Panadeiros, Monica; Benfield, Warren

Working Paper
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IDB Working Paper Series, No. IDB-WP-128

Provided in Cooperation with:
Inter-American Development Bank, Washington, DC

Suggested Citation: Panadeiros, Monica; Benfield, Warren (2010) : Productive Development Policies in Jamaica, IDB Working Paper Series, No. IDB-WP-128, Inter-American Development Bank (IDB), Washington, DC

This Version is available at:
http://hdl.handle.net/10419/89111

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Productive Development Policies in Jamaica

Mónica Panadeiros *
Warren Benfield**

*Foundation for Latin American Economic Research
** Sir Arthur Lewis Institute of Social and Economic Studies,
The University of the West Indies

Inter-American Development Bank
2010
Abstract

Jamaica seems to be a puzzling case for economic growth: despite the structural reforms implemented in the last three decades and adequate investment levels, real GDP per capita is roughly the same as in 1970. The disappointing performance of this economy suggests that productive development policies (PDPs), including first-generation reforms, have not been enough to create a better environment for productivity growth. This paper examines the PDPs in Jamaica and concludes that behind the paradox of high investment and low growth of this economy are the “public debt trap” and a highly distortive tax incentive structure to attract foreign direct investment (FDI) and promote exports. Although industrial policy is moving towards a more modern conceptual design, the old schemes seem politically difficult to dismantle.

JEL classification: L52, O25, O54.
Keywords: Productivity, Industrial policy, Foreign direct Investment, Jamaica

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1 The authors wish to thank Dacia Leslie for her insights and contributions to this paper.
1. Introduction
Even when the economic strategy adopted in the 1990s called for dismantling the productive development policies (PDPs) that had been set in the past, most countries in Latin America and the Caribbean went on applying some of them. These policies responded to a diversity of prevailing foundations for government interventions and/or were a consequence of the significant influence of pressure groups. Many Latin American economies already carry out various forms of industrial policy, but in most cases it is likely that such scattered PDPs cannot be justified on a solid basis according to modern economic principles (Rodríguez-Clare, 2004). These principles take into account not only the failures which these policies intend to address and the extent to which they “hit the target,” but also the institutional features concerning the design and implementation process.

A major obstacle to undertaking any critical assessment of PDPs in the region, especially from an analytical point of view, is limited information on the scale of interventions. This study, part of an extensive research project involving several country studies, intends to fill this gap by analyzing the industrial policy of Jamaica.

Jamaica seems to be a puzzling case for economic growth; despite the macroeconomic and structural reforms implemented in the last three decades and investment at levels sufficient to permit an average annual growth rate of 4 to 6 percent, the current GDP per capita at constant prices is roughly the same as it was in 1970. The disappointing performance of this economy suggests that current PDPs, including first-generation reforms, have not been sufficient to create a better environment for productivity growth. The analysis of existing PDPs may help answer the question of why social returns to investment are so low.

This study is organized as follows: Section 2 presents a discussion of the long-term performance of the Jamaican economy, its strengths and weaknesses, the main characteristics of the private sector and the way in which different actors have historically interacted within it and with the government. Section 3 examines the general landscape of PDPs currently applied in Jamaica, highlighting how different sectors or activities are affected, and the kinds of failures they are intended to address. The analysis then focuses on a selected group of five illustrative PDPs (Section 4). Taking into account the relevant literature, the study seeks to conduct a critical review, assessing the theoretical justification for the implementation of each of these policies, the technical design features of the PDP (such as instrument chosen, incentives and penalties, and
accountability), and the institutional arrangements involved in the design, implementation, evaluation, and eventual deepening or disrupting of the policy according to results. Section 5 contains concluding remarks and proposes some guidelines that should be considered for the redirection of the country’s PDPs, particularly those that seem to be important determinants of Jamaica’s economic performance.

2. Economic Growth in Jamaica

2.1 Growth-Investment Paradox

Historically, the Jamaican economy has been based on agriculture and dependent on a few staple export crops, primarily sugar and bananas. New economic development began with bauxite mining (after 1952) and the tourism boom in the 1950s and 1960s. However, the brisk economic growth of those years was followed by modest performance. Since 1991, annual real GDP growth has averaged 1 percent, only a few sectors—tourism, telecommunications, and bauxite—have been dynamic, and the unemployment rate remained over 10 percent. Presently, Jamaica, with a GDP per capita of nearly US$3,700, is the second largest economy in the Caribbean community (CARICOM) and is classified as a lower middle-income developing country.

Figure 1. Economic Growth in Jamaica (1993=100)

Source: Bank of Jamaica.
Since 1980, the government has been engaged in a program of macroeconomic and structural reform, which advanced significantly during the 1990s. This included removal of price controls, trade liberalization, tax reform, privatization of several government-owned entities, and a restructuring of the financial system. Relatively successful in reducing inflation although incomplete as the state still plays a large role in the economy, these market-oriented reforms have failed to deliver sound policy outcomes. In this sense, Jamaica seems to be a puzzling case for economic growth.²

The causes are complex, but a key factor has been the heavy burden imposed by a long history of high public debt, which ballooned to nearly 150 percent of GDP after the banking crisis in the mid-1990s, reversing the declining path observed in the first part of that decade. The public debt currently stands at 128 percent of GDP, with service payments amounting to 16 percent of GDP.

High debt requires increased tax collection³ in order to obtain a considerable primary surplus (currently around 9 percent of GDP).⁴ It also creates the need for external borrowing, making the economy vulnerable to fluctuations in the international bond market. Additionally, because much of the government’s financial needs may have been provided by the domestic financial system,⁵ this also may have helped to keep interest rates relatively high, making access to finance for the private sector limited and expensive.

High public debt seems to have a more adverse impact on productivity than on investment. In fact, investment rates are high, averaging over 25 percent of GDP in the last 15 years as Jamaica has been relatively successful in attracting foreign direct investment (FDI) in tourism and bauxite. These sectors are largely shielded from country-specific risks through tax incentives, but they have limited backward linkages. Therefore, the “debt overhang” appears not

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² The Heritage Foundation publishes an Index of Economic Freedom, and its most recent version indicates that the Jamaican economy is the world’s 45th freest. Its overall score is higher than the regional average, ranking 10th out of 29 countries in the Americas. Nonetheless, it has a lower degree of freedom compared with other Caribbean countries, namely, Trinidad and Tobago and Barbados. Jamaica scores very well in investment freedom and business freedom but is weak in government size and corruption (Heritage Foundation, 2008).
³ At present, tax revenues are about 25 percent of GDP.
⁴ A primary surplus of 10 percent of GDP will be required to stabilize the public debt ratio. See, for example, Artana and Navajas (2004).
⁵ Jamaica has maintained macroeconomic stability for an extended period despite its persistently high public debt levels. An important factor in this regard has been the country’s ability to rely on local financial markets (approximately 50 percent of public debt is domestic).
to have so much reduced investment, the way that debt usually affects growth, but rather skewed it towards safer but lower-return activities and industries.

Furthermore, high debt service, which represented about a third of expenditures in the first half of the 1990s and grew to more than 40 percent in recent years, limits the government’s ability to channel funds into social and physical infrastructure. Given the complementarities between public and private investment, countries with very low public investment, such as Jamaica, appear to grow more slowly, even if private investment remains high. There is some evidence that high debt is behind the poor performance as well as the paradox of high investment and low growth of the Jamaican economy (IMF, 2008).

**Figure 2. Comparative Investments and Economic Growth**

![Gross capital formation (% of GDP)](chart1)

![GDP growth (annual %)](chart2)

*Source: World Development Indicators.*

Another possible reason usually advanced for the coexistence of a relatively high investment-to-GDP ratio and low economic growth is the increasing significance of the informal sector in the Jamaican economy. In 1991, the informal economy represented 12.9 percent of GDP, rising to 40 percent in 2000 and, according to the IMF (2008), currently greater than 40 percent. The increase in informality means that both GDP and investment may have been underestimated, but as these activities are usually labor-intensive, the underestimation of GDP is probably even greater.6

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6 According to the IMF country report, the average GDP growth underestimation between 1991 and 2000 may be as high as 3 percent, or 2.7 percent higher than official estimates. Besides informality, computation of the national...
Informal activities are very often of low value added, have limited potential for productivity growth, low capacity for physical and human capital accumulation, and limited access to international markets. However, in Jamaica, this characterization may not be very accurate, as the informal sector is very complex. It includes the illegal trade in ganja (marijuana) and other drugs, as well as music and entertainment, which has been one of the most creative and dynamic sectors of the economy that employs domestic capital.

