater safeguards for the protection of all interests.

7. The Government is considering proposals for the establishment of a Commercial Court to deal specifically with business litigations. Matters that are litigious, which relate to the Fair Competition Act, the new Companies Act, and the Securities Act, could be presented to such a specialised tribunal, staffed by specialised judges, with the requisite resources to ensure effectiveness and efficiency. This could result in more expeditious handling of cases of this nature.

SMALL BUSINESS DEVELOPMENT

1. The development process in Jamaica is likely to be driven significantly by the activities of small business. The National Industrial Policy seeks to affirm the importance of this sector of the economy and to integrate the productive elements of the sector into the overall development process. The key concern is to enhance the ability of the sector to contribute to the national development goals of growth with social equity and conservation of the environment.
2. The MSE sector (non-agricultural Micro and Small Enterprises), now plays a major role in the economy, especially because of its employment generating capacity (it employs 22.3 per cent of the employed labour force). It covers a diverse range of business activities of different sizes (below 49 employees per establishment), mostly concentrated in three industry groups (Trade, Hotel & Restaurant, 55 per cent, Community, Social & Personal Services, 19 per cent, and Manufacturing 15 per cent). It has distinct gender characteristics, indicating a concentration of women in businesses with low economic returns and limited access to credit. A high proportion, more than half, of establishments are located in urban centres.
3. MSEs have special problems arising from their small scale, limited capital and skills, and other constraints. At the same time, they have much potential and in some instances distinct competitive advantages. Several critical issues impact negatively on the sector, thereby inhibiting its potential contribution to national development. The National Industrial Policy seeks to directly address those issues.
4. MSEs are adversely affected by macroeconomic instability operating through the supply and cost of credit, the foreign exchange rate, and the purchasing power of local low-income consumers who traditionally form the largest market for MSE goods and services. Consequently, Government initiatives to stabilise the

macroeconomy are expected to have direct effects in improving the economic performance of the sector. Similarly, liberalisation of the trade regime through reduction of import duties will directly enhance their productive capabilities through access to cheaper raw materials and capital equipment.

5. Government seeks to broaden the market for MSE goods and services by incorporating MSEs into the drive for exports through specific initiatives aimed at increasing their productivity and efficiency, upgrading skills and management capabilities, improving access to credit, providing marketing support in terms of information and access, and simplifying the process of business registration.
6. In keeping with a general policy to promote the development of specialised industrial parks, the Government will support targeted industrial space for small business.
7. The National Industrial Policy calls for efforts to link small businesses and larger firms through subcontracting relationships. Many examples of such relationships already exist in agriculture, tourism, and manufacturing. The Government will continue to provide a supportive environment for such relationships.
8. Government agencies and institutions will seek, wherever possible, to make regular purchases of goods and services of the required quality from the MSE sector.
9. New emphasis will be given to training in the area of entrepreneurship and small business management by the training institutions. The University of Technology has been at the forefront in the development of such programmes. Other institutions involved in management and business training will be encouraged to participate in this process.
10. Access to credit is a major dilemma facing the small business sector. The Government has established specialised credit institutions, such as the People's Cooperative Banks and the Micro-Development Agency for allocating credit to the sector. Government is committed to continue this process and to increase the resources allocated for this purpose.
11. In order to pursue a comprehensive and systematic approach to the development of the sector, the Government is planning to establish a Small and Micro Enterprise Co-ordinating Bureau. The overall objective of the Bureau will be to provide strategic

direction and co-ordination to the sector's development, without duplicating the implementation role of the existing organisations within the sector. The Bureau would undertake research, data collection and reporting, policy formulation, monitoring of sector projects, and the pursuit of funding assistance for the sector.

LABOUR RELATIONS

1. The Labour Market Reform Committee, appointed in early 1995, has been engaged in examining the existing system of labour relations in Jamaica. The Committee has submitted an interim report which will shortly be tabled in the House of Representatives. This report will assist in the formulation of Government policy towards industrial disputes and improvement of the industrial relations climate.
2. Government already recognises that, at present, the dispute settlement machinery is less effective than it should be. Government is committed to strengthening the Industrial Disputes Tribunal (IDT) and to providing an environment in which that tribunal can settle disputes in a speedy manner, in accordance with the 21 day limit proscribed in existing legislation. As an immediate initiative to deal with this situation, the following measures will be implemented:
 - (a) appoint an additional division to the IDT;
 - (b) increase the remuneration of IDT officers;
 - (c) provide additional officers with specialised skills, and
 - (d) upgrade the physical environment within which the IDT operates.
3. The Government is also committed to strengthening the conciliation machinery of the Ministry of Labour. The following measures are being implemented:
 - (a) upgrading the physical environment of the Ministry;
 - (b) reclassifying the posts of conciliation officers, and,
 - (c) strengthening the pre-conciliation unit.
4. Government endorses the importance attached to health and safety at the workplace by both employers and workers and will be seeking an early enactment of a new Occupational Safety and Health Act.

5. Beyond adjustments in the labour-relations law and code, and strengthening of the dispute settlement machinery, the Government recognises that an important factor affecting labour relations in Jamaica is the presence of macroeconomic instability. The unpredictability of future inflation and exchange rates exaggerates the normal friction to be expected in labour-management negotiations. In this respect, success of the policies for achieving macroeconomic stability will have a positive effect on the situation. One of the objectives of the Social Partnership is to forge a national consensus on labour relations.

PUBLIC SECTOR REFORM

1. The National Industrial Policy calls for the state to play an activist role in developing policies and programmes and effective implementation procedures in a wide range of areas, in carrying out investment activities in infrastructure development, and in providing support, co-ordination, and guidance to the process of investment and general development of the Jamaican economy.
2. It is commonly recognised that, by and large, the public sector has not been delivering its services as efficiently and effectively as it should. This situation creates difficulties for the ordinary citizen in dealing with Government agencies. Administrative obstacles and delays are also a source of disincentives to the conduct of business activities. The Government recognises that this situation must be changed if its policies are to achieve their desired results. Systematic efforts are being made to significantly improve this situation.
3. Government has already initiated the Administrative Reform Programme, designed to bring about specific reforms of the public service with a firm fix on priorities. Definite achievements have been made in certain areas. These include: new bases for disposition of Government lands and forwarding Government contracts, improvement of accounting practices so as to meet auditing requirements, efforts to make leave conditions, retirement and pensions more market-responsive, and the reclassification of technical skills in the civil service.
4. Along with these internal changes, major strides have been made in a general move towards divestment and privatisation of certain public-sector entities.

5. Other reforms have been introduced, or are in the process of being implemented in the following areas: deregulation, reform of tax administration, new financial legislation, establishment of the Securities Commission, Fair Trading Commission, Office of Utilities Regulation, Investment Facilitation Board, Trade Facilitation Board, reform of the Customs Department, reorganisation of JAMPRO, and revision of the Companies Act.
6. Eight key government agencies, critically positioned in terms of national development, have been selected for introduction of new management systems and general upgrading.
7. The reform programme is to be accelerated and deepened in keeping with the requirements of the National Industrial Policy for reducing disincentives associated with public sector agencies and with the need to improve productivity, efficiency, and management capability in the public sector.
8. Special attention is being given to:
 - completion of the work now underway on a Financial Management Information System, and the Human Resource Management Information System;
 - a systematic down-sizing and re-engineering of the public service;
 - strengthening of some customer service agencies;
 - strengthening of some key regulatory agencies, and,
 - a comprehensive evaluation and reshaping of the way training is offered by the Management Institute for National Development.
9. There is now underway a Local Government reform programme in which plans are being made to shift more responsibilities to the local parish councils. A certain degree of decentralisation is deemed necessary in order to achieve greater efficiency in the management of Government activities. It should also allow greater involvement of citizens in the policy and decision-making processes.
10. Government recognises that proper planning, coordination, implementation, and monitoring of policies requires continuing generation of adequate and timely information and dissemination to agencies within the public sector. The private sector and the general public also need to have ready access to such information. Timely and accurate information is an increasingly important element in decision-making in the context of the

unfolding global information revolution. It is an essential condition for building international competitiveness in the Jamaican economy. Consequently, high priority is to be given to measures to upgrade the institutional capacity for data gathering, creation of centralised data bases, installation of advanced data management systems, and mechanisms for improving public dissemination and public access to information.

11. For these efforts, at upgrading the quality and dissemination of information to be successful, there must be active co-operation by private-sector firms, institutions, agencies, and the general public in meeting the requirements for timely filing and registration of accurate information and compliance with rules and regulations in all relevant areas.
12. In addition to Government's efforts to improve performance standards of public institutions, considerable effort is required on the part of the private sector to improve industry efficiency and overall business standards, including fair trading, ethical commercial practices, norms of executive compensation, and tax compliance. This calls for a certain degree of self-regulation through business and professional associations.

SOCIAL AND ENVIRONMENTAL CONCERNS

POVERTY AND SOCIAL EQUITY

1. Economic changes in Jamaica during the past two decades have had their social cost, in terms of their impact on the standard of living of a significant part of the population, as well as aggravating the problems of poverty and of income disparities: At the same time, those changes have impaired the state's ability to provide services in the manner and to the extent required to deal with these problems.
2. Recent estimates indicate that 28 per cent of the Jamaican population fall below the poverty line. The majority of the poor (60 per cent) live in rural areas, where poverty is associated with land ownership patterns, low productivity of small farms, low levels of education, and deficiencies in physical and social infrastructure. Poverty is also concentrated among youth (61 per cent of the poor are below the age of 25), and is about equally distributed on average between men and women. The unemployment rate among the poor is estimated to be 20 per cent in comparison to 15 per cent for the general population. Poverty is not so much associated with lack of employment as it is with low-income, low-productivity employment and low education.
3. The Government has made poverty alleviation a priority goal of policy and this priority will be maintained and reinforced in the context of the National Industrial Policy. It is recognised that it is not sufficient to provide a network of safety net programmes.

It is also necessary to bring into higher productivity and income-earning opportunities those who have so far been left out of such programmes.

4. This strategy will be systematically pursued within the framework of the National Industrial Policy through the policies and measures designed to create expansion of employment in high-productivity sectors as well as to raise productivity all round in the economy.
5. A key element of the approach is the emphasis given to support for development of the Micro and Small Enterprise Sector. Such development will directly lead to alleviation of poverty.
6. Another key element of the strategy is the structured set of programmes for providing education and training in keeping with the overall strategy for human resource development.
7. The Government seeks to intensify the attack on poverty on a broad front. To this end, the Government has developed the National Poverty Eradication Programme, which brings together some 60 programmes costing \$2.95 billion under an integrated approach, involving as essential elements: partnership, targeting, community-based participatory approach and phased implementation. The objective is to reduce the proportion of persons below the poverty line by 50 per cent over the next five years, in targeted communities, and to eradicate absolute poverty in the long term.
8. Included in the Government's Social Agenda for ensuring equity and participation of all in the fruits of our endeavours, especially the least advantaged, are:
 - improvements in the delivery of basic social services including shelter and health;
 - providing access to ownership and use of land through Operation PRIDE;
 - establishment of the innovative Social Investment Fund which will channel resources to social and economic infrastructure projects in selected communities;
 - establishment of a Human Resource Development programme which will help people to achieve self-development, and,
 - additional credit to the small and micro business sectors, with an extra J\$100 million allocated through the Social and Economic Support Programme for income generating projects.
8. Outside of the Government, a variety of agencies, including multilateral and bilateral, non-governmental organisations, private voluntary organisations, and community-based organisations, have been directing their efforts to reduce

poverty. These efforts are supported and encouraged by Government. Efforts are being made to develop closer relationships between agencies involved so as to eliminate duplication and optimise the use of resources.