Another explanation for the investment/growth paradox may be that capital created in the early 1990s was used to strengthen public safety. Crime increased sharply in the period, reaching one of the highest rates of intentional homicide in the world (44 per 100,000 inhabitants). This evolution reflects severe social problems resulting from high unemployment, organized crime associated with the drug trade, and urban slums. A 2004 World Bank study estimates expenditures on security at around 4.4 percent of GDP, with an astonishing 1.3 percent of GDP expended on private security.\(^7\)

High investment can also reflect an inefficient substitution of capital for labor due to rising and high real wages pushed by powerful trade unions, labor rigidities, and a flawed tax system that favors capital expenditures, even less productive ones.

Finally, Jamaica is highly vulnerable to natural disasters (hurricanes and floods), which can cause macroeconomic volatility, important losses, and constraints on growth.

The trend of high investment and low growth implies a decline in productivity of 0.5 percent per year from 1960 to 2000, compared to a 0.9 percent increase in the world average (Downes, 2004).

\subsection*{2.2 Private Sector Environment}

Jamaica is a relatively open economy, underpinned by four pillars: tourism, alumina, remittances, and the informal sector. Within a narrow export base, tourism has been the main source of foreign exchange earnings since the 1990s: it generates 37 percent of exports, and employs 20 percent of the labor force both directly and indirectly. Exports of goods are about 18 percent of GDP, and about half of them are bauxite and alumina.\(^8\) Remittances grew tenfold account is difficult because services, which are hard to measure, account for more than 70 percent of GDP, and income from relevant activities such as tourism can be recorded abroad.

\(^7\) According to the Heritage Foundation (2008), the police force is understaffed.

\(^8\) Virtually all exports of alumina go to a plant located in the United States.
since the early 1990s, to a level equivalent to 18 percent of GDP,\(^9\) causing the economy to be heavily dependent on these inflows.

As previously mentioned, the informal sector is estimated to represent more than 40 percent of GDP. Additionally, formal firms undertake informal activity by performing a proportion of their work outside their normal accounting systems in order to reduce their tax burden (Holden and Holden, 2005).

The rest of the economy, although diverse, lacks modernization and dynamism. It consists of the “traditional sectors,” older manufacturing and industry, which include garment production and agriculture, mainly sugar\(^10\) and bananas. Manufacturing and agriculture together amount to about 22 percent of GDP and have been declining because of the economy’s fall in competitiveness, loss of preferences, and the reduction in import barriers.

The sharp decline in competitiveness took place during the 1990s, as the real exchange rates soared, making it difficult for suppliers of locally produced goods and internationally traded services to compete effectively. More recently, trends in the real exchange rate have been reversed, and competitiveness indicators suggest that its current level is appropriate (IMF, 2008).

The analysis from an ex-ante point of view, that is, the analysis of factors expected to create a competitiveness-supporting economic environment, suggests that much remains to be done to enhance the business climate for enterprises to operate and to be more competitive.

The Global Competitiveness Report, which came out of the World Economic Forum 2008, ranked Jamaica 86\(^{th}\) out of 134 countries on the Global Competitiveness Index (GCI).\(^11\) Of the 24 Latin American and Caribbean countries included in the study, Jamaica was ranked 13\(^{th}\), better than Trinidad and Tobago (92\(^{nd}\)) and Dominican Republic (98\(^{th}\)), but lagging behind Barbados (47\(^{th}\)), Costa Rica (59\(^{th}\)), and El Salvador (79\(^{th}\)).

The CGI captures a number of dimensions related to competitiveness, which are grouped into different yet broader categories (“pillars”) representative of the main components of this concept. The scores for these pillars show that macroeconomic stability (basically, government debt) and market size (not only the domestic market) are the main aggregate competitive disadvantages: Jamaica is ranked 130\(^{th}\) and 98\(^{th}\) in these components respectively (in a 134-

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\(^9\) The control of the inflation rate in a low-growth economy along with remittances from abroad enabled incomes to rise above the poverty line (Downes, 2004).
\(^10\) Once a major sugar producer, Jamaica is now a net sugar importer.
\(^11\) The GCI is a highly comprehensive index for measuring national competitiveness, which captures the microeconomic and macroeconomic foundations of national competitiveness.
country sample). However, detailed results concerning each of the indicators entering the composition of the CGI suggest that the business costs of crime and violence represent the most significant competitive disadvantage in the Jamaican economy. Other important obstacles to achieving competitiveness are: taxation, poor railroad infrastructure, corruption, quality of the educational system, lack of cooperation in labor-management relations, brain drain, limited access to credit, and the availability of venture capital.

**Figure 3. Global Competitiveness Index: Scores by Pillar (2008)**


The Global Competitiveness Report includes the results of an Executive Opinion Survey on the most problematic factors for doing business. In the case of Jamaica, respondents indicated that criminal activities, which necessitate high security expenditures, appear to be eroding the competitive advantages of Jamaican enterprises.

Another important problematic factor is related to bureaucratic red tape, which increases the cost of doing business in Jamaica. Holden and Holden (2005) point out that Jamaica’s bureaucracy is described as overwhelming and crushing, and the bureaucratic process as cumbersome.

Financial constraints also represent a relevant limiting factor. The government’s claim on credit resources crowds out the private sector’s access to credit. Therefore, bank lending is concentrated in a few sectors, causing interest rates to rise. Additionally, financial instruments
that are commonplace in other countries are not available, and the exchange market is underdeveloped.

The complicated and discretionary tax system is considered a competitive disadvantage. According to the World Bank’s Doing Business Survey (2008), Jamaica currently ranks 170 out of 178 countries in the difficulties associated with paying taxes. This induces extensive informality and contributes to dishonest and illegal dealings in an environment where corrupt practices are a major concern. Powerful established enterprises usually engage in lobbying and rent-seeking behavior in order to maintain their preferences.

Human capital constitutes a special concern. Considered a country of medium human development with good indicators in basic education, Jamaica has severe problems forming and retaining human capital. The economic stagnation experienced by the country in the last three decades and the increased incidence of criminal activity have stimulated greater levels of emigration, which has led to the loss of a significant portion of the most skilled labor force to the U.S. and Canadian markets. This loss of human resources, which is not easily replaced at the same level of proficiency, retards the growth of labor productivity in Jamaica.

Beyond the education of the work force, some businessmen characterized the functioning of the labor market as a factor that severely restrains private sector development in the country. This seems paradoxical, as the percentage of the total working population that is unionized is not large and labor regulations are not especially rigid. The problem arises as unions are powerful, the work ethic in the labor force is poor, and procedures (not costs) surrounding dismissals are complicated.

In summary, the competitive disadvantages of the Jamaican economy suggest that current PDPs, including first-generation reforms, have not been sufficient to create a better environment for productivity growth.

2.3 Concluding Remarks
Jamaica needs to escape from the “debt trap”: at 80 percent, the ratio of debt service to fiscal revenue is a key vulnerability to be addressed, and it is behind the poor performance and the paradox of high investment and low growth of the Jamaican economy. In turn, persistent low economic growth magnifies the impact of the fiscal crisis. The only way out of the current situation is for the country to experience much more rapid growth than has been registered in the
past. This will require investment and productivity gains, as increased growth has to be part and parcel of the debt reduction strategy.

Structural reforms are the key to moving towards this objective. Fiscal policy may help to achieve higher growth by reducing public debt burden and then real interest rates. As causality between growth and debt runs in both directions, it is possible to bring about a virtuous cycle of lower debt and higher growth by simultaneously tackling both the debt problem and the investment climate.

However, improving the conditions that create a competitiveness-supporting economic environment, although necessary, may not be sufficient to foster productivity and enhance economic growth. Industrial policies, or PDPs (microeconomic interventions) aimed at correcting various kinds of market failures that impede efficient resource allocation are also determinants of competitiveness.

3. An Overview of Productive Development Policies in Jamaica

As part of the sound economic reform that took place over the last three decades, Jamaica has dismantled most of the PDPs that existed at the beginning of the 1980s, including those related to international trade. Jamaica is a founding member of the Caribbean Common Market (CARICOM), which began unilateral trade liberalization in 1992, when the revised Common External Tariff (CET) came into effect. This movement toward greater integration into the world economy has intensified with the implementation of several free trade agreements.

Nonetheless, the government remains involved in trading activities through a number of commodities boards and the Petroleum Corporation of Jamaica (PCJ). Commodities boards were introduced to monitor the quality of agricultural products exported. Even though their roles have been reduced over time, they still have regulatory powers, and they have become more involved in providing services. The PCJ was established in 1979 with the purpose of searching for oil and gas and to be the lowest-cost provider of these products. Its current efforts are concentrated on the purchase of petroleum, property management, and the search for alternative sources of energy.

The government is also involved in commercial activities in agriculture, mining, utilities, banking, and transport, through a number of publicly owned companies that are commercial. During the last three to five years, the government has been undertaking various steps to
restructure some of these firms (including liquidation of redundant ones). Most of them are expected to play a regulatory and/or promotional role in creating the environment for markets to develop in emerging sectors and industries.

More important than these interventions are the complicated and comprehensive incentive schemes which focus on selected sectors of the economy, and undoubtedly dominate the industrial policy and are today still maintained (Holden and Holden, 2005). Through tax incentives, tourism is one of the most favored activities. The Hotel Incentives Act provides income tax relief and import duty concessions for up to 10 years for approved hotel enterprises, and 15 years for convention-type hotels having an aggregate number of no less than 350 bedrooms. The Resort Cottages Incentives Act provides recognized resort cottages with income tax relief for up to seven years and import duty concessions on imported building materials and furnishings. The recently instituted Attractions Incentive Regulation has benefits which include the importation of specific items free of general consumption tax and customs duty for five years and a five-year exemption from corporate taxes for investors.

Another well-established area of the Jamaican economy is the bauxite and alumina sector, which is also favored with tax relief. Under the Bauxite and Alumina Industries Encouragement Act, a business engaged in these activities automatically qualifies for import duty concessions on capital goods, lubricating oils, grease, and other chemicals. Within the mining sector, the oil refineries are benefited with tax incentives, too. The Petroleum Refinery Encouragement Act provides these firms with relief from customs duties and general consumption tax on imported articles used in the construction, manufacture, and operation of the refineries. In addition, the companies are entitled to relief from income tax, including that on dividends paid to shareholders for a period of up to seven years; after this, the companies have six years to carry forward net losses incurred during that period.

Through the Approved Farmer Status policy, for certain products, the agricultural sector is exempted from income tax for ten years, general consumption tax for 10 years on capital equipment, Common External Tariff (CET) and stamp duties on raw material import, and 20 percent duty on importations of specific categories of vehicles.

Investments aimed at producing films in the country can also benefit from incentives under the Motion Picture Industry Encouragement Act. Under this Act, the following benefits are granted: i) relief from income tax for a period not exceeding nine years, after the first release of
the motion picture; ii) an investment allowance of 70 percent of the total expenditure on the production facilities, with a carry forward of the unused portion; iii) exemption from the payment of import duty on equipment, machinery and materials for the building of studios or for use in motion picture production; iv) no withholding of tax on dividends paid to resident shareholders with investments in film companies; v) General Consumption Tax rebate of 16.5 percent for films, on all goods and services purchased in Jamaica. Within the entertainment industry, music is also promoted by providing musicians with duty-free importation of “tools of trade,” as long as they belong to the formal economy.

Similar benefits are granted to approved shipping corporations under the Shipping (Incentives) Act. Under the Act, beneficiaries receive exemptions from income tax payments for ten years (with a carry forward of six years), exemption from the payment of import duty on any ship, and on articles imported for the construction, repairing, etc. of a ship, and tax on dividends paid to resident shareholders is not withheld.

The manufacturing sector is one of the most targeted to benefit from a number of incentives. Some of them are oriented to encourage investments, such as the Modernization of Industry Programme (waiving of general consumption tax on the acquisition of machinery and equipment directly related to the manufacturing process), Customer User Fee Waiver (waiving of the Customs User Fee on capital equipment and raw material for the first three years of operation of the entity), Accelerated Depreciation Programme/Special Capital Allowance (special allowance on capital expenditure for 50 percent of full cost in the year of purchase and the remaining 50 percent the following year), and the Factory Construction Law (for construction of factories leased or sold to producers, there are exemptions from import duties for items not available in the local market, and from income tax on income related to the leasing or sale of the specific unit constructed). On top of this, some institutions, such as the Development Bank of Jamaica, provide financing for investment projects under concessionary conditions.

In an effort to promote offshore banking, the International Financial Companies Act provides international companies with income tax relief on both profits and capital gains. Other pieces of legislation are oriented to export promotion to non-traditional markets. Conditioned to be a full exporter, the Export Industry Encouragement Act provides exemption from income tax for ten years and import duties on raw material and machinery for ten years as well, and being a partial exporter (threshold of 5 percent) this Act concedes an import tax rebate
according to the percentage of export profits to total profits.\textsuperscript{12,13} The Jamaica Export Free Zone Act enables manufacturers—conditioned to sell no more than 15 percent of their production on the domestic market—to benefit from income tax relief on profits and exemption from import duties and licensing. Free Trade Zones (FTZs) offer service operations (banking, data processing, etc.), warehousing, storing, and distribution facilities for trade, trans-shipment, and re-export operations. Export promotion is also carried out through financing schemes. The National Export-Import Bank (EX-IM Bank) provides a wide range of loan programs (at an average rate much lower than the market rate) geared specifically toward export development.

In order to attract FDI, a liberal regime has been implemented as part of the structural reforms undertaken. It represents great strides over the 1970s and 1980s, when the climate for foreign investment was very restrictive. At present, there is no specific legislation on foreign investment in Jamaica. Thus, the tax benefits provided through different norms are accessible both to local and foreign firms.

The promotion policies described include some amendments incorporated in response to the industrial strategy formally set in the National Industrial Policy – A Strategic Plan for Economic Growth and Development (NIP), 1996-2010. The NIP is intended to foster greater collaboration between the private sector and the government (the so-called Social Partnership among government, workers, and employers) in order to elaborate the details of the strategy and implement related policies. However the underlying assumption of the NIP is that the government is the master strategist in economic affairs.

This plan aims to achieve annual GDP growth of between 6 and 7.5 percent and to reduce unemployment. Recognizing the pivotal role of the export sector to the country’s development, the NIP emphasizes an aggressive export-oriented (to triple the value of exports), private sector-led development strategy coupled with a program of import substitution. It targets five strategic clusters in which Jamaica has always had a comparative advantage and which would serve to propel growth in the overall economy. They are: tourism, shipping and berthing, agro-processing, apparel, and bauxite and alumina. These growth poles are thought to exhibit significant potential for export growth and expansion, and although it is recognized that export

\textsuperscript{12} A minimum of 5 percent of export sales to non-CARICOM countries must be attained.
\textsuperscript{13} The 2001 Amendment provides approved export service providers that supply designated services with income tax relief for a period of ten years. In addition, the approved export service provider receives relief from customs duties and GCT on articles listed in the Act.
potential still exists in the more traditional agricultural sector, emphasis is being placed on human resource-based services such as the ones selected. The decision to target the services sector as the catalyst for economic development stems from the fact that services are expected to play an increasingly significant role in world trade.

These sectors are promoted through investment in infrastructure, technology, and machinery and equipment. In order to encourage the development of skills in areas with higher value added and technological content, some amendments in the regime of incentives described previously were introduced. Through equity financing (primarily, preference shares or convertible debentures to finance capital expenditures), the National Investment Bank of Jamaica invests in developing projects from these key economic sectors.