GENDER PERSPECTIVE

1. Jamaica needs to utilise all the available human resource and talents throughout the country in as productive a manner as possible. In this light, policies must provide a framework to ensure that men and women play an equal role in the pursuit of international competitiveness.
2. As citizens, producers, and reproducers of the generations, women's rights and interests are central to all aspects of the development process. Efforts must therefore be made to ensure their equal and full participation in the process.
3. Existing relations limit the impact of Jamaican women in the labour market. Women face problems in gaining access to credit, to technical expertise, and to income commensurate with their contribution to production and to society at large. Women make up a greater proportion (53 per cent) of the urban poor. Women are concentrated in what are described as "elementary occupations". Among professionals, women are concentrated at the lower professional levels in some professions and the "glass ceiling" is a reality for some women. These conditions are counterproductive from the standpoint of national development.
4. Development efforts that have not addressed the roots and causes of women's unequal condition have generally failed to improve the position of women in the economy and society. Gender identity, roles, and relations change in response to complex factors. Understanding how these factors operate and how men and women respond to them can help to inform policy in seeking to influence values, attitudes, behaviours, and outcomes.
5. In an effort to counteract these effects, after consultation with women's groups, the National Industrial Policy heralds a general movement to gender equality through:
 - a proposal for the creation of a Commission on Gender and Social Equity;
 - advocacy of gender balance in appointment of various economic committees and the policy arms involved in implementation of the industrial policy; and

- systematic efforts to incorporate in specific policies, programmes, and action plans, measures designed to improve the status and role of women in the Jamaican society.
6. Further, this perspective is to be institutionalised through appointment of specialised professionals in the area of gender analysis in key agencies, such as Planning Institute of Jamaica and STATIN, concerned with analysis and formulation of economic policy.

ENVIRONMENTAL POLICY

1. The Government recognises the essential complementarity between environmental policy and industrial policy. The linkage between the environment and economic development is obvious in the case of Jamaica's highly valuable tourism product. The same principle applies in other sectors of the economy, such as agriculture, fisheries, forestry, and manufacturing. Most of the economic activities in Jamaica depend on the use of the country's natural resources. It is therefore important to develop mechanisms for sustainable management of the country's natural resources and reduce the negative impact of industrial activities on the environment. In this regard, the key goal of Government policy in all areas is sustainable economic development.
2. In the international arena also, increased emphasis is being placed on meeting environmental standards in the conduct of international trade, in foreign investment, in economic assistance programmes, and in loan agreements with international lending agencies. It is expected that stringent international environmental standards will emerge from the GATT/WTO negotiations. To maintain its competitive position in this arena, Jamaica must prepare itself for meeting the relevant environmental standards as a matter of policy and practice.
3. High priority has been given to the establishment of a legal and institutional framework for environmental management in Jamaica during the last decade. The Natural Resources Conservation Act of 1991 has provided a comprehensive legal framework and the Natural Resources Conservation Authority (NRCA) has been established to pursue and implement the policy. The NRCA has responsibility for implementing the Jamaica National Environmental Action Plan developed in 1995 and representing

commitments for specific actions to be undertaken during the period 1995-1998. This process will be co-ordinated and harmonised with the Industrial Policy.

4. A Natural Resource Management and Policy Unit was recently established in the PIOJ. The role of this unit is to ensure the integration of economic, social, and environmental policy. Its capacity to conduct environmental economic analysis will be strengthened.
5. Special attention will be given to the following programmes:
 - improved waste-management for disposal of solid waste;
 - creation of a hazardous waste disposal site for the safe disposal of hazardous materials;
 - managed use of pesticides and fertilisers in agriculture;
 - forestry and watershed management;
 - construction of appropriate drainage systems;
 - protection of marine and coastal resources;
 - a national system of parks and protected areas, and,
 - improvement of standards for discharge of effluents and noxious chemicals.
6. A system of environmental standards, regulations, and effective mechanisms for monitoring and enforcement will be established and maintained. This system will be complemented by incentives to support environmentally correct behaviour on the part of firms, in terms of retrofitting and use of environmentally friendly practices, processes, technologies, and products.
7. Government is seeking to provide institutional strengthening of the NRCA, in order to improve its capability to review environmental impact assessment and to do environmental planning and monitoring.
8. The national environmental policy and action plan are based on the "polluter pays" and "user pays" principles. A participatory approach is encouraged, including negotiations and dialogue with stakeholders and interest groups and voluntary initiatives at the level of the community and individual firms. Emphasis is placed on public education to increase public awareness of the need for appropriate action.

PART III
SECTORAL STRATEGIES

BUILDING COMPETITIVE ADVANTAGE

THE NEED FOR ONGOING ANALYSIS

1. A fundamental concern of the National Industrial Policy is to build up the base of competitive advantage in the Jamaican economy so as to allow for continued growth and development. For this purpose, it is necessary to make an assessment of the competitive position of sectors and firms in the economy so as to identify their strengths and weaknesses and, in that way, to determine what needs to be done at the level of policy to enhance their competitive position. In this regard, the policy must address the particular obstacles and opportunities facing the firms on a sector specific basis.
2. Recently, such an analysis was done by teams of experts, as a basis for formulation of the National Industrial Policy, focusing on a wide range of sectors and building on the work of many analysts done over the years. The sectors examined are currently important to the Jamaican economy, comprising cumulatively well in excess of 90 per cent of export earnings. But this was not meant to be an exhaustive list of sectors. Further work is continuing along these lines. Since the practice of industrial policy is an ongoing process, and an integral part of the dynamic process of growth and transformation of the economy, it is necessary to sustain this sort of close scrutiny, through both analysis and hands-on experience, in order to be able to design correct policies and adapt to changing circumstances.
3. On the basis of the analysis done to date, certain distinctive patterns emerge in the different sectors, which the present structure of policies is designed to address. These sectoral patterns are detailed in the following sections.

A. THE MANUFACTURING SECTOR

CURRENT SITUATION

1. Over the last several decades the manufacturing sector has been one of the most important sectors in the Jamaican economy. Manufacturing operations in the area of food processing have long been a staple of the Jamaican industrial landscape, but the sector really came into its own in the 1960s in the context of a strategy of import-substituting industrialisation.
2. In 1993, the sector contributed 18.4 per cent of GDP and 11 per cent of merchandise exports originating within the customs territory. The overall contribution to exports is even greater, since most of the exports from the three free zones, are manufactured exports, primarily apparel. The sector employs 11 per cent of the total labour force. In 1993, there were some 1000 firms across the island constituting large manufacturing establishments (each employing at least ten workers).
3. The manufacturing sector is the most diverse sector of the economy, comprising many subsectors each with peculiar problems and opportunities. The largest subsectors are textiles and apparel, food and agro-processing, furniture and wooden products, footwear and leather products, packaging and paper products, and electronics.
4. Despite this diversity, there are several constraints that characterise the sector as a whole:
 - (a) Spatial concentration. The sector is heavily concentrated in the three parishes of Kingston, St Andrew and St Catherine, and within the large urban space extending from the Greater Kingston Metropolitan Area to the adjoining sections of St Catherine. Two-thirds of the workers employed in the sector are concentrated in this region of the country.
 - (b) Relative age of the technology in use. While no general measure is available, in some subsectors average age is as high as 20-25 years.
 - (c) Low levels of capacity utilisation.
 - (d) Shortage of skilled workers, and low average level of labour productivity.
 - (e) Lack of linkages both within the sector and between the manufacturing sector and other sectors of the economy.
 - (f) Some sub-sectors, eg the apparel sub-sector, are vulnerable because of high dependence on external factors.

- (g) High cost of finance. Capital equipment has been costly to acquire because of the cost of finance and duties imposed on imported capital goods.
- (h) Limited access to working capital and trade financing through private and public financial institutions.
- (i) Limited use of equity financing.
- (j) High cost of infrastructure, in particular the cost of electricity and inadequacy of transportation systems.
- (k) Inadequacy of local raw material supplies.
- (l) A fundamental problem facing the sector is the existence of economies of scale in the production of many types of manufactured goods. Given the inherent advantages of size that accrue to manufacturers operating larger plants outside of Jamaica, coupled with the problems identified earlier, Jamaican manufacturers are finding it increasingly difficult to compete with imported goods as trade barriers fall.

OPPORTUNITIES

1. Despite this litany of observed constraints, there are firms within the manufacturing sector and across virtually all subsectors that demonstrate creativity in moving their operations into export markets. Generally, the sector faces significant opportunities because of the existence of buoyant international markets and geographical proximity to the main markets in North America.
2. There continue to be opportunities for growth in the apparel subsector, which generated an average growth of 37 per cent per annum between 1983 and 1994. With Mexico's entry into NAFTA, achievement of parity with Mexico would be helpful to the growth prospects of the apparel subsector. Notwithstanding the lack of NAFTA parity, Jamaica does have a competitive advantage in this subsector. For example, some multinational firms operating within this subsector reported that their Jamaican operations have the highest productivity of any of their worldwide operations. On a global level, Jamaica's unit costs in the apparel subsector compare very favourably with other countries (see Table A.9).
3. The food-processing subsector continues to enjoy significant opportunities because of the distinctive quality and character of Jamaican foods and the ability to use the ethnic market as an entry point into the important markets of North America and Europe. The pursuit of opportunities in food-processing will require even greater

integration than presently exists between the food-processing subsector, the agricultural sector, and the local packaging industry.

4. Opportunities exist in the furniture and wooden products subsector. The competitive advantage of Jamaican firms does not now lie in the production of low-cost furniture because the current best-practice production process is highly mechanised. The advantage lies, instead, in the use of distinctive skills in the production of high-quality furniture. An area of current success is antique reproduction furniture. The metal furniture industry has also done well in exports of distinctively styled metal furniture. Opportunities exist in both of these areas for continued penetration of export markets and for integration with Jamaica's tourist industry.
5. Like the apparel subsector, footwear assembly is a labour-intensive activity in which available supplies of relatively low cost labour can provide a competitive advantage. The footwear and leather products industry has the additional advantage of using distinctively Jamaican raw materials to create unique products for export. There are also opportunities in this subsector for efficient import substitution. These require, however, that the footwear industry be further integrated into a machine tool industry that can allow for the timely maintenance and repair of the equipment necessary for efficient production.

POLICIES

1. The core policies of the National Industrial Policy will be of special relevance to the prospects for the Jamaican manufacturing sector.
2. Policies aimed at reducing the cost of capital in the short-term (through concessionary financing by the development banks) and in the long-term (through macroeconomic stability) will deal with one of the principal concerns of this sector.
3. Other policies directly relevant to the sector include:
 - elimination of import duties on non-competing raw materials and capital equipment;
 - access to trade financing through the Ex-Im bank; and,
 - effective enforcement of anti-dumping legislation and import standards, and use of counter-vailing duties where necessary, to ensure that manufacturers do not face unfair trade practices in the domestic market.

4. Other general policies designed to reduce disincentives and provide a support framework for investment will also assist in improving the competitiveness of the manufacturing sector.

B. THE AGRICULTURAL SECTOR

CURRENT SITUATION

1. The agricultural sector employs a large share (25 per cent) of the total labour force and contributes about 8.4 per cent of GDP. In 1993 it was responsible for 22 per cent of merchandise exports and 11 per cent of total exports of goods and services.
2. It is less diverse than the manufacturing sector. It comprises two principal groupings: traditional agriculture and the non-traditional subsector. Traditional agriculture includes most prominently sugar, bananas, and coffee, which together represented 95 per cent of exports of traditional agriculture in 1993. Sugar and bananas are largely exported to the United Kingdom under the preferential regime of the Lome Convention and a special sugar agreement.

The expiration of the latest Lome Convention at the turn of the century is an imminent threat. The challenge in these product areas, particularly bananas, is to reduce production cost so as to be able to compete effectively with other producers in other countries. Jamaican bananas are currently not competitive with bananas produced in Central America where average yields of 18 tonnes per hectare are obtained, compared with yields of 14 tonnes per hectare in Jamaica (on the most productive large-scale farms). An additional problem faced by the banana industry is control of the black sigatoka disease which increases the cost of banana production.

3. The Jamaican coffee industry has its own unique set of problems. Jamaican Blue Mountain coffee is one of the world's finest gourmet coffees. This is reflected in the average price of Jamaican coffee which lies significantly above world market coffee prices. Most of the Jamaican product is exported to Japan, which has the world's largest collection of coffee connoisseurs. The challenge facing the Jamaican gourmet coffee market is to improve technology so as to allow for more cost-effective cultivation of coffee while reducing the environmental problems associated with hill-side cultivation.