According to IDB’s previous research, the prevailing paradigm for public-private dialogue in Jamaica was predominantly informal. Studies conducted by the IDB found an alarmingly high amount of ministerial discretion in the provision of exemptions from tax and customs duties. Informal dialogue led to rent-seeking behavior, to the detriment of the wider economy. The scope for arbitrary favors was a disincentive to new investment and to forming cohesive private sector institutions that could effectively engage the government with one voice.

This process did not change with the NIP, and the subsequent evolution of the economy showed that the NIP has not succeeded either in delivering growth for Jamaica or in fostering a sense of partnership between the public and private sectors. This failure compounds the prevailing sense of distrust between the public and private sectors. Surveys conducted in Jamaica found that 84 percent of respondents considered the trust between the island’s public and private sectors to be among the worst in the world.¹⁴

The Master Plan for Sustainable Tourism Development, formulated in 2003 to provide a comprehensive framework for the development of one of Jamaica’s leading industries, seems to have been intended to avoid these failings. It was designed in a two-stage process intended to facilitate consultation and to build consensus on the direction in which the industry should take. This plan considers that a sustainable market position must be based on Jamaica’s heritage which is natural, cultural, historic, and built. Related to this, one of the plan’s main objectives is to ensure that local communities play a major role in defining, developing, and managing the tourism experience so that they are able to take ownership of the industry and remain committed

to enhancing the visitor experience, the very base on which the success of the industry depends. In this way, the plan intends to transform the current perception of the sector as an exclusive industry that benefits the few to one that is inclusive. In other words, this PDP seeks to foster the leakages of tourism to the rest of the economy.

In addition to the Tourism Master Plan, other initiatives involving a closer and more formal approach to public-private dialogue (PPD) were launched. Most of these have adopted or evolved to cluster methodologies, with the aim of consolidating efforts to gain external markets.

Among the various projects aimed at stimulating greater competitiveness, an interesting one is the Jamaica Cluster Competitiveness Project (JCCP), launched in September 2002. The JCCP was a two-year pilot project managed by the Jamaica Exporters’ Association (JEA). DFID, USAID, the Government of Jamaica, the JEA and participating firms funded the project. The goal of the JCCP was to build new competitive advantages at the firm level and to increase firms’ export capacity and their contribution to the nation’s economy. The project sought to increase sales and profits at the firm level by way of new products, increase new sales channels, and target more attractive customer segments; and improve the enabling environment by eliminating regulatory constraints to growth and competitiveness and strengthening the capacity of the private sector to engage in a public-private dialogue around issues of competitiveness.

More than 300 firms participated in the JCCP, which collectively represented approximately 15 per cent of the country’s national GDP. According to the evaluation conducted by Hynes and Morgan (2006), the PPD fostered by the JCCP was the result of a highly structured cluster process that focused on strengthening the linkages between firms, government agencies, and the international market.\(^\text{15}\) In this area of institutionalization, initially it was difficult to engage the public and private sector in a common cause, but towards the end of the cluster process the communication barriers between the two sectors were broken down. In this sense, the JCCP helped to fill the many “missing links” that existed throughout the economy. Specifically, the PPD that had been fostered enabled the development of a shared vision for the industry and the definition of the respective roles of the public and private sector. The private sector realized that it must lead the development of a new business strategy. For its part, the public sector

\(^\text{15}\) Within this project, three industry clusters were selected as models for the government of Jamaica, namely, agribusiness, tourism, and entertainment and culture.
accepted that it must support the private sector by upgrading the island’s human and institutional capital and developing an industry strategy and implementation plan.

After the end of the two-year pilot process, the JCCP was extended for three additional years. The program’s mandate has been broadened to include the development of structures to support broad-based PPD around both economic and social issues.

Another recent initiative aimed at fostering public-private relationships is the Jamaica Productivity Centre (JPC), established in 2003 to address the country’s productivity challenges. The JPC is a tripartite organization sponsored by the government of Jamaica, the Jamaica Employers Federation (JEF), and the Jamaica Confederation of Trade Unions (JCTU). This partnership reinforces the principle that growth in the national economy can best be achieved through the alliance and full cooperation of government, management, and labor. The mission of the JPC is to enhance the productivity and competitiveness of the Jamaican economy through a forum for constant dialogue that provides technical inputs for the formulation of national policies and strategies on all aspects of productivity and competitiveness. Research, promotion, and dissemination of information regarding best practices, applications, processes and techniques of productivity improvement, and facilitation of training are some of the JPC’s most important activities.

More oriented to micro, small and medium-size enterprises (MSME) is the Private Sector Development Programme (PSDP), a joint initiative of the government of Jamaica and the European Union launched in 2005. It seeks to strengthen the performance and competitiveness of the private sector so that it is able to operate efficiently in a more competitive international market.

The PSDP aims to address the competitiveness challenges that MSMEs face and in so doing seeks to: i) improve the macroeconomic environment by identifying and addressing policy and regulatory-level opportunities and constraints to MSME development; ii) provide firm and sector level assistance to companies in the MSME sector, improving their productivity and competitiveness via grants that are promoted and/or administered by private sector organizations and support institutions (PSOs); and iii) strengthen private sector (intermediary) organizations and support institutions (PSOs) via capacity-building support to PSOs on a cost-sharing basis, thereby strengthening the ability of these organizations to increase the assistance they provide to
MSMEs. More recently, the PSDP, through one of its component, is adopting a “cluster approach” for business development and for enhancing competitiveness.

The Jamaica Trade and Invest (JTI, formerly JAMPRO), an investment and export promotion agency with efforts focused on a number of selected sectors, is the core implementing agency working closely with two others: the Private Sector Organization of Jamaica (PSOJ) and the Jamaica Business Development Centre (JBDC).

JTI and JBDC have central roles in facilitating the shift of the textile and clothing industry to a higher value-added fashion industry, in response to competition from China in the U.S. market. JTI works through its marketing and investment promotion activities, and JBDC’s role is technical assistance and business development, with special emphasis on SMEs.

In a similar way, due to the perceived enormous export potential, the government of Jamaica through JTI is attempting to facilitate the expansion and development of agri-business and agro-processing in non-traditional target areas and markets. Some of the areas and products that have been highlighted to attract investors are biotechnology, nutraceuticals, aquaculture, ornamental horticulture, and livestock rearing.

This landscape of the PDPs set in Jamaica reveals basically a vertical approach to industrial policy where government efforts are concentrated in selected sectors. Even some policies oriented to MSMEs, initially designed as horizontal policies, are evolving into vertical ones through cluster selection. One of the main exemptions was the recently ended Youth Entrepreneurial Project, aimed at promoting and financing internships for young people in host companies, and providing business development training and start-up grants to young new entrepreneurs. Other programs among the very few of a horizontal type are part of E-Powering Jamaica 2012, a five-year plan and core program of the National Information and Communication Technology (ICT) Strategy, which aims to significantly increase the active use of the Internet for education, business development, and public administration.

Presently, some of the PDPs discussed are under review to determine their compatibility with Vision 2030 Jamaica, a comprehensive, long-term national development plan prepared by the government of Jamaica. This plan aims to elevate Jamaica to developed country status by 2030, transforming the “…economic model from dependence on natural, financial and man-made capital to development based on the higher forms of capital—institutional capital, knowledge resources, human capital, and cultural capital” (PIOJ, 2009).
Operationally, the plan is being developed around four national goals mapped into 15 national outcomes. It also includes key strategies and actions for implementation in one- to three-year periods, as well as an implementation, monitoring and evaluation framework. One of the four national goals refers to economic performance ("Jamaica’s economy is prosperous"), and this goal is broken down into the following six national outcomes: i) stable macro-economy; ii) enabling business environment; iii) strong economic infrastructure; iv) energy security and efficiency; v) a technology-driven society; and vi) internationally competitive industry structures.