4. The non-traditional agriculture subsector includes products such as a variety of tubers, herbs, spices, fruits, vegetables, and horticultural products that have experienced a remarkable growth in terms of exports. Another component consists of locally-produced meats such as chicken, beef and pork, which currently serve the domestic market as import-substitutes.
5. Problems faced by exporters of non-traditional products are the cost of capital and the inadequacy of research and development in certain critical areas such as orchard crops. This inadequacy also translates into deficiencies in technology in relation to the operations of the subsector. Technical deficiencies are particularly relevant in the context of controlling diseases such as ringspot (affecting papaw production), and bacterial diseases (affecting horticultural production). These deficiencies are compounded by a reduction in the availability of extension agricultural officers who provide technical advice to agriculturists. Other problems include the road transportation infrastructure that not only increases the costs of transporting agricultural products to market but also reduces product quality through in-transit bruising.
6. The problem faced by producers of locally-sold meat products is one of matching the production costs of overseas producers and, hence, becoming competitive in the domestic market. Local producers have, historically, been protected through a variety of import duties and stamp duties applied either on the meats themselves or on products made from these meats. It is unlikely that the levels of protection received in the past will continue in the future.
7. Praedial larceny has for many years presented problems to the agricultural sector. It is a major disincentive to the development of agriculture. It results in (a) significant losses of agricultural produce, (b) high security costs, and, (c) discourages investment in agriculture. It is difficult to estimate the actual cost of praedial larceny to the sector as a whole. One large producer in the traditional export sector is estimated to incur expenditure of well above US\$1 million per year for security alone, not including additional losses of produce.

OPPORTUNITIES

1. Jamaican agriculture faces significant opportunities in overseas markets. This is reflected in the increase, in recent years, in the number of exporters of non-traditional products and in the value of products exported. In particular, a dramatic increase is noticeable since the liberalisation of foreign exchange markets provided an incentive for movement into export activities. For example non-traditional agricultural exports increased by 15.4 per cent in volume, between 1992 and 1993. This translated into a 21.9 per cent increase in value. The most spectacular increases between 1992 and 1993 were recorded in exports of fish (48 per cent increase), foliage (384 per cent), and papaw (63 per cent), albeit from a small export base of 57,000 kilogrammes.
2. The opportunities in external markets are due to several factors. The global trends toward healthier eating provide opportunities for exotic tropical fruits and herbs. The demand for Jamaican delicacies is expanding from the historical market of the Jamaican diaspora to a broader market of the Caribbean diaspora and other groupings. Targeted promotional programmes are assisting in exploiting these opportunities, such as the CANEXPORT programme jointly operated by JAMPRO and the Canadian Development Agency (CIDA). Between 1991 and 1994, exports of Jamaican agricultural products to Canada increased from C\$158.8m to C\$211.5m.

POLICIES

1. The Government will continue to implement policies and programmes dedicated to improving the competitiveness of the agricultural sector.
2. Special attention is to be given to the productive use of government lands, including the following measures:
 - (a) acceleration of the process of divestment of government lands for productive enterprises;
 - (b) centralisation of the land divestment process; and,
 - (c) invoking the non-performance clause with respect to existing divestment agreements.
3. One of the critical concerns of exporters of agricultural products to the United States is to have U.S. Customs clearance in Jamaica. The United States operates only five pre-shipment clearance facilities in exporting countries around the world. One of these

facilities is located in Jamaica and represents an important advantage for the agricultural export sector. The Policy is to support and strengthen this facility.

4. The Government is targeting allocation of resources to support research and development and transportation infrastructure in the agricultural sector.
5. In the area of agricultural research, priority is to be given to the resuscitation of the Bodles Research Centre, including the provision of adequate funding and personnel.
6. Concessionary loans to the sector will continue to be made available through the Agricultural Credit Bank to assist with lowering the cost of capital to farmers.
7. The Government will foster increased value-added production through forging of strategic alliances between farmers and processors.
8. Government will be instituting special measures to deal with the problem of praedial larceny, including the enactment of special laws and the creation of a special arm of the police for monitoring and enforcement oriented to major agricultural parishes.

C. THE TOURISM SECTOR

CURRENT SITUATION

1. This sector is by far the largest and most important sector of the Jamaican economy. It contributed 13.3 per cent of GDP in 1992, 45 per cent of Jamaica's foreign exchange inflows from the productive sectors, and about eight per cent of national employment. There has been a dramatic increase in the sector during the period 1980-1994, with total visitor arrival increasing by eight per cent per year and stop-over arrivals increasing by seven per cent per year over the period. By 1994, there were 19,760 rooms island-wide to accommodate stop-over arrivals, of which 12,798 or 65 per cent were located in Montego Bay (6599) and Ocho Rios (6,199).
2. The performance of the sector during the 1980-1994 period can be attributed to several factors. These include the success of the all-inclusive concept as an innovative market-segmentation

approach, significant expenditure on marketing and promotion by the Government and the industry, a wide range and variety of visitor accommodation, and the strikingly diverse and superior destination product (natural beauty, culture, entertainment, ambience) which Jamaica provides for the visitor.

3. Despite the recent success of the Jamaican tourist industry, the current situation warrants close attention with a view to maintaining the industry's competitive edge. In 1994, the industry faced a decline in visitor arrivals. Total arrivals which had risen to a record level of 1.6 million persons in 1993, declined to 1.57 million in 1994. Although the all-inclusive hotels were operating at high capacity levels (75.1 per cent), other hotels were not doing as well, with an average occupancy level of 51.6 per cent. The decline has been viewed as a manifestation of a set of issues facing the industry in the mid-1990s.
4. Issues of concern to the tourist industry are: polluted coastal and surface waters, improper solid waste disposal, squatter communities in close proximity to resort areas, tourist harassment in certain areas, and an inadequate road infrastructure which causes several of the country's attractions to be relatively inaccessible to tourists.
5. The industry is faced with increasing competition within and outside of the Caribbean, both from players already in the industry and those "coming on stream". The entire regional tourist industry is concerned about the impact that the entry of Cuba into the tourism market is likely to have on the market shares of the existing players. Costa Rica, Trinidad and Tobago and Guyana are all seeking to accelerate the development of ecotourism. Mexico remains a strong competitor.

OPPORTUNITIES

1. Despite this, there are substantial opportunities for the Jamaican tourist industry, particularly given the unique advantages of the destination. Jamaica has done well in attracting cruise ship arrivals, but it could generate an even greater share of this market. More than one-half (54.9 per cent) of the world's cruise-ship capacity is deployed in the Caribbean, and so the market opportunities in this area are significant. Other Caribbean countries, such as Barbados, St. Lucia, Cuba and the Dominican Republic, have done well in attracting European tourists, receiving twice as high a percentage of European visitors as Jamaica.

2. The notion that Jamaica may become a saturated tourist market does not pose a valid constraint to further growth, provided that there is adequate coordination and control of such growth. Barbados, with a population that is equivalent to ten per cent of Jamaica's population and a land mass that is 3.7 per cent the size of Jamaica, had stop-over arrivals in 1994 equivalent to 43.5 per cent of the stop-over arrivals in Jamaica. Other islands in the Eastern Caribbean show similar performance gaps relative to Jamaica. Antigua and Barbuda, for example, has a population equivalent to 2.6 per cent of Jamaica's population and a stop-over-arrival count in 1994 equivalent to 24 per cent of Jamaica's count.
3. Opportunities that beckon to the Jamaican tourist industry include ecotourism, health tourism, heritage tourism, attraction tourism, and entertainment/cultural tourism. The Jamaican destination could provide an excellent platform for the development of any and all of these tourism products. All would involve an upgrading of the tourism product and an upward movement along the industry product cycle. Further, the Jamaican industry has the potential to utilise its proximity to Cuba as an opportunity for joint projects. The strategy would be to couple the Jamaican tourism product with tourism options within Cuba so that Jamaica plays a role as a gateway to Cuba (and vice versa), and the Jamaican and Cuban vacations are seen by tourists as complementary rather than competing.

POLICIES

1. The Government is committed to adopting policies to ensure that the tourism industry is supported in the drive for expansion and product development.
2. In the short term, the Government is dealing with the problems of crime and harassment in tourist resort areas by strengthening the security presence through the upgrading and expansion of resort patrols. The Government is dealing with the issue of squatter communities through its project PRIDE programme and other elements of its land policy. In the long term, these problems will be addressed by the creation of adequate income-earning opportunities and housing and by the provision of education and training for residents of resort areas and for those in peripheral communities as well. Hotel operators have an important role to play in this process by taking appropriate initiatives.

3. The Government will continue to provide funds through the Jamaica Tourist Board for the marketing of Jamaica through a process of co-operative advertising on a cost-sharing basis with the industry and through other means of maintaining visibility in the market-place.
4. The infrastructure programme for the near term will be targeted toward the tourist industry to deal with problems of an inadequate road and sewage infrastructure.
5. The Policy seeks to address the special needs of operators of small hotels. These include: (a) access to credit for refurbishing and expansion of facilities, and (b) the effects of competition from the larger all-inclusive hotels. The Government's policy of providing loans on concessionary terms through the development banks offers them a window for obtaining credit. The Government will also support efforts to create collective marketing packages for the small hotels. Such efforts should allow them to differentiate the product that they offer and, in so doing, to penetrate niche markets that offer strong possibilities for growth outside the orbit of the all-inclusive concept.
6. Incentives will be provided to facilitate development of attractions to broaden and deepen the tourism product.

D. THE MINING/CHEMICAL SECTOR

CURRENT SITUATION

1. This sector of the Jamaican economy can be divided into several discrete subcomponents. These include the mining of metallic minerals such as bauxite and alumina, mining or the production of non-metallic minerals such as limestone/lime, marble and gypsum, and the production of chemicals such as sulphuric acid and caustic soda.
2. Historically, the most vibrant segment of this sector has been metallic minerals, largely in the form of the bauxite and alumina industry. Bauxite and alumina contribute some seven per cent of GDP and some 51 per cent of merchandise exports. Jamaica's competitive advantage within the metallic mineral subsector is reflected in its world-ranking as the third largest producer of bauxite, (following Australia and Guinea), and the third largest producer of alumina, (behind Australia and the United States).

3. The Jamaican bauxite and alumina industry comprises four mining and processing operations: Jamalcan, a Joint Venture between Alcan Aluminium Ltd. and the Government of Jamaica (through Jamaica Bauxite Mining Ltd.); Alumina Partners (Alpart), a partnership of two major alumina companies; Jamalco, a joint venture association between the Government of Jamaica (through Clarendon Alumina Production (CAP)) and Alcoa Minerals of Jamaica; Kaiser Bauxite Company (a bauxite exporting partnership with the Jamaican Government). Together these entities produce and export about 11 million tonnes of bauxite and three million tonnes of alumina. A major problem facing the industry is its industrial relations climate.
4. Beyond the bauxite and alumina firms, the sector includes firms involved in the production of marble, limestone, gypsum and a variety of industrial chemicals. These firms, several of which are small entities, face problems of the absence of an institutional marketing strategy, inadequate training facilities, the difficulty of procuring the necessary project financing to consolidate or expand their operations and, in some cases, the problem of adequate port facilities.

OPPORTUNITIES

1. There are significant opportunities for expansion of the various components of this sector of the Jamaican economy. The performance of the bauxite and alumina subsector has to some extent been driven by the vagaries of world demand for aluminium. Prospects for continued expansion in the sector are positive for a variety of reasons. The displacement of metal by plastics as the packaging material of choice has slowed because of the environmental problems posed by plastics. Aluminium, on the other hand, is more environmentally friendly because of the ease of recycling metal and because the energy associated with generating new metal packaging from recycled metal is a fraction of the cost of generating such packaging from virgin metal.
2. Countries such as Jamaica, with an installed base of alumina-processing facilities, have a decisive competitive advantage when there is expansion of world demand. This is because there has been a gradual increase in the minimum efficient scale of alumina processing plants, thus making it more risky to construct new plants. Whereas plants could be efficiently built

to produce 550 million tonnes of alumina 30 years ago when the Jamaican plants were being built, the plants being built now tend to be much larger. The last plant to come on stream around the world was a 1.1 million tonne plant built in Brazil, that took 13 years from the inception of the building process to the point when the plant became operational.