The involvement of stakeholders is considered fundamental to the successful implementation of Vision 2030 Jamaica. The Planning Institute of Jamaica (PIOJ), in its capacity as the main planning agency in Jamaica, is leading and facilitating this collaborative process, incorporating support from private sector groups, civil society and the diaspora. Initially, a number of task forces, each comprising experts in the respective fields, will support the work of the PIOJ. They are charged with the development of sector strategic plans, and a Plan Advisory Group (PAG) consisting of industry leaders, academia, as well as leaders from various sectors.

A draft of this plan was presented in January 2009, made up of 32 draft sector plans prepared by the respective task forces. Island-wide consultations will be held on the draft plan.

Among the main PDPs described, the most modern ones, such as the Tourism Master Plan, support for MSMEs and the widespread use of ICT, have become the guidelines to elaborate on the proposals to be included in Vision 2030 Jamaica. The traditional PDPs, especially the tax incentive systems, were widely criticized, which led to recommendations for their revision.

Using the PDP combination matrix suggested for this study, Table 1 depicts the classification of the PDPs described according to the dimension (horizontal/vertical) and channel of intervention (public input/market intervention).
### Table 1. Jamaica: Most Relevant PDPs

<table>
<thead>
<tr>
<th>PUBLIC INPUT (P)</th>
<th>MARKET INTERVENTION (M)</th>
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| • Jamaica Productivity Centre  
• E-Powering Jamaica 2012  
• Youth Entrepreneurial Project (finished) | • Commodity Boards  
• Hotel Incentives Act  
• Resort Cottages Incentives Act  
• Attractions Incentive Regulation  
• Bauxite and Alumina Industries Encouragement Act  
• Petroleum Refinery Encouragement Act  
• Approved Farmer Status  
• Motion Picture Industry Encouragement Act  
• Music Incentives  
• Shipping (Incentives) Act  
• Modernization of Industry Programme  
• Customer User Fee Waiver  
• Accelerated Depreciation Programme/Special Capital Allowance  
• Factory Construction Law  
• Development Bank of Jamaica financing  
• International Financial Companies Act  
• Export Industry Encouragement Act  
• Jamaica Export Free Zone Act  
• National Investment Bank of Jamaica equity financing  
• Master Plan for Sustainable Tourism Development  
• Jamaica Cluster Competitiveness Project  
• Export and FDI Promotion (JTI) |

Most of the PDPs prevailing in Jamaica are examples of full-fledged vertical policies, which must be carried out in the context of the constraints placed upon the country’s potential development by its small size, population, markets, and limited resources. Countries of the size of Jamaica tend to be high-cost producers in both the manufacturing and agricultural sectors. They are also externally propelled economies because of their high degree of openness. In this sense, Jamaica’s efforts to improve its level of competitiveness are hampered by both geography and the international trading environment in which it functions.

Since the 1970s and 1980s, the PDPs established to address these obstacles were based on granting selected tax incentives as part of an export promotion strategy. Parallel to this, the
attraction of FDI has also been a significant pillar. As Rodríguez-Clare (2004) suggests, one conceptually valid argument for providing fiscal incentives to foreign investment is that such investment is more “footloose” than domestic investment, even though it could lead to a suboptimal tax structure if many countries engage in the same practice.

Another argument in favor of policies to promote both foreign investment and exports is that these activities generate positive externalities to the rest of the economy. However, the lack of empirical support regarding the existence of such externalities makes the case study more relevant. A preliminary assessment suggests that the Jamaican economy does not escape the general result seen elsewhere: the very few linkages between tourism development and local communities, and between firms in the Export Free Zones and the rest of the economy, are indicative of this phenomenon. Other studies have found that the high number of incentive schemes makes it nearly impossible to identify all of them accurately, and that the tax incentive structure is not only complex but distortive (Holden and Holden, 2005). Moreover, although the dominance of vertical policies could have been the response to real or perceived market failures, the long history of lobbying and rent-seeking characteristics of public-private relationship in Jamaica introduces certain doubts. The National Implementation Plan (NIP) mandated a review of Jamaica's fiscal incentives to improve the competitiveness of the business environment by making incentives more transparent, simple, and performance-based.

While export promotion and foreign investment attraction constitute the most relevant policies carried out up to now, at the beginning of the present decade, a new set of PDPs was put in place. Most of these policies share with the traditional ones the vertical approach: they are focused on specific areas, sectors, and industries. However, they seem to respond to the most modern vision of industrial policy: they promote clustering in sectors that already show some comparative advantage, and they try to address coordination and information failures. The incorporation of this new way of understanding industrial policy within Vision 2030 Jamaica, the National Development Plan, suggests that reforming the prevailing productive development policies is possible.

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16 Severe budget constraints could also explain the different policy approach: available resources for new PDPs and other discretionary spending are limited.
4. Selected PDPs for this Study

For this study, the following five PDPs are assessed:

- Tourism Master Plan
- Investment tax incentives
- MSMEs / Cluster Promotion: Private Sector Development Programme
- Extending use of ICT: E-Powering Jamaica 2012
- Export promotion: Export Free Trade Zones

These policies can be mapped according to the matrix suggested by the IDB (2008), as is shown in Table 2.

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<tr>
<td>PUBLIC INPUT (P)</td>
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<tr>
<td>MARKET INTERVENTION (M)</td>
<td>PSDP</td>
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<td>Tourism Master Plan</td>
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<td>Investment Tax Incentives</td>
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<td>E-Powering Jamaica 2012</td>
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The PDPs selected for this study are diverse. On the one hand, they are representative of different combinations H-V/P-M and of different categories according to Melo and Rodriguez-Clare’s (2006) taxonomy of industrial policies, i.e., export promotion policies/policies to promote innovation, higher productivity and competitiveness/fiscal and financial incentives for production and investment. On the other hand, there are specific quantitative and qualitative reasons for their inclusion, such as:

- Tourism promotion: its importance as a source of employment and foreign exchange, the large externalities normally associated with it, and the large unexploited potential benefits make this sector the most interesting when assessing the public policies oriented to enhancing its performance.
• Tax incentives for investment: tax policy seems to be a critical area. There is evidence of a distorted investment incentive framework among sectors and activities and between capital and labor.

• PSDP: through different components, this program intends to enhance the performance of MSMEs applying modern approaches, such as clustering and formal dialogue between public and private sectors. The innovative character of this program and the need to do away with rent-seeking behavior are the main reasons it was included in this study.

• E-powering Jamaica 2012: the low and declining productivity of Jamaica requires harmonized efforts to increase the use of ICT; at the same time, this program promotes traditional tax incentives.

• Export promotion: the country’s export performance is worrisome in view of the increasing erosion of trade preferences. This underscores the importance of improving the competitiveness and growth of non-traditional export sectors to non-traditional destinations. In this context, reviewing the effectiveness of FTZs is important.

4.1 Tourism Promotion
CARICOM countries have a natural comparative advantage for the development of tourism but, because of their size, they are overly dependent on the sector. As a result, these open economies are highly vulnerable to external shocks caused by the volatility of the industry. Close proximity to one of the world’s major origin markets (the United States) heightens the risks associated with the sector. However, this also puts the Caribbean in a favorable position to achieve greater market share.

In the case of Jamaica, tourism accounts directly for some 7 percent of GDP and 8 percent of total employment. Stopover visitor arrivals of 1.7 million and cruise visitor arrivals (an established feature of tourism in the Caribbean) of approximately 1.2 million lead to an accrual of gross foreign exchange earnings of some 50 percent of Jamaica's foreign exchange

17 This is particularly important given the fact that the Caribbean accounts for only 3.7 percent of the world’s tourism, market share which far exceeds Latin America’s 0.7 percent but is relatively low when compared to the United States of America’s 66.6 percent, Canada’s 11.2 percent, the United Kingdom’s 10.9 percent and Continental Europe’s 6.1 percent.
receipts, equivalent to over 80 percent of exports of merchandise. This is the reason why this sector was one of the few strategic clusters identified for development in the NIP announced in 1996.

Like many tourist destinations, Jamaica has experienced numerous setbacks in the last decade. The decline in tourist travel for a short period after 9/11, as well as numerous storms and hurricanes, have adversely affected the sector, but the industry seems to have recovered, having shown consistent growth between 2004 and 2008. The tourism sector in Jamaica is not as vigorous as in other similar destinations. Its stagnation or slow growth is attributed to insufficiently varied attractions and difficulties in creating a different product in order to gain competitive advantage.18

On top of that, unlike elsewhere in the world, where tourism has major spillover effects to other areas of the economy, the export-oriented focus of tourism in Jamaica has hampered strong intersectoral linkages and limited the scope for economic diversification.19 The promotion policy traditionally applied to this sector has favored this situation.

The tourism sector has been promoted mainly through generous tax incentive schemes. For example, a hotel operator can be granted a 10-year tax holiday by building a hotel of 10 rooms or more. Larger hotel complexes—with 350 rooms or more—qualify for a 15-year tax holiday. Both types of investments qualify for an abrogation of import duties for the same period as their tax holidays. The industry also provides assistance for fast-tracking processing of applications for work permits for foreigners wanting to work within the country’s tourism sector.

Doubts have been cast on the effectiveness of incentive regimes. Many analysts are of the view that once investors have decided on the investment location, available incentives play a subsidiary role in the decision-making process. They maintain the view that operating costs, political and economic stability, and the general business climate, *inter alia*, are far more significant factors in deciding the investment location.20 In the case of Jamaica, a number of factors have dogged tourism activity since its inception. Among the most important are natural

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18 Jamaica ranked 48th out of a total of 124 countries in the 2007 Travel and Tourism Competitiveness Index.
19 See Singh and Jayewardene (2005).
20 Karagiannis and Salvaris (2005).
disasters, crime, HIV/AIDS prevalence, poor training and low standard of industry staff, low use of ICT, and the country’s inability to provide reliable air transportation at a reasonable cost.

With respect to the scant linkages with the rest of the economy, promoted by the tax incentives policy, the high import content of food remains one of the major sources of foreign exchange leakages, but is by no means the only one. Additional sources of leakages are other consumables such as beverages, investment goods required to build and maintain accommodation stock, and transport equipment.

A Master Plan was formulated in 2003 with the aim of moving the industry onto a path of sustainability. It represents the first attempt to provide a comprehensive framework for the development of Jamaica’s tourism sector. The Ministry of Tourism and Sports (MOTS) designed the plan. It was further elaborated following broad consultation on the needs assessment and strategic options document among all stakeholders, ensuring that all who are affected by the plan had a stake in the development of the tourism product. The adoption of this strategy aimed at overcoming a common failing in national plans, which is that many are never implemented because of, among others reasons, lack of consensus.

The main objective of the Master Plan is to return the industry by 2010 to the rapid rates of growth achieved during the 1980s. It aims to achieve six primary growth targets. Using the year 2000 as a baseline, it is expected that room stock will increase by 4.0 percent per annum; direct or indirect employment by 5.7 percent per annum; visitor expenditures will grow by 8.4 percent; stopover arrivals by 5.5 percent per annum; the industry’s share of GDP is expected to grow by 15.0 percent over the next ten years; and foreign exchange expenditure will increase by 8.2 percent per annum. It is also expected that earnings in the tourism sector will be increased by US$2.9 billion per annum before 2010. The Master Plan calls for investment of US$2 billion over its ten-year life span. The vast majority of this (73 percent) is estimated to take the form of

21 Research indicates that rates of crimes against tourists are fairly low. In 2003, of the 2,482 million visitors to the island, 0.0004 percent were criminally victimized. The greater challenge for the country however, as highlighted by Harriott (2006), is how to develop the leading sector of the economy in a high-violence environment.

22 Jayewardene and Crick (1999) have identified the weak educational background of certain categories of workers as a factor which affects the quality of service and the ability of the country to diversify into non-English-speaking markets.

23 Under the Tourism Ground Transportation Sub-Sector Incentive Policy, an undefined period of relief from customs duty and GCT is granted to ground transportation providers.

24 The long-term national development plan of Jamaica, Vision 2030, ratifies the objectives of the Master Plan.

25 At present, Ministry of Industry and Tourism.

26 This is considered a critical indicator for economic contribution.
private sector investment in commercial ventures such as additions to the room stock and developing attractions and tours. Public sector-led projects will require just over US$552 million with nearly US$230 million required from the government.

Recognizing that the key to improving the competitive position of the Jamaican product is greater diversification, the plan emphasises the forging of stronger linkages between tourism and other productive sectors, greater community involvement, showcasing of Jamaica’s culture and heritage, and events-led promotion. It is considered that a sustainable market position must be based on Jamaica’s heritage—natural, cultural, historic, and built.

The need to develop niche products and increase the competitive edge relative to other destinations in the region comes from the fact that even though Jamaica appears to be an efficient exporter of travel services to the world, it is not as efficient as some of its Caribbean neighbors. Between 1995 and 2001, with travel services data available, Jamaica recorded a Revealed Comparative Advantage Index that placed it 18th out of 139 countries; however, 11 of those with a higher specialization are Caribbean countries (Jensen and Vignoles, 2005).

It is the first time that one of the main objectives of any tourism plan is to allow local communities to play a major role in defining, developing, and managing the tourism experience. This is so that they are able to take ownership of the industry and therefore demonstrate some level of commitment towards helping the government enhance the visitor experience, on which the success of the industry depends. In this way, the plan intends to transform current perceptions of tourism as an exclusive industry that benefits the few to one that is perceived as being more inclusive.27

The Master Plan requires that all agencies concerned with tourism coordinate their activities with Jamaica Tourist Board’s (JTB) efforts in promoting the country abroad; Jamaica Vacations, in opening gateways and ensuring sufficient air capacity; Jamaica Reservations

27 Tourism in Jamaica does not seem to generate a positive attitude among its population as in other tourism-intensive countries. An explanation suggested for this attitude is based on the perception that the activities are vestiges of the social traditions of the plantation economy. The origins of tourism in Jamaica in the 1890s are instructive. It was a by-product of the American banana trade driven by Lorenzo Baker's United Fruit Co. which operated some sixty steamers, ferried visitors between Jamaica and the United States, and built modern facilities for their guests in Jamaica. On the other side of the Atlantic, the Imperial Line of Elder, Dempster and Co., trading in bananas with the United Kingdom, also advertised vacations to Englishmen whom they brought in their ships to the Region. Many of these early visitors, especially those from the southern states of America, brought social and racial attitudes which were grafted onto those of existing colonial society. Even though in the last decades, tourism spread across the region, perceptions about its negative social consequences persisted then and even into the present. The lack of participation of local people as entrepreneurs or as employees who have real opportunities for career advancement without glass ceilings might not help to change this view.
Service, working under the JTB to serve as a bridge between the industry and sales channels in the target country; and Tourism Product Development Company (TPDCo), the central agency mandated by the government to develop and improve the tourism product by coordinating and facilitating action between public and private interests. This would change the focus to one of supporting the new profile of the industry (develop heritage and community-based ventures). Finally, the Tourism Enhancement Fund (TEF), a corporate body which, since 2005, has been receiving a small fee from tourists (US$10 from incoming airline passengers and US$2 from cruise passengers), assigns the collected money to implement the recommendations emanating from the Master Plan. According to the goals of this plan, the projects funded by TEF should fall within at least one of the following categories: heritage and health, resort enhancement, community tourism, sports and entertainment, and environmental management and culture.

The apparent coordination failures that the Master Plan is designed to address seem to arise from the perceived desirability of differentiating Jamaica from other similar destinations in the region (such as Belize), focusing on its culture and heritage, which would require greater involvement of local communities. In fact, the Jamaican tourism product is being further stratified to develop niche markets along the lines of eco, heritage, faith-based, community, sports, wellness, and rural tourism.