3. Given the lumpiness of new alumina-processing plants and the excess capacity that has obtained within the world industry over the years, the direction of development within the industry has been to engage in expansion of "brownfield" sites rather than "greenfield" sites. The existing brownfield sites can be expanded through a process of "debottlenecking" that allows for significant capacity expansion at much less than the cost of building a new plant. This is possible because the specifications used in the building of the plants initially included provision of a platform for future expansion.
4. In the Jamaican context, there has been already an increase in the capacity of the major alumina processors. In 1974, the production capacity was approximately of 2.5 million tonnes of alumina. By 1995 the capacity had expanded to 3.3 million tonnes. With incremental additions to existing plants, the capacity of the Jamaican industry could move to about five million tonnes. There are, in fact, scheduled expansion plans that will add significantly to the country's bauxite and alumina production:
5. There are similar opportunities in the non-metallic mineral subsector. One of the prime opportunities revolves around limestone. Approximately 80 per cent of Jamaica's surface coverage is limestone of world-class quality. Estimates suggest that total reserves could be approximately 150 billion tonnes. Limestone, and one of its derivatives, lime, are very valuable materials. Lime is the cheapest of all alkalis and has a very diverse end-use structure. It is used in alumina processing, in the manufacture of chemicals, the processing of pulp and paper, the processing of sugar and other foods, the refining of petroleum, tanning of leather, water treatment, and soil conditioning, to name just a few applications. Strong opportunities also exist for marble and gypsum production.
6. Finally, within the broadly defined sector, there are opportunities for the processing of industrial chemicals. Currently, the most significant processing occurs in manufacture of sulphuric acid for sale to the bauxite and alumina industry. The bauxite and

alumina sector also utilises significant quantities of caustic soda. There are, therefore, opportunities for producing caustic soda using a limestone based industry, for sale to the local bauxite and alumina industry and for export.

POLICIES

1. The crucial element within the mining and chemical sector continues to be the bauxite and alumina industry. The Government is committed to providing an environment for this industry that is conducive to its long-term development and expansion. This is why the Government has moved in the recent past to refine its taxation approach to the industry to make the Jamaican environment more conducive for expansion and investment. Special attention will be given to measures for improving the industrial relations climate affecting the industry. Much improvement will also be obtained in this area as other elements of the National Industrial Policy involving macro-stability and strengthening of the industrial dispute machinery are implemented.
2. The Government seeks to promote development of linkages between the various components of the mineral and chemical industry, and to provide access to financing for projects that seek to build upon these linkages.
3. Other elements of the National Industrial Policy which will directly affect this sector, are physical infrastructure development (especially the provision of port facilities), human resource development (provision of education, skills and technical expertise) and science and technology (application of materials sciences and chemistry to R&D activity).

E. THE INFORMATION TECHNOLOGY SECTOR

CURRENT SITUATION

1. The Information Technology industry in Jamaica can be divided into the following segments:
 - Hardware distributors and dealers
 - Software distributors and dealers
 - Professional services — system consultants, technical support and software development
 - Full service or total solution companies

- Related service companies such as computer rental and repair
- Computer training companies
- Information technology export service-providers in the areas of: data entry, telemarketing, geographic information systems (GIS), CAD/CAM operators, and custom software services.

2. The most dynamic segment of this industry and the one having greatest potential for growth, particularly in international markets, is the information technology service providers. Of the firms in this category, those involved in data entry services have been most successful in penetrating international markets since the early years in the development of the industry. In 1993, for example, of the 49 companies involved in the export of information services, 37 were involved in data entry, four in telemarketing, and 3 in GIS. The remaining five were engaged in support activities such as sales, training and marketing.
3. There is also a vibrant local market for the development of custom software applications oriented to key sectors in the Jamaican economy, most notably the financial sector.
4. There has been dramatic growth of the various segments of the industry between its formative years in the 1980s and the current period. In 1983, the data entry segment had only five firms. By 1993, there were 37 companies and foreign exchange earnings from this segment had increased from US\$1.5M in 1986 to US\$17M.
5. The industry has been supported by a telecommunications infrastructure, including Jamaica Digiport International which provides reliable high speed links via satellite to North America and Europe. The Digiport, located in the Montego Bay Free Zone, has attracted many foreign-based data entry and telemarketing service providers. The industry has also benefited from the country's proximity to the United States, regular and reliable air links, the congruence of time zones and language, and the availability of a large, trainable workforce.
6. Despite the rapid growth of the data entry segment, however, the information technology sector faces a series of problems in its efforts to remain competitive. These include:
 - capital availability for start-up ventures;
 - vigorous competition from other countries such as the Philippines, India, China and Bangladesh;

- evolutionary changes in data collection and data entry technologies that erode some of Jamaica's advantages based on having a pool of low cost operators engaged in keystroke-based data capture;
- bias in the incentive legislation that has favoured only those firms operating within the free zones, and,
- weaknesses in the supply of technical and analytical skills from the education and training system.

OPPORTUNITIES

1. Notwithstanding these problems, most segments of the Jamaican information technology sector continue to have significant opportunities.
2. A major opportunity comes from Jamaica's favourable strategic location relative to the largest market for information technology services in the world, the United States. Current estimates of the annual value and growth rate of different segments of the US information technology market are as follows:
 - data entry segment: US\$400 billion, 20 per cent
 - telemarketing: US\$75 billion
 - GIS services: US\$5 billion, 22 per cent
 - CAD/CAM: US\$18 billion, 20 per cent
3. Jamaica's competitive advantage in seeking to penetrate the U.S. market is not restricted to the use of relatively low cost labour within the ambit of the data-entry segment of that market. The industry can build competitive advantage from the learning and experience gained in providing efficient and creative support services to local industries and institutions. Such a market-driven strategy of development allows penetration of the international market from a base of successful performance in the local market. The industry should, therefore, be looking to insert itself within the dynamic sectors and clusters of the Jamaican economy. The two most prominent internationally competitive industries for such integration are shipping and tourism. Other large local markets are provided by the financial sector and government institutions.
4. An important linkage is being developed between transshipment facilities and the Jamaican Information Technology (IT) sector. Current developments in containerised shipping demand that the process be driven by advanced information technology so as to

reduce cycle times for containers from vessel to land. The IT sector is therefore a key to the success of the effort to modernise the country's transshipment operations in order to compete at the same levels of efficiency as the major players in the global industry.

5. The tourist sector provides strong opportunities for linkages. These include:
 - innovations in hotel reservation systems, such as the use of electronic data interfaces between travellers and reservation systems;
 - incorporation of Jamaican hotel sites on the global information highway, the Internet; and,
 - the sale of tourism-based information products, developed using CD-ROM technology, to world-wide distributors of tourism products.
6. The information connectivity and applications development necessary for launching the Jamaican tourism product on the information super highway will provide opportunities for the distribution of a variety of Jamaican cultural content, whether in the form of art, music, film or sports.
7. Opportunities also exist for information technology to be the driver in the development of interactive training programmes and distance education, that will complement training efforts within the information technology industry itself as well as throughout the entire educational system. This will assist in providing the human resource support that is critical to the successful execution of all components of the Industrial Policy.

POLICIES

1. In order to realise these opportunities, the Government proposes a series of policies that will serve to enhance the competitiveness of the information technology sector.
2. A national data network will be established to connect government institutions, educational institutions and private sector organisations so as to facilitate easy access to and exchange of information. This network would, in turn, be connected with the Internet. This process has already begun in the context of the Jamaica Electronic Network (JAMNet) that interconnects UWI, UTECH and SRC.

3. A critical factor in the development of the industry is the need for training in numeracy and computer literacy at all levels of the educational system. The Government is committed to expanding the resources available for the training of personnel for the information technology industry through its programmes of support to the UWI, UTECH, HEART, and other relevant educational institutions. It supports and encourages private-sector led initiatives to contribute to this process.
4. The Government will ensure that fiscal incentives and relief from import duty become available to nurture and develop targeted sectors of the industry, including software developers and exporters. This will be achieved by extension of the EIEA to encompass services and by implementation of the policy on single entity free zones.
5. The industry will be able to access finance and venture capital on concessionary terms through the Government's policies for the development banks.
6. Through its Telecommunications Policy, the Government seeks to ensure provision of cost-effective services by ToJ to encourage the development of teleservices.
7. The Government is in the process of identifying physical locations for the further development of the industry. In this regard, it is proposed that the industrial park to be developed in Portmore be oriented toward the information technology industry.
8. Government proposes to establish an Information-Technology Advisory Council, with representation from the various interests in the industry, to advise on the long-term development of the industry within the framework of the National Industrial Policy.

F. THE ENTERTAINMENT INDUSTRY

CURRENT SITUATION

1. The Jamaican entertainment industry, defined in its widest sense, comprises artistes, producers, distributors, publishers and agents engaged in music, film, drama, dance, fashion, comedy and other forms of cultural and artistic expression. All segments of the industry have developed vibrant local markets and demonstrated the ability to compete on international markets.

2. The most prominent segment of the industry, in terms of successful penetration of external markets, is the music segment. Indeed, by one estimate, Jamaica's recording industry has become one of the world's most active industries, after the recording industries of the United States and the United Kingdom. The Jamaican industry has established a strong position in the markets of the United States, Canada, the United Kingdom, Japan, Germany, France, Brazil, Argentina and various countries in South East Asia.
3. As to the popularity of reggae music, the Recording Industry Association of America reports that from 1992–1993, 27 million units of reggae recordings were sold in the United States alone, generating an estimated revenue of US\$270M. Since approximately 32 per cent of the world's music recordings originate in the U.S., penetrating this market is testimony to the establishment of a viable international market presence.
4. Yet, the Jamaican entertainment industry has been unable to realise its full potential because of problems such as: illegal copying of recordings of Jamaican performers, replication of the creative style of Jamaican performers by foreign artistes, poor quality of production technology, lack of an international record label based in Jamaica, an inadequate supply of modern production and distribution companies, and the lack of an incentive programme that covers the entire sector.
5. An important factor that handicaps the industry on the production side is the limited development of professional skills through training in the techniques of crafting the product.
6. As a consequence of weaknesses in the organisation of production, distribution, and marketing of the product as well as pirating of the creative work of local artistes and producers, much of the revenue earned from success achieved in foreign markets does not flow back into local hands or accrue to the advantage of the country.

OPPORTUNITIES

1. Despite these problems, Jamaica has the potential to develop into a cultural and entertainment mecca. The country enjoys excellent name-recognition because of its strong tourism product that is linked, in part, to culture, its history as a site of international cinematic and cultural events, and its identification as home to

one of the world's most famous styles of contemporary music, reggae.

2. A striking feature of Jamaican reggae music as an export product is that, unlike many non-traditional exports, it is not geared primarily to an ethnic market with the goal of "crossing over" to a mainstream market. Reggae music is a solidly mainstream product among its niche market of urban contemporary music in all the markets it has penetrated. There is no sign of any prospect of market saturation; growth potential continues to be high.
3. An abundance of creative talent and entrepreneurial dynamism exists in all segments of the entertainment industry, with a demonstrated capacity for pursuing innovative lines of development and for thereby creating opportunities for the expansion of wealth, foreign exchange earnings, and employment.
3. Appropriate policies will allow for continued product development and the creation of an environment in which Jamaica-based artistes and entertainment firms can increase their earnings from the global entertainment industry.

POLICIES

1. Government declares formal recognition of the entertainment industry, its importance as an expression of the richness of our national culture, and its incorporation as an integral element of the national effort to promote growth and development of the Jamaican economy and society. The National Industrial Policy seeks to target this sector of the economy as a sector to be given support by all components of the Policy.
2. Government recognises the need to assist the industry by:
 - development of a defined national policy on entertainment;
 - providing facilitatory services; and,
 - providing incentives for investment as well as for development of artistic creativity.
3. A key concern of policy is to redress the imbalance between the creative ability and potential of the industry and the rewards which return to the artistes and producers from world-wide sales of their product, by focusing on measures for enhancing local value-added and securing protection for the interests of local artistes and producers.

4. In pursuing the development and effective implementation of an appropriate national policy for the industry, the Government proposes to establish an Entertainment Industry Advisory Council representing the various interests in the industry.
5. The Government's economic development agency, JAMPRO, has also established a new unit, the Jamaica Music, Film and Entertainment Commission, dedicated to developing, promoting, and marketing the Jamaican entertainment industry.
6. The Government is committed to providing the music segment of the entertainment industry with similar incentives to those provided to the film segment under the Motion Picture Encouragement Act. Accordingly, the Government now proposes establishment of the status of Registered Performing/Recording Artistes (RP/RA), similar to that of Recognised Motion Picture Producers. These RP/RA will be entitled to recognised status for a defined period, duty free entry of production equipment and musical instruments, and income tax relief.
7. Access to financial resources for investment in the industry will be provided through the government's development banking institutions and through the special funding mechanisms made available to micro and small enterprises.
8. Opportunities for training in the special skills required for quality production and performance in the industry, will be provided through special programmes designed for this purpose under HEART/NTA, UTECH and UWI.
9. The Government undertakes to provide vigorous protection of the intellectual and creative property of Jamaican artistes under the ambit of the recently-introduced Copyright Protection Law.

TARGETING STRATEGIC CLUSTERS

DEVELOPING A FOCUSED STRATEGY

1. As indicated in the previous chapter, there are definite centers of dynamism and areas of weakness in the different productive sectors of the Jamaican economy. Further, there are substantial and rich opportunities for growth and diversification open to the sectors, provided that the firms operating in them are able to position themselves to take advantage of those opportunities. There are also identified constraints, both in the operating environment of firms and in their internal conditions of production, that affect their performance.
2. The National Industrial Policy aims to deploy an arsenal of measures, outlined in previous chapters, to improve the general investment climate, to address sector-specific constraints, to enhance competitiveness of firms, and to provide a broad-based support framework. In these various ways, the Government seeks to strengthen the productive capabilities of the different sectors for meeting the challenges and seizing opportunities facing each of them and, thereby, to promote growth and development of the Jamaican economy.
3. It will not be possible, however, to address simultaneously all factors relevant for policy in all sectors of the economy. Since there are clear limits on available resources and administrative capacity in the public sector, such an approach would involve spreading effort and resources too thinly, with little possibility of having a significant impact.

4. There is need, therefore, for developing a focused strategy. A focused strategy seeks to target key points for concentrating resources, programmes, and action. It must be emphasized, of course, that the targeting of key points is a dynamic process, dependent on the evolving conditions of the economy. Hence, the particular targets selected are not fixed for all time and can be expected to change as the underlying conditions change.

STRATEGIC CONSIDERATIONS

- The specific points of focus for the Industrial Policy are governed by certain strategic considerations. A guide to the considerations involved is presented in Table 10.1. (page 133)
- On the basis of current analysis of the specific strengths, weaknesses, and opportunities of the different productive sectors, it is possible to identify five sector-groups that constitute strategic industry clusters. Because of the existence or potential of strong linkages and spillovers among industries/sectors within each cluster, there are opportunities for creating a dynamic synergy that can serve to reinforce growth within the cluster and in the economy as a whole.
- Within each cluster, there are one or two leading industries/sectors that constitute growth poles. The growth poles are characterized by a strong capacity and potential for significant long-term expansion. They can therefore serve as catalysts to growth in related sectors.
- The strategic consideration involved here is to maximise the potential gains from linkages among the sectors, not to subordinate individual sectors in a cluster to the growth pole. Each and every sector/sub-sector is expected to stand on its own and pursue its own growth strategy, while seeking to take advantage of opportunities for linkage.
- There are certain supporting sectors that are strategically significant because they provide basic technological inputs into all sectors and are therefore key elements in the process of technological transformation of the Jamaican economy. These sectors are information technology and telecommunications.
- For all sectors and clusters, the provision of infrastructure support in the different areas of physical infrastructure, human resources, and science and technology, is essential to their effi-

Table 10.1
Targeting Strategic Clusters

Clusters	Growth Poles	Linkage Sectors/ Sub-sectors	Supporting Sectors	Infrastructure Support
Cluster #1	Tourism	Entertainment Sports Fresh Produce Meat & Fish Processed Foods Beverages, Tobacco Garments Furniture Crafts	Information Technology	Physical Infrastructure Electricity Roads Transportation Ports, Airports Water Sewage
Cluster #2	Shipping & Berthing	Air Cargo Ground Transport		
Cluster #3	Agro-processing	Agriculture Marine Products Packaging	Telecommunication	Human Resources Science & Technology
Cluster #4	Apparel	Textiles Footwear Sewn Products Machine Tools		
Cluster #5	Bauxite & Alumina Non-metallic Minerals	Limestone Lime Industrl. Chemicals Silica, Clays Ceramics, Glass		

Note: The numbers associated with the clusters do not represent a ranking of the clusters.

cient operation and in determining their capacity for expansion and development. These are the areas in which the Government is principally involved both as direct provider and as the decision-making authority.

ADAPTING INFRASTRUCTURE DEVELOPMENT TO STRATEGIC CLUSTERS

1. In terms of the allocation of government resources, the principal focus of the Industrial Policy will be on addressing the requirements of infrastructure support in key areas of infrastructure, as outlined in Chapter 8.
2. Infrastructure development, in all areas, has direct and indirect effects throughout the economy. In this respect, it constitutes a powerful lever for economic growth and development.
3. However, in order to have the maximum effect, the Government will seek to focus the provision of infrastructure support on meeting the needs of the targeted strategic clusters. Within each cluster, the strategy of infrastructure support in the short and medium-term will be to target the growth poles. The specific targeting strategy will be continuously evaluated and updated during the life of the Policy.

EXPLOITING THE USES OF INFORMATION TECHNOLOGY

1. As a supporting sector, Information Technology (IT) is targeted to receive special attention and support, in terms of application of the policies for investment promotion and export push as well as the policies for human resource development.
2. Information Technology is recognised as a key strategic sector, not only for the export products that it can yield, but also because it is a necessary foundation for upgrading production methods in all sectors, for accessing vast new opportunities offered by the information superhighway, and for improving the level of skill and efficiency of the labour force. It therefore occupies a unique place as a basic requirement for building international competitiveness.
3. Policies for human resource development at all levels and in all areas of the education and training system, for promoting scientific research and development, and for storage and dissemination of information, will be centered around the creative use of IT hardware and software.

THE STRATEGIC CLUSTERS

CLUSTER #1

1. The Government will focus infrastructure development on the tourist sector because of the size and dynamism of this sector within the Jamaican economy, the fact that this sector builds significantly on factors that are uniquely Jamaican, and the ability of the sector to be linked with other sectors of the Jamaican economy.
2. Emphasis will be placed on improving physical infrastructure, including road and air links, and on providing security and training of personnel for the hospitality industry.
3. A strong push is to be made to diversify the nature of the Jamaican tourism product and move to higher levels of value-added in the sector. This will be achieved by facilitating the industry's movement into new areas such as:
 - heritage tourism surrounding national sites such as Port Royal;
 - health tourism, e.g. development of a national health tourism facility (possibly in Mandeville);
 - ecotourism in targeted regions, consistent with the National Environmental Policy; and
 - new attractions and resorts, in such areas as Port Antonio and Oracabessa.
4. The tourism industry is expected to continue to develop close linkage with other sectors and sub-sectors. The potential for such linkage is clear in the case of agriculture where the process is already advanced. It can be deepened through improvements in the quality and variety of agricultural products, and through dedicated efforts on the part of both industries to develop close ties.
5. The tourism industry has existing linkages with the furniture sub-sector of manufacturing. Jamaican hotels have been utilizing fine antique reproduction pieces developed within the furniture industry.
6. Linkages are possible with other sub-sectors of the manufacturing industry. The garment-design segment, for example, can draw on the tourism industry in seeking to create and market uniquely Jamaican garments. The craft industry has strong links to tourism, and the Government is seeking to foster further development of this industry through its training programmes and financing of small business.

7. In the area of entertainment, including film and sports, there are significant opportunities for linkage: for instance, through entertainment events such as Reggae Sunsplash or the Johnny Walker Golf Tournament, and live shows featuring elements of Jamaica's rich cultural heritage.
8. Government is currently pursuing significant policy initiatives to consolidate the success of the entertainment industry through:
 - copyright law enactment and enforcement;
 - development and support of Jamaica's cultural institutions; and,
 - financial incentives for the sector.

These initiatives will assist in solidifying a vibrant sector capable of standing on its own, as well as developing links to the country's tourism product.

9. It is important to recognise that the linkages operate successfully in both directions. The tourism industry provides the entertainment industry with an audience. Equally, the entertainment sector generates increases in tourist arrivals. For example, much of the increase in tourist arrivals from Japan can be linked to the popularity of reggae music in that country.
10. Air transport, both international and local, is obviously a critical linkage sector for the tourism industry. The national airline and the Jamaica-based tourism product are likely to become increasingly more intertwined over time. Local ground transportation is also closely linked.
11. Prospects for linkages between information technology and tourism are very strong. Jamaica's tourism product can benefit from promotion via the Internet and from the development of multimedia applications by information technology professionals. Further, the tourism industry, like many others, is becoming increasingly driven by computer applications. The information technology industry can, therefore, operate in a critical support capacity to the tourism product. The country's financial sector can also provide a similarly supportive role in the continued development of the industry and the cluster of industries for which tourism represents the growth pole.

CLUSTER #2

1. Kingston Harbour is the world's seventh largest natural harbour. The Port of Kingston, located within this harbour has, since the 1970s, been steadily increasing its activity as a trans-shipment point for containerised cargo services. Kingston Terminal Operators, managers of the existing container cargo facility, currently move 300,000 containers per year. Yet, within the region some eight million containers are transhipped per year. A country like Singapore that has excelled in the area of trans-shipment facilities, engages in some two million container moves per year. Jamaica is well positioned to make significant inroads into this market by becoming a major regional trans-shipment centre.
2. There are several key factors necessary for an effective trans-shipment point. The first and most critical is geography. Countries that sit amidst numerous sea lanes, and around which there is already significant shipping traffic, are more strategically positioned to serve as trans-shipment points than are countries not blessed with similar geographical fortune.
3. Second, to become an effective trans-shipment point, a country has to put in place the appropriate facilities: requisite equipment in the form of gantry cranes, straddle carriers; berthing space for ships; draft facilities that allow for the entry of large ships; back-fill and storage space for the storage of cargo; a productive and skilled workforce for efficient execution of the trans-shipment activity; and, increasingly, an information system driven by modern information technology that allows for cargo to be sorted with a minimum of bureaucracy and in the shortest possible time.
4. Third, most of these facilities have to be in place before a particular port can gain the business of one of the few major sea cargo carriers operating around the world. These carriers are likely to transfer their trans-shipment operations from one port to another only if they are convinced that the appropriate facilities are in place that will allow them to gain a competitive advantage in their cargo operations.
5. Jamaica is ideally situated to operate as a trans-shipment point because of its comparative advantage in geographical location: situated strategically within the shipping lanes that flow between North and South America, and almost midway between Europe and Asia. Already, with its 300,000 container moves per year,

the Port of Kingston has led the Latin American region in the number of annual container moves in recent years. Various other countries in the Caribbean region are moving rapidly to secure a competitive advantage in trans-shipment. Key competitors are the Ports of Miami and Puerto Rico. More recently, Panama has been moving to increase its share of the regional trans-shipment market, linked in part to other maritime services that it is positioned to provide based upon the traffic through the Panama Canal. In the face of increased competition, Jamaica needs to move quickly to consolidate and expand upon its presence in the regional trans-shipment market.

6. In recognition of the country's advantages, the Government has spent close to US\$80M on the development of an expansion to the current berthing capacity of the Port of Kingston in the context of the Gordon Cay development. By 1996, an additional 610 metres of berthing space, representing a doubling of present capacity, will come on stream. Expansion plans call for the acquisition of several multimillion dollar gantry cranes to be used for loading and unloading containers. The Government plans to continue to put in place the infrastructure and enabling environment that will allow Jamaica to operate even more effectively as a regional trans-shipment centre.
7. The focus will be on creating a distribution centre, by broadening the range of merchandise to be distributed. Thus, in addition to the traditional bulk-breaking operations or container distribution operations, Jamaica could serve as a trans-shipment point for less traditional products, such as energy-based products. There are also possibilities for serving as a regional distribution centre for air cargo.
8. An important linkage will be developed between trans-shipment facilities and the Jamaican Information Technology (IT) sector. Current developments in containerised shipping demand that the process be driven by advanced information technology in order to compete at the same levels of efficiency as the major players in the global industry. The IT sector will be a key to the success of the effort to modernise the country's trans-shipment operations and trade operations in general.
9. The Jamaican IT sector itself is already at the point of producing internationally competitive software applications. Linkage with the shipping sector will provide a stimulus for further development. Other policy initiatives that will complement this

process include: the development of a national data network and expanded training programmes in software development.