In 2009, for example, as a way of tapping into the health and wellness market, the country’s first Health Tourism Facility will be built in Montego Bay. This is a part of the marketing campaign for 2009 where the Ministry plans to target faith-based travelers. Golf tourism is also part of this market, which affects many sectors of the hospitality industry. In the past decade, Jamaica has hosted many international tournaments, with the aim of penetrating this niche. Tremendous opportunities are continuously being identified for developing the sports-based tourism concept. An outdoor multi-purpose sports facility in Trelawny has been built, and Sabina Park, which hosted the ICC World Cup Cricket 2007, has been undergoing a process of continuous upgrading. Moreover, a three-year cooperation agreement was recently signed by

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28 The board is composed of representatives from the public and private sectors, including representatives of the Jamaica Hotel & Tourist Association.
29 In September 2001, the Jamaica Tourism Challenge Fund was established with the support of DFIDC. It aimed to stimulate the participation of local communities in the tourism sector. The Fund would provide grant funding to projects after been selected in a competitive and transparent manner. This Fund was closed at the end of 2003 because it did not attract the desire response. One of the reasons for the failure was that the private sector was largely unwilling to invest time to develop projects (Lord and Pegus, 2004).
JTB, Air Jamaica, and Cricket World Cup to promote Jamaica as a holiday and cricket destination.

“Spruce Up Jamaica, Nice Up Yuself” is a program with a bottom-up, participatory approach initiated by the Ministry of Tourism. The first phase of the project, which was six weeks in length, focused on beautifying the physical environment. The second phase has five major components, with special emphasis on, inter alia, the environment, the community, craft development, and the heritage link.

Another community-based initiative involves the creation of artisan villages, an activity which is expected to bring important benefits to tourism and provide sustainable linkages, as well as foster a greater appreciation of local artistry. The establishment of the Craft Development Institute (CDI), which will be an agency for research, training, manufacturing, and promotion of the traditional crafts of Jamaica, is aimed at including local players of the craft sector in a tourism-related activity. It is premised on the idea that the development of local players is important for the diversification of tourism.

In accordance with the Master Plan, and in order to increase the impact and presence of the industry, the JTB views tourism as an information-intensive sector and has begun to make effective use of the Web as a marketing tool. A visitor survey conducted in 2007 found that the Internet is now the leading method by which visitors make reservations. Internet access is also one of the most important factors when choosing a destination to visit (JTB, 2007). According to these guidelines, the E-Powering Jamaica 2012 NICT Strategy (CITO, 2007) defines as a priority initiative the use of ICTs to gather and access relevant information on tourists’ requirements and needs in order to improve the tourism product.

The plan has prompted a number of investments and infrastructure developments. Included in these are the upgrading of both international airports, the building of sewage systems in resort areas, the building of Highway 2000 (linking the south and north coast of the island), and the upgrading of the Whyndam Rose Hall, and it has attracted Spanish investors, to name a few. The Port of Kingston, Montego Bay Cruise Shipping Port, and Port Antonio West Harbour Marina are in the process of being expanded and upgraded for accommodating the projected expansion of tourism.

30 Now the Rosehall Resort and Spa, a Hilton Resort.
31 Talks have been finalized on the upgrading of the Hip Strip in Montego Bay.
Through institutionalized public-private partnerships (PPP), the Jamaican government has been able to develop national goals and translate them into effective policy action. These initiatives aim to diversify the product by helping small and medium tourism enterprises improve their competitiveness. The 30-month program being undertaken by Jamaica Hotel and Tourist Association (JTHA), the IDB, JTB, and TPDCo will provide marketing support and technical assistance to small hotels that need upgrading. Under the initiative, hotels with similar characteristics will be clustered and branded for marketing purposes.

There has been little evidence over the past decade to indicate that PPP is an essential determinant of tourism competitiveness. A study carried out by the World Tourism Organization Business Council (WTOBC) to ascertain the extent to which PPPs were perceived as relevant in stimulating tourism competitiveness by the global tourism market found that PPPs were most effective at improving destination image, protecting the environment, improving education and training, facilitating investment and financing, overcoming trade and investment barriers, and improving transport infrastructure and basic services (ECLAC, 2007).

The WTOBC study postulated that PPPs will have an impact on tourism competitiveness provided that investments, risks, and costs are shared by pooling resources, the public sector is sensitized by its partners to the need to supply or upgrade public goods, transaction costs are reduced, cluster competitiveness in regards to price, quality and delivery reliability is guaranteed, and inter-sectoral linkages are built. These conditions would increase the tourism multiplier and facilitate joint visioning, leadership and long-term planning (ECLAC, 2007).

The coordination of activities among different agencies is also evident in the labor market. It is anticipated that over the next two to three years, the tourism industry will require an additional 33,000 workers in the accommodation sub-sector due to several accommodation facilities which are expected to come on stream. As a result of this prediction, closer linkages will be made with the government of Jamaica and educational facilities such as Human Employment and Resource Training (HEART), the University of Technology (UTech), the University of the West Indies (UWI) and Northern Caribbean University (NCU). Additionally, the need for local mid- and upper-management level staff will be satisfied with the establishment of a School of Hospitality Training.

Despite the many strengths of the plan, a number of its initial targets were unmet. There was a 1.3 percent increase in stopover arrivals in 2007 (versus 5.5 percent targeted). Similarly,
whereas the targeted growth of visitor expenditure is 8.4 percent per annum, only a 3.4 percent increase occurred in 2007. With the exception of growth in employment, the same trend was evident with the remaining targets. With less than two years to go, though very comprehensive, the Master Plan has fallen short in a number of areas. The development of heritage sites is well underway; however whether sufficient vigor and momentum can be generated is uncertain given the inevitable setback caused by the global financial crisis.

The plan represents a form of consensus on the way forward for the development of tourism in Jamaica without giving adequate consideration to production integration\textsuperscript{32} or opportunities presented by regionalism or multilateralism. The CARICOM Single Market and Economy (CSME), when fully realized, will foster greater intra-regional tourism. Jamaica’s arrival figures are poised for growth. If commitments are going to be made at the regional and international level, they must be reflected in the country’s national policies. Providing cost-effective and reliable air transportation to travelers poses a great challenge to the productivity of the tourist industry. Even now, CARICOM governments are still at loggerheads about creating a regional carrier.

Though the plan overstates the importance of creating linkages between the tourism industry and other sectors, and there is evidence of concrete linkages between tourism, manufacturing, and the agricultural sector, adequate emphasis has not been placed on directly minimizing leakages.\textsuperscript{33} The literature indicates that the import leakage ratio can be as high as 70 percent (Singh and Jayawardena, 2005). By this is meant that out of every dollar spent by a tourist, only 30 cents goes towards the purchase of products and services produced locally. Additionally, as indicated in a number of studies, if the tourism industry is perceived as an activity that mainly benefits foreigners in net terms, then the industry as a whole will be weakened (ECLAC, 2007). When compared to smaller islands such as Aruba, with a leakage of 41 percent in 1996 and a greater inability to meet the diverse needs of the tourism industry,

\textsuperscript{32} Production Integration is defined by Article 52 of the Revised Treaty of Chaguaramas as having three aspects: functional cooperation, which entails cooperation among economic enterprises in areas such as purchasing, marketing, and research and development; complementary production, which involves economic enterprises in more than one member state working together to produce and use required inputs in the production chain; and integrated regional production, which involves a single economic enterprise directly organizing production in more than one member state.

\textsuperscript{33} Leakages are the amount remaining after imports are purchased from the amount of tourist expenditure that remains locally after taxes, profits and wages are paid. Import leakages occur when local products are not up to a hotel’s standards or the country does not have a supplying industry.
Jamaica’s foreign exchange outflows were fairly high, at 40 percent. Some common areas of leakages in Jamaica’s tourism sector are, inter alia, imported linens, towels and sheets, carpets and drapes, electrical items, soaps and toiletries, furniture and fixtures, and advertising and promotion. The literature suggests that this is an area where self-discovery externalities may have been preventing the development of some of these activities. It is likely that some goods can be locally produced in a profitable way, but learning “what and how” requires investments with a social value that exceeds private investments.

Jamaica Trade and Invest (JTI) is working on reducing leakage through the development of its own initiatives. It has developed a strategic relationship with hotel chains within the country and is working to establish a reliable supply chain to create access to the hotel market for Jamaican food and beverage suppliers. Similar initiatives are being carried out through the Private Sector Development Programme and the Jamaica Cluster Competitiveness (see Section 4.3).