CLUSTER #3

1. Jamaica now has the base on which to develop an integrated agro-processing industry, involving the processing of distinctly Jamaican foods and fresh produce. The relevant segments of the agricultural sector cut across the boundaries of traditional and non-traditional agriculture. The linkages include those between sugar and rum, bananas and banana-based snack foods, herbs and spices, and the entire range of tropical fruits and vegetables.
2. The key constraint to the development of such an integrated cluster has been a problem of technology, reflected in poor product quality in agricultural products and weak processing capabilities in agro-processing. An additional constraint is tied to problems of penetrating overseas markets, related to both non-tariff barriers and access to the relevant distribution channels. A domestic packaging industry, capable of supplying a variety of quality packaging inputs at internationally competitive prices, is also crucial to the success of this cluster.
3. The Government seeks to facilitate the continued development of this critical cluster through its programmes of:
 - road construction and rehabilitation in agricultural regions of the country;
 - irrigation schemes in agricultural regions; and,
 - research and development in areas such as pest control and management, disease control, orchard development and management, adaptive technology to increase productivity and yields per hectare, and other related areas.

These programmes are designed to provide an infrastructural and technical environment leading to the production of better quality crops for input into the agro-processing industry.

4. Programmes to support market access will continue through trade policy measures and through JAMPRO's marketing thrust.

CLUSTER #4

1. The most dynamic segment of the Jamaican manufacturing sector during the last 15 years has been the apparel industry,

with gross sales increasing from US\$10M in 1980 to US\$500M in 1995. Although this sub-sector has been an important growth pole within the economy, it has not yet operated as a catalyst for the development of other segments of the manufacturing industry.

2. There are opportunities for moving in this direction. These first require efforts to solidify the gains made by the industry so as to strengthen the base for future growth. The Government is engaged in such an effort through the following measures:
 - trade negotiations, particularly as related to NAFTA parity and continued market access;
 - management of the free zones;
 - incentive programmes for firms and employees;
 - security controls on illicit drug trafficking; and
 - efforts to improve the industrial relations climate.
3. Government recognises the need to put in place an advisory unit for support of the apparel industry, in order to allow for the concerns and interests of the industry to be treated as a whole as regards production, marketing, training, and regulatory mechanisms. This issue will be addressed through the formation of Industry Advisory Councils for implementation of the Industrial Policy.
4. The potential linkages that exist with an entrenched apparel industry are several. This industry brings into industrial employment persons who might otherwise not have an opportunity to be thus engaged. The industry therefore expands the base of such employment and has the potential to generate skills of dexterity and industrial application that are transferable to a broader sewn-products industry, including the assembly of leather products or footwear, as well as to the assembly of electronic components. Current unit labour costs in this industry point to continued existence of a competitive advantage in garment assembly and other light manufacturing even beyond the expiration of the Multi-Fiber Agreement that currently governs the world's garment and textile industry.
5. Another feature of an entrenched apparel industry is the service requirements for repair and maintenance of machinery. Though operating initially at a relatively simple level, this service can be extended to form the base of a machine-tool operation. This extension would become viable if even a small component of

the garment industry were to become vertically linked backward into the manufacture of textiles. Jamaica already has a textile mill in operation, but it is impeded by the state of its technology. The regional market for fabric is large enough to support the operation of an efficient textile mill.

6. There has been deterioration in the machine-tool and capital-equipment sector of the Jamaican light manufacturing industry. This has led to the absence of a capability to produce tools, such as moulds and jigs, required in industry sub-sectors such as furniture and footwear.

However, in the context of an increased demand for machine-repair services, an opportunity would exist for further development of a machine-tool capability that would enhance the competitive prospects of the light manufacturing industry within Jamaica.

7. The Government considers light manufacturing to be a viable activity in the Jamaican economy and will seek to continue to facilitate development of such manufacturing oriented to efficient import substitution and penetration of export markets. Resuscitation of the machine tool capability within the Jamaican manufacturing sector is a crucial requirement. This is being supported through the production and technology thrust of JAMPRO, as well as other measures detailed in the core policies of the Industrial Policy.

CLUSTER #5

1. There exists a strong potential for development of an integrated mining and industrial chemical cluster in Jamaica. A crucial component of this is the existing bauxite and alumina industry. A complementary component lies in the production of limestone and one of its important derivatives, lime. Plans for significant expansion in this area are now being implemented. Further development of this cluster can occur through creating linkages between bauxite and alumina, limestone/lime and industrial chemicals such as caustic soda, in addition to the existing link between bauxite/alumina and sulphuric acid.
2. Existing studies by experts indicate that such linkages are both feasible and economically viable and can be generated in various ways. Jamaica has large reserves of very high quality limestone. With a Calcium Carbonate (CaCO₃) level of 99.5 per

cent, Jamaica's limestone is the best in the Americas. Lime, one of the significant derivatives from limestone, has many applications. One of these is in the bauxite and alumina industry. The Jamaican industry currently imports significant quantities of lime and could provide a market. In conjunction with imported soda ash, lime could be used in the manufacture of caustic soda. As it turns out, caustic soda is another important input in the processing of alumina.

3. Current developments in the world market for caustic soda make the formation of such a cluster a very timely move. In the past, putting in place the infrastructure for a caustic soda plant was economically risky because of the process by which caustic soda was produced, mostly as a by-product of chlorine. Given its by-product status, the price of caustic soda would vary widely based upon the vagaries of chlorine production. Furthermore, because of the environmental hazards of chlorine production, the increasing trend toward "green" production processes is making other methods of producing caustic soda more viable.
4. Plans are now being made for a number of projects that would form the backbone of the linkage between metallic minerals, non-metallic minerals, and industrial chemicals. One proposal involves the use of coal and soda ash in the production of cement, caustic soda, lime, and co-generated power, to be sold to the national electric grid. Another involves the use of oil or coal combined with soda ash to produce two grades of caustic soda, lime, power, sodium bicarbonate, and co-generated power. Another proposal involves the use of oil, salt and ethylene in the production of caustic soda, chlorine, polyvinyl chloride (pvc), and co-generated power. In addition, there are on-going projects involving the quarrying of limestone and the processing of lime from limestone, but these are not currently focused on moving to the processing of caustic soda.
5. The Government is actively supporting these moves through its efforts of investment packaging and is orienting the policy of infrastructure development to facilitate investment in these areas.

PART IV

POLICY IMPLEMENTATION

OPERATIONALISING THE POLICY

OPERATIONAL ISSUES

1. In approaching the task of operationalising the National Industrial Policy, it is necessary to take into account certain important factors.
2. First, there are no quick fixes. The Industrial Policy seeks to address deep structural problems prevalent in the Jamaican economy and society over a long period of time. Many of the solutions to these problems are intrinsically of a long-term nature. They require institutional and organisational changes that take time to work themselves out. They require investments in various projects, for instance in physical infrastructure, education, research and development, that yield a return only over an extended period of time. They require mobilisation of large amounts of resources (finance, etc.) simply to get started.
3. It is, therefore, necessary to focus on developing a sequenced strategy that will work to produce results in the short-term, in the medium term, and in the long term. It is necessary, also, to set realistic goals, feasible targets that can be met within the relevant time frame.
4. Most important, it is necessary to get the priorities right and in proper sequence.
5. In this respect, it is of great significance for getting started that the macroeconomic environment should be favourable. That is a matter of the first priority. Substantial progress must be made on this front, in ways which are strictly necessary for industrial policy to work, for instance by improving the state of long-term expectations through reduced inflation, stabilisation of exchange rate fluctuations, increased access to foreign exchange by exporters, reducing interest rates on finance for short-term working capital

and long-term investment in the productive sectors, and raising the factors of credibility and predictability in Government's economic policy.

6. At the same time, steps already taken to liberalise the trade regime, by cutting tariffs on imported inputs, by removing licensing and controls, and by reform of customs procedures, will have significant effects at the microeconomic level in terms of reducing direct input costs of firms and the inefficiencies arising from high transactions cost and rent-seeking activity.
7. There is much still to be done on these fronts. But, at this point, the timing is just right for moving ahead with the national effort on industrial policy as the next priority in a sequenced strategy geared to long-term growth and development of the Jamaican economy.

RECKONING WITH THE CONSTRAINTS

1. There are significant constraints to be reckoned with. They impose serious limits on the kind of policy that can be effectively developed and implemented. It is necessary to be realistic about what can be expected to be effectively accomplished within these constraints. The aim is, of course, to push out the constraints in the long term, but in the short-term there are real limits on what can be done.
2. On the side of the State, a serious constraint lies in the administrative capacity of state agencies. To address this constraint, it is necessary to pursue, vigorously, the public sector reform and modernisation programme.
3. There is also the financial constraint of the Government's budget which, given the obligations of the debt overhang, confines the room for social investment well within the limit of the revenue yield. Pushing out the revenue yield and actively pursuing reduction of the debt are required strategies to relieve this constraint in the medium- and longer-term. Industrial policy can have a feedback effect on the financial constraint from the revenue side, by stimulating growth in the productive sectors.
4. On the side of the private sector, there are real constraints, identified in the sector studies for the Industrial Policy Project and in other studies. These constraints are associated not only with factors outside the immediate control of the individual firm, such

as supply and reliability of infrastructure services, supply of skilled labour, and cost of finance, but also with internal factors of management, organisation, and labour relations. The Industrial Policy seeks to address these factors, working in the framework of a partnership between the State and the private sector.

5. There are also external constraints, associated with contingency factors in the international environment. The possibilities for growth of Jamaican exports, while being greatly influenced by what Jamaican exporters do to improve their competitiveness at all levels (in production, marketing, and distribution) and by the guidance and support provided by the Industrial Policy, depend to a significant extent, on long-term growth of the world economy and on recurring cycles in world production and demand. Long-standing arrangements for trade and aid in the framework of the LOME agreements are scheduled for gradual removal and elimination within a definite time frame.

The process of extension of NAFTA and the interim arrangements for relations with the Caribbean under CBI and other frameworks remain subject to overriding political factors. These considerations point to the need for developing a dynamic and flexible international trade policy that is directly linked with the thrust of industrial policy.

6. The existence of these multiple constraints does not mean that "our hands are tied" and there is little or nothing that can be done. It does not warrant negativism and pessimism. It means only that a way must be found to move within, and around, the constraints, and to move them out, so that the country can move forward in the drive for growth and development.
7. The Government seeks to provide leadership in this process and the National Industrial Policy provides the appropriate policy setting for that leadership.

SETTING TARGETS FOR THE NATIONAL EFFORT

1. The Government aims to put in place and implement the policies and measures called for by the National Industrial Policy, designed to give support and direction to the process of restoring economic growth and transforming the structure of the Jamaican economy.

Table 11.1
Indicative Targets

Performance Indices	1994 actual	1996- 1997	1998- 2000	2001- 2003	2004- 2006	2007- 2009	2010
1. Growth Rate of GDP Per Capita (average annual, %)	0	3.5	6.0	7.0	7.5	6.0	5.0
2. GDP Per Capita (US\$, 1994 prices)	1,605	1,738	1,988	2,414	2,985	3,604	4,000
3. Population (millions)	2.45	2.51	2.57	2.65	2.73	2.82	2.87
4. Exports (US\$ billions, 1994 prices)	2.67	3.30	4.34	5.71	7.49	9.20	10.35
5. Gross Investment (US\$ millions, 1994 prices)	1,219	1,353	1,587	1,986	2,531	3,148	3,565
6. Public Sector Investment Program (US\$ millions, 1994 prices)	285	644	586				
** share of gross investment (%)	23.4	47.6	36.9				
7. Private-Sector Investment (US\$ millions, 1994 prices)	934	709	1,001				
** share of gross investment (%)	76.6	52.4	63.1				
8. Unemployment Rate (%)	15.3	14.5	13	11	9	9	9
9. Poverty Rate (%)	28	24	18	12	8	5	2

Note: All measures are expressed on an average annual basis. 1994 exchange rate J\$/US\$ = 28.77.