Despite the many opportunities provided for local SMEs under the plan, it is felt by some that bureaucratic red tape is still too onerous. Small-attraction operators in Trelawny recently voiced their frustration over the unnecessary bureaucratic procedures involved in starting a business. They were of the view that the start-up requirements of state agencies were lengthy and time-consuming.

Furthermore, whereas the plan focuses on prospective developments in a number of resort towns, there seems to be some urban bias. Greater emphasis is being placed on Montego Bay as opposed to Negril, another popular vacation spot in Jamaica.

Despite the impressive planning and implementation phases of the institutional framework for the Master Plan, monitoring and evaluation, which is to many the most important part of results-based management, is quite weak. The Ministry has entered into partnership with the Statistical Institute of Jamaica (STATIN) to create Tourism Statistic Accounts so that the performance of the industry can be better measured. The institutional capacity to ensure that targets are being met and to make decisions on fallback positions if objectives are not met is lacking. Very few plans are in place to minimize potential threats to the realization of the Master Plan’s objectives. One implication of this is that determining the effectiveness of the Master Plan

34 Singh and Jayawardena (2005).
will be difficult. A cost-benefit analysis will require more than a determination as to whether targets are being met given what is known about leakages.

Investment in tourism may lead to a number of opportunities, such as boosting the Jamaican brand and the music and entertainment industry. It can lead to greater productivity in the manufacturing and agricultural sector. However, given the multi-dimensional nature of the new tourism concept, the former is neither a necessary nor a sufficient condition for the latter to occur, and the likely effects are not unidirectional.

It would be interesting to review the coherence of the Master Plan with the traditional tax incentive regime. For example, tourist resorts import some of the foodstuffs that they use, which is not surprising given the duty concessions set by the legal framework. In the same way, the “all-inclusive” hotels, the largest ones on the island, seem to have weak linkages with the rest of the economy because they are not integrated with the communities in which they are located. Yet incentives are directed most strongly at these larger facilities. Moreover, while the government views tax incentives as necessary for Jamaica to compete with other tourist destinations in the region and the world, the negative impact of such incentives on tax revenues should be evaluated, as it leaves the government with fewer resources to address the main weaknesses of the sector.

Finally, the image of Jamaica is threatened by the fact that tourism is set in a high-violence environment. This suggests that the sector may bring out adaptive features which may lead to areas of the sector thriving on illegal services such as prostitution and drugs.37

Despite all this, the Master Plan is absolutely justified from a theoretical point of view: it attempts to address the very common coordination failures associated with the industry by creating an institutional framework which involves the private sector (handle in this way the “missing public inputs” market failure) and implementing promotional programs that aim to solve the problem of underproduction of different potential local providers due to self-discovery externalities.

4.2 Investment Promotion

Most Caribbean economies followed policies inspired by the strategy known as “Industrialization by Invitation” formulated by Nobel Laureate Arthur Lewis (UNCTAD, 2005). Lewis theorized that the limited amount of island trade prevented these economies from exporting competitively because they could not afford incurring the cost of breaking into established export supplier markets. He recommended these small countries should, through a series of incentives, attract foreign entrepreneurs to install and open their businesses and factories in the region. Foreign capital was viewed as a means of overcoming limitations to industrial development imposed by the small volume of trade among Caribbean economies.

The attraction of foreign capital would also contribute to the acquisition and development of fundamental managerial, entrepreneurial, and administrative skills that were absent in developing economies, such as those of the Caribbean. Over time, after a learning period, it was thought that local entrepreneurs would acquire the capacity to start their own ventures and create their respective national industrial bases.

English-speaking countries, following these proposals, passed a series of fiscal incentives. They also formed a regional integration scheme—CARICOM—which provided the framework for a customs union and, at least during the 1970s, a common and regional approach to industrialization and tax incentive policies. The regional policy of fiscal subsidies was formalized in the Agreement for the Harmonization of Fiscal Incentives (1973). This agreement conceived fiscal policy as a microeconomic tool providing incentives to promote industrialization and to develop mining and tourism sectors. The instruments included profit tax holidays, tariff exemptions, export allowances for extra-regional exports following the expiration of the tax holidays, dividend payments, loss-carry forward, and depreciation of allowances.

While the legal framework was conceived at a regional level, its implementation was carried out at the national level. At the same time in which countries implemented the Harmonization Fiscal Incentives Act, they applied a comprehensive package of domestic tax incentives as part of their national development policies. Thus, the regional interests in targeting did not necessarily coincide with that of the individual countries. As a result, CARICOM countries exhibited a different distribution of fiscal incentives by firms and sectors. The national schemes remain to this day the main vehicle for the provision of tax incentives and the main tool for developing sector policies.
Jamaica’s tax system has evolved over many decades and has become increasingly complex and cumbersome.\(^{38}\) Its structure includes an extensive set of incentives for investments, many of which have accumulated over more than half a century and are available to local and foreign investors. Typically, they provide relief from income tax on earnings as well as concessions on import taxes and duties to eligible enterprises for a period of time that may range up to 15 years, while some incentives provide other benefits such as capital allowances. Many incentives are specific to particular sectors, while others are available to any eligible applicant.

A recent study estimated that there are over 200,000 different incentives, but observed that it is impossible to identify all of them accurately and that there may be more that were missed when the incentives were counted. That same study estimated that the incentives that have been identified have led to revenue foregone amounting to about 20 per cent of total government revenue (Holden and Holden, 2005).

The sectors that have benefited the most from tax incentives are tourism (Hotels Incentives Act; Resort Cottages Incentives Act; Attractions Incentive Regulation); industry (Export Industry Encouragement Act, Export Free Zone Act, Modernization of Industry Programme, Accelerated Depreciation/Special Capital Allowance, Customs User Fee Waiver, Factory Construction Law); bauxite and mining (Bauxite and Alumina Industries Encouragement Act, Petroleum Refinery Encouragement Act); agro-Processing (Approved Farmer Status); creative industries (Motion Picture Industry Encouragement Act); shipping (Shipping Act) and ICT (Export Free Zone Act, Accelerated Depreciation/Special Capital Allowance, Export Industry Encouragement Act, Moratorium on Duties). Apart from these special schemes, companies that do not qualify under existing incentives laws but are considered to have the potential to contribute significantly to foreign exchange earnings and employment may be granted relief from import duties for up to three years by the Minister of Finance.\(^{39}\)

Nominal income and company tax rates in Jamaica are close to the average of other Caribbean countries. However, the complex system of tax incentives distorts the actual structure of taxation, with the result that the private sector in Jamaica is either relatively highly taxed or not taxed at all. For example, by Jamaican law, Corporate Income (CIT) is taxed at a flat 33.3

\(^{38}\) The most recent global assessment indicates that Jamaica has one of the worst tax systems in the world, ranking 170th out of 178 countries in ease of paying taxes and number of required annual tax payments, 144th in the time required to pay taxes, and 128th in the total tax rate. For example, tax compliance is estimated on average to take a total of 414 hours each year in Jamaica, compared to only 76 hours per year in Ireland and 71 hours in St. Lucia.

\(^{39}\) Section 3 provides a more detailed description of tax incentives granted through different pieces of legislation.
percent rate, but among the largest taxpayers, the telecommunications industry, the hotels/tourism industry, and the construction industry, have a collected tax rate of 2 percent, 5 percent and 9 percent, respectively, due to high number of tax incentives, deductions, and credits (IDB, 2007).

Figure 4. Average CIT Tax Rate Paid by Top CIT Taxpayer Industries

Some of the generous investment incentives included in the FTZ are exempt for CIT indefinitely, while investments in hotels and certain agricultural activities may enjoy a tax holiday of five to 15 years. Special depreciation schemes include a partial expensing (initial allowance) of 20 percent of the investment, with normal depreciation for the remaining 80 percent of the historical cost of the asset. A more favorable, special capital allowance, designed for the purchase of machinery in basic industry (part of manufacturing and construction) may