2. The Government is determined to do its part in this process. But all must contribute by gearing up to meet the challenges involved at their respective points of decision-making and action. It has to be a national effort. The policies are set to facilitate the process and will be implemented expeditiously. At the same time, a creative and substantial response is called for by all decision-makers and actors if successful results are to be achieved.
3. It is necessary to have some clear markers to guide the process and to provide measures of success in meeting the goals and objectives of the Policy.
4. Accordingly, Table 11.1 (page 148) sets out the key performance measures and indicative targets to be used in evaluating success of the national effort and the time-frame for meeting them.
 - (a) The targets for the growth rate, GDP per capita, exports, investment, and employment, are designed to be consistent with initial conditions, feasibilities, and growth objectives identified in Chapter 3.
 - (b) The size of the Government's contribution to the overall investment effort is indicated in terms of commitments for the public sector investment programme under the Medium Term Policy Framework.
 - (c) The remaining part of gross investment represents the gap to be filled by private sector investment (local and foreign).
 - (d) The target for the poverty rate represents the expected outcome from overall growth of the economy, from Government's contributions under the Poverty Eradication Programme, from contributions of other agencies (local and foreign), and from the contributions by private sector firms to the national effort of poverty eradication.

IMPLEMENTATION STRATEGY

POLICY IMPLEMENTATION I: A SEQUENTIAL APPROACH

1. Implementation of the National Industrial Policy will proceed according to a three-phased overlapping sequence of strategies. This is shown in Table 12.1.

Table 12.1

Time-Phased Sequence of Implementation Strategies

1996	1997-1998	1999-2010
<i>Phase 1</i> Short-term Strategy: establish Social Partnership		
<i>Phase 2</i> Medium-term Strategy:	growth with stability	
<i>Phase 3</i>	Long-term Strategy:	export push and efficient import substitution

PHASE 1 (SHORT-TERM STRATEGY): ESTABLISHING THE CONDITIONS FOR THE SOCIAL PARTNERSHIP

1. The first phase has a time horizon of one year. In this phase, which is currently underway, various elements of the Policy are being implemented in tandem with the move to establish and maintain the conditions for a Social Partnership and get it to work effectively. The Social Partnership is being organised around the goal of growth and development with stability.
2. The strategy is to concentrate on implementing a package of economic measures aimed at achieving macroeconomic stability, specified in terms of reduced inflation, a decline in the level of interest rates, and exchange rate stability.
3. The Government is leading the way by taking the initiative in introducing these measures, as a matter of urgent and immediate priority. On the basis of these measures, the Government seeks to induce and call on all the major sectors of business and labour to adhere to a balanced adjustment of prices and incomes. At the same time, these measures will serve to prepare the way for orienting the economy to the medium-term strategic focus on growth with stability.

PHASE 2 (MEDIUM-TERM STRATEGY): GROWTH WITH STABILITY

1. The second phase, with a time horizon of three years, is geared to the twin priorities of maintaining the indispensable condition of macroeconomic stability and the complementary goal of stimulating investment and growth.
2. Measures to provide the appropriate environment of stability and predictability to facilitate long-term investment will be strengthened and reinforced. At the same time, the Policy is designed to shift the balance of investment decisions from short-term financial instruments to long-term investment in the productive sectors.
3. An aggressive export expansion programme is to be pursued, based on proven strengths in dynamic sectors of the economy that are ripe for expansion. Government budgetary allocations

to infrastructure, the incentive system, and a broad-based support framework, will be oriented to remedy bottlenecks and constraints facing producers in the targeted sectors.

PHASE 3 (LONG-TERM STRATEGY): EXPORT PUSH AND EFFICIENT IMPORT SUBSTITUTION

1. The third phase has a time horizon of 15 years. It will build on the groundwork laid in the previous phase. The Policy will focus on sustaining the results achieved by strengthening and deepening the measures already implemented and by introducing new policy initiatives so as to accomplish the following long-term objectives to:
 - diversify the structure of production and exports through product innovation, exploiting new niches, etc.;
 - move up the hierarchy of industries and technologies towards more technology-intensive and skill-using activities;
 - deepen the demand-led programme of human resource development;
 - increase productivity through sector-specific and micro-level programmes and incentives;
 - improve the scientific capability for innovation and product development;
 - upgrade and expand the base of physical infrastructure; and,
 - increase national savings.

POLICY IMPLEMENTATION II: INSTITUTIONAL MECHANISMS

1. Central direction, coordination, integration, and monitoring of the overall policy, will be provided by an inter-ministerial council, headed by the Prime Minister, and to be called the Development Council. The Development Council will seek to focus attention on meeting the fundamental objectives of the Policy and on assessing performance within the relevant time-frame.
2. The Council will be positioned within the Office of the Prime Minister. The Council will have at its service the necessary technical expertise and administrative support for policy research, analysis, strategic planning, and advice on economic matters.

POLICY IMPLEMENTATION III: PUBLIC SECTOR REFORM

1. The entire network of public sector agencies will be called upon to implement particular strategies, programmes, projects, and action plans, in line with the requirements of the overall Policy. Those agencies must therefore be structured and operated in a manner consistent with timely, efficient, and effective implementation of policy.
2. The programme of administrative reform that is already in operation, will be deepened and extended so as to put in place proper management systems, information systems linked into central data networks, upgrading of technical competencies of staff, appropriate compensation packages, and effective performance standards.

POLICY IMPLEMENTATION IV: ROLE OF THE SOCIAL PARTNERS

1. A consultative system will be put in place in order to allow systematic and regular interaction between the Government, business, labour, and NGOs. The aim is to promote an active partnership, on a continuing basis, so as to share ideas on policy and strategy formulation, to explore issues, and to resolve problems.
2. The existing National Planning Council constitutes one element of this system that, up to now, has served this purpose. It will be continued and strengthened in this role.
3. It will be supplemented and reinforced by the reactivation of Industry Advisory Councils with responsibility for focusing on industry and sector specific issues.
4. The Social Partners will decide the most appropriate machinery for consultations on monitoring whatever agreements are reached. This could include the National Planning Council.

APPENDIX

Table A.1
Growth Rate of Gross Domestic Product by Sectors, Sub-sectors, and Sub-periods,
1950-1994 (% per annum, Producer's Value, at Constant Prices)

Sectors	1950-1965	1969-1973	1974-1980	1981-1985	1987-1990	1991-1994	% Share of GDP (1994)
Agriculture, Forestry & Fishing	0.5	3.42	0.50	2.59	1.05	10.38	8.78
Export Agriculture	..	-3.90	-4.09	-0.68	1.62	-0.02	0.88
Sugar Cane	..	-2.28	-3.33	-3.76	5.21	-0.36	0.56
Other Main Exports	..	-5.97	-2.72	4.94	-1.95	1.40	0.32
Domestic Agriculture	..	12.24	2.48	2.90	-0.22	12.60	5.68
Root Crops	1.29	8.64	2.32
Other Primary Products	-1.43	15.87	3.36
Livestock & Hunting	8.47	-2.48	1.02
Forestry & Logging	-11.10	0.98	0.08
Fishing	-0.32	-0.32	0.29
Mining & Quarrying	14.7	11.64	-1.82	-10.83	14.98	2.60	9.27
Manufacture	6.3	5.35	-5.47	0.82	5.59	-2.18	18.54
Food (excl. Sugar)	..	3.40	-4.04	3.59	3.87	-3.03	2.98
Sugar, Molasses & Rum	..	-3.37	-3.87	0.06	1.75	2.04	0.56
Alcoholic Beverages	..	11.05	2.60	-2.92	7.49	-4.08	1.82
Non-Alcoholic Beverages	..	4.43	-2.40	-2.01	-5.35	1.06	0.32
Tobacco & Tobacco Products	..	6.60	1.49	0.48	2.78	-4.93	1.39
Textiles & Wearing Apparel	..	3.58	-8.90	5.48	4.60	13.25	1.33
Leather & Leather Products	..	-17.15	26.00	14.86	-11.37	-12.41	0.03
Footwear	..	-2.34	-9.03	0.98	6.34	5.71	0.22
Wood, Wood & Cork Products	..	2.28	1.74	1.12	2.18	-3.50	0.06
Furniture & Fixtures	..	15.25	-15.30	7.28	6.14	4.55	0.53
Paper & Paper Products, Printing & Publishing	..	11.05	-4.08	0.18	3.47	-5.36	0.67
Petroleum Refining	..	3.48	-3.47	5.14	12.23	-9.02	2.24
Chemicals, Rubber & Plastic Products	..	13.01	-6.09	4.22	9.21	-4.60	2.20
Non-Metallic Products	..	1.40	-11.24	11.27	12.20	2.01	1.17
Metal Products, Machinery & Equipment	..	5.11	-10.16	2.64	5.39	4.54	2.97
Other Manufactures	..	-0.30	-6.36	7.40	3.27	-14.07	0.05
continued ...							

Table A.1 (continued)
Growth Rate of Gross Domestic Product by Sectors, Sub-Sectors, and Sub-Periods, 1950-1994
(% per annum, Producer's Values, at Constant Prices)

Sectors	1950-1965	1969-1973	1974-1980	1981-1985	1987-1990	1991-1994	% Share of GDP (1994)
Electricity & Water	11.2	10.05	0.70	3.75	6.59	2.70	4.49
Construction & Installation	5.8	0.61	-12.04	0.96	12.15	-1.43	8.87
Distributive Trade	4.1	5.77	-5.60	-1.21	4.99	3.30	21.27
Transport, Storage & Communication	6.6	5.91	-2.01	2.97	5.95	5.80	11.38
Finance & Insurance Services	6.4	10.30	1.99	2.12	14.71	16.88	15.64
Real Estate & Business Services	2.3	3.99	0.65	0.45	3.98	4.25	8.31
Government Services	6.5	11.60	6.20	-1.86	0.21	-0.55	6.73
Miscellaneous Services	..	7.58	-3.94	3.08	4.98	0.52	4.06
Household & Private Non-Profit Institutions	..	12.93	-11.90	2.79	2.29	-7.19	0.49
Less: Imputed Service Charges	..	4.30	4.32	-4.16	16.50	24.04	16.99
Total GDP at Constant Prices	5.3	6.03	-2.59	0.25	5.74	1.09	100

Source: Calculated from data of STATIN in National Income and Product, various years.

Table A.2

Labor-Productivity, Employment Share, and Output Share, by Sector and Sub-Sector
(Average, 1992-1994)

Sectors/Sub-sectors	Labor Productivity J\$'000	Employment Share (%)	Output Share of GDP (%)
I. GOODS	20.26	42.83	44.57
Agriculture, Forestry, Fishing	5.88	25.10	7.43
Mining and Quarrying	239.49	0.73	9.00
Manufacturing	34.53	10.80	18.77
Construction and Installation	27.04	6.87	9.43
II. SERVICES	24.31	55.47	68.77
Electricity, Gas, and Water	167.19	0.50	4.47
Transport, Storage, and Communication	49.98	4.23	10.80
Finance, Insurance, Real Estate and Business Services	83.04	4.90	20.97
Wholesale & Retail, Hotels & Restaurant Services	24.18	20.43	25.13
Community, Social, and Personal Services	5.72	25.43	7.33
Less: Imputed Service Charges			13.33
AGGREGATE	19.69	100.00	100.00

Table A.3
Indices of Labor Productivity, 1986-1994
(1986 = 100)

	1986	1987	1988	1989	1990	1991	1992	1993	1994
I. Goods Producing Sectors	100.00	104.22	109.39	122.05	140.90	139.52	139.74	150.07	152.47
Agriculture, Forestry, Fishing	100.00	130.23	132.80	125.72	145.02	142.12	158.52	195.5	212.86
Mining	100.00	102.46	97.87	124.42	135.82	202.62	173.64	129.57	158.89
Manufacturing	100.00	88.84	90.48	98.69	126.88	128.22	125.94	128.93	131.77
Construction	100.00	94.03	93.55	91.87	90.04	88.60	87.64	82.98	72.81
II. Services Producing Sectors	100.00	105.98	101.88	107.28	100.04	101.07	107.68	106.30	111.70
Aggregate Productivity	100.00	105.98	101.88	107.28	114.21	113.62	115.45	117.04	115.80

Source: Calculated from data of PLOJ, in Economic and Social Survey Jamaica, various years.
Note: Productivity is measured as the ratio of sectoral GDP (in constant J\$) to sectoral employment.

Table A.4
Exports of Jamaica
(US\$millions)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Merchandise Exports											
Traditional	568.6	590.8	709.2	883.0	1,000.4	1,157.5	1,150.7	1,053.6	1,075.4	1,219.5	
Non-Traditional	381.0	404.6	467.8	619.4	712.6	899.6	835.4	735.6	713.2	777.0	
Re-exports	154.1	162.5	224.5	241.7	252.6	223.1	226.5	296.0	345.1	405.8	
Services	33.5	23.7	16.9	21.9	35.2	34.8	88.8	22.0	17.1	36.7	
Tourism	697.6	821.6	925.0	1,189.6	1,172.9	1,170.8	1,097.8	1,241.9	1,407.7	1,454.1	
Other Services	406.8	516.0	594.9	525.0	593.0	740.0	764.0	858.1	942.6	919.0	
Total Exports	290.8	305.6	330.1	664.6	579.9	430.8	333.8	383.8	465.1	535.1	
Growth Rate (%)	1,266.2	1,412.4	1,634.2	2,072.6	2,173.3	2,328.3	2,248.5	2,295.5	2,483.1	2,673.6	
Growth Rate (%)	-8.0	11.5	15.7	26.8	4.9	7.1	-3.4	2.1	8.2	7.7	

Sources: PIOJ, Economic and Social Survey Jamaica, various years; BOJ, Balance of Payments, various years; STATIN, External Trade, various years.

Structure of Saving and Investment, 1969-1994

	1969-1989	1986	1987	1988	1989	1990	1991	1992	1993	1994
Financing of Gross Domestic Investment (%):										
Gross National Saving	64.8	82.1	67.0	92.7	58.1	61.6	69.5	102.1		
Net Saving	23.6	35.9	27.5	62.8	30.8	33.8	41.5	74.9		
Depreciation	41.2	46.2	39.5	29.9	27.3	27.8	28.0	27.2		
Foreign Financing	35.2	18.0	33.0	7.3	41.9	38.4	30.5	-2.1		
Net Capital Transfer	2.3	11.9	6.9	6.9	18.6	9.8	9.7	10.0		
Net Borrowing	32.9	6.1	26.1	0.4	23.3	28.6	20.8	-12.1		
Gross Nat. Saving/GDP (%)	14.7	15.2	14.9	23.9	16.7	17.2	19.0	29.1		
GFCF/GDP (%)	21.9	17.5	21.3	25.0	27.9	27.4	26.3	31.1	32.2	31.0
ICOR (net)			1.29	3.35	2.82	3.93	21.1	16.2		
Composition of Fixed Capital Formation(%):										
Construction		50.7	47.4	53.5	52.0	43.0	50.1	49.2		
Transport Equipment		10.8	11.5	17.4	13.9	21.1	18.7	18.3		
Other Machinery & Equipment		38.5	41.1	29.1	34.1	35.9	31.2	32.5		

Source: Calculated from data of STATIN, in National Income and Product, various years.
Definitions: GFCF/GDP = ratio of gross fixed capital formation to gross domestic product;
ICOR = incremental capital output ratio (net of consumption of fixed capital).

Table A.6
Share of Major Items in Total Budget
 Actual, 1990/91 - 1993/94
 (Percent, J\$ January 1988)

Budget Items	1990/91	1991/92	1992/93	1993/94	1994/95
General Administration	8.8	9.6	7.8	6.8	
Security Services	8.6	7.4	7.7	10.9	
Police	4.7	3.8	1.4	6.5	
Defence	2.5	2.4	5.1	2.7	
Prisons	0.8	0.7	0.7	0.9	
Other	0.7	0.6	0.5	0.8	
Social Services	30.3	25.1	22.7	28.6	
Education	13.7	12.4	11.0	14.2	
Health	7.4	6.4	7.2	7.9	
Water	2.1	1.2	0.1	0.9	
Housing	0.5	0.3	0.3	0.7	
Welfare	3.2	2.6	2.4	3.0	
Other	3.4	2.2	1.7	1.9	
Economic Services	13.5	10.7	11.3	11.0	
Roads	2.4	1.9	2.6	3.2	
Agriculture	2.4	2.7	2.5	2.1	
Other	8.6	6.0	6.1	5.7	
Debt	38.9	47.2	50.5	42.7	

Source: Memorandum on the Budget, Ministry of Finance & Planning

By Consumer Category
 (US cents/kwh)

Country	Domestic	Commercial	Industrial	Overall
Venezuela	0.79	2.31	1.61	1.57
Brazil	4.75	5.65	2.86	4.42
Trinidad & Tobago	4.00	4.00	5.50	4.50
Ecuador	3.59	8.22	8.30	6.70
Mexico	4.54	12.49	4.89	7.31
Costa Rica	6.00	10.33	8.74	8.36
Chile	11.81	9.96	6.91	9.56
Guyana	7.78	11.80	10.36	9.98
Dominican Republic	8.92	11.85	10.70	10.49
Jamaica	13.50	13.00	11.50	12.67
Barbados	14.00	14.00	14.50	14.17
Argentina	11.85	21.08	18.30	17.08
Dominica	21.50	24.00	22.00	22.50
Antigua	23.00	24.00	23.00	23.33

Source: CARILEC 1994 Tariff Survey/ OLADE Report, July 1994

Table A.8
Estimated Average Hourly Wages
for Direct Labour Operators
in Apparel Industry
 (August 1994, US\$)

Country	Avg. hourly wage
Costa Rica	2.22
Mexico	1.88
Jamaica	1.54
El Salvador	1.47
Dominican Republic	1.46
Guatemala	1.27
Honduras	1.14

Source: Bobbin Magazine,
 November 1994.

Table A.9
Index of Hourly Wages and Unit Costs in
the International Clothing Industry, 1992
 (Percentage, Germany = 100)

Economy	Avg. hourly wage	Unit costs
Developed Economies		
Austria	66	75
Denmark	105	110
France	58	75
Germany	100	100
Italy (North)	102	101
Italy (South)	68	81
Portugal	22	43
Spain	38	60
Switzerland	92	97
Turkey	20	45
United Kingdom	50	63
United States	44	85
Developing Economies		
Dominican Republic	3	32
Hong Kong	19	39
India	2	32
Jamaica	5	30
Malaysia	5	29
Mexico (US border)	9	37
Morocco	7	34
Sri Lanka	6	39
Taiwan	21	43
Tunisia	10	35
Viet Nam	2	28
Central & E. Europe		
Czechoslovakia	6	26
Estonia	4	29
Poland	7	30
Slovenia	12	36

Source: United Nations, World Investment
 Report, 1994

Sectors	Incentives	Requirements/Conditions	Concessions
Manufacturing	Bauxite and Alumina Industries Encouragement Act	Must be engaged in mining of bauxite or production of alumina in Jamaica.	Import duty concession on capital items, lubricating oils, grease, and other chemicals. * Exemption from income tax for up to ten years. * Exemption from import duties on raw materials and machinery.
	Export Industry Encouragement Act	Designed to encourage export manufacturing to hard currency markets. All products must be exported to non-CARICOM countries	* Exemption from income tax on profits in perpetuity. * Duty relief on raw materials in perpetuity.
	Jamaica Export Free Zone Act	All transactions by the Free Zone company must be conducted in U.S. currency. Company cannot sell finished products on the local market.	as above
	Jamaica Export Free Zone Act	as above	Income tax and duty concession for five to ten years, and is renewable.
Information Processing	Approved Farmer Status	Farmer must grow certain crops. Most agricultural products qualify for concessions. Companies involved in hatching eggs also qualify.	* Income tax relief for nine years. * Duty free importation of plant, equipment, and machinery.
Agriculture	Motion Picture Encouragement Act	Must be a recognized motion picture producer. Interpreted to mean making and producing motion pictures and distributing, selling, licensing, renting, exporting, transmitting, or otherwise disposing or exploiting such motion pictures.	* Income tax relief for up to seven years. * Duty free importation of building materials and furnishings.
Film	Hotel Incentives Act	A hotel is any building or group of buildings containing not less than ten bedrooms and facilities for meals, for the accommodation of transient guests including tourists, for reward.	
Tourism			

Table A.10 (continued)
Investment Incentives Available in Jamaica

Sectors	Incentives	Requirements/Conditions	Concessions
All Industries	Foreign Sales Corporation Act		* Relief from Common External Tariff (CET) and General Consumption Tax (GCT) on equipment, machinery & materials. * Exemption from income tax for five years.
	International Finance Companies (Income Tax Relief) Act Shipping (Incentives) Act	To encourage establishment of offshore banking facilities.	Income tax relief on profits and capital gains. Relief from income tax and import duties for ten years.
	Moratorium on Duties	Granted to companies which do not qualify under existing incentives legislation and have the potential to contribute significantly to foreign exchange earnings, employment, etc.	Moratorium for up to three years, to be granted by Minister of Finance.
	Modernization of Industry	The company must provide relevant support service or raw material to export manufacturer; or be involved in export trade or plan to enter export market	Relief from GCT on capital goods.
	Urban Renewal (Tax Relief) Act	Granted to organizations or persons who carry out development in urban areas suffering from blight or decline, with a view to improvement or restoration of those areas. The Act provides incentives for persons who purchase bonds issued for funding such development.	Relief from income tax, stamp duty, and transfer tax.

Table A.10 (continued)
Investment Incentives Available in Jamaica

Sectors	Incentives	Requirements/Conditions	Concessions
Manufacturing Operations/ Industrial Activities	Accelerated Depreciation/ Special Capital Allowance	Qualified businesses must be certified by Ministry responsible for the industry.	A certified business is allowed to deduct 50% of full cost of any new machinery in the year of purchase, and a further 50% in the following year of assessment.
Data Processing/Systems Development	as above	Qualified business must derive at least 20% of gross income from exports.	as above

Note: Details of items eligible for duty free importation are specified in the schedule provided in the relevant legislation.

DEVELOPMENT OF THE NATIONAL INDUSTRIAL POLICY

In 1993, the Government of Jamaica stated its intention to present to the nation a National Industrial Policy aimed at addressing the critical constraints to investment and production, and facilitating development of the competitive advantage of Jamaican industries. This initiative arose out of earlier discussions leading up to a national conference held in 1992, on the occasion of Jamaica's thirtieth anniversary of Independence.

In the ensuing period, various activities were undertaken with a view to ensuring a high degree of national consensus, active involvement of a wide cross-section of individuals and groups, and systematic analysis of the issues involved in industrial policy. These included the following:

1. Public fora, conferences, and discussion meetings were held throughout the country, facilitating a broad base of public participation.
2. Preparation of the Green Paper: "Towards a National Industrial Policy." This paper was tabled in Parliament on May 18, 1994, and Cabinet approved certain decisions regarding the further development of the Policy.
3. Detailed studies of sectors/industries were conducted by consultants, on the basis of interviews, surveys, focus-group discussions, as well as analysis of data and statistical performance indices.
4. Reports were prepared on an overall evaluation of international competitiveness of Jamaica's exports and on studies of specific sectors: Agriculture, Manufacturing, Tourism, Entertainment, Information Technology.
5. A Conference on National Industrial Policy (sponsored by the Government of Jamaica and United Nations Development Programme) was convened on May 29-30, 1995, after the reports were completed, to facilitate review and discussion of the findings by members of the industry and interested persons from the private sector, trade unions, academic community, and other groups.

6. Drafts of the Policy, incorporating the findings and recommendations of the consultants' reports as well as the results of various consultations were prepared for review and discussion in further rounds of consultation culminating in this document.

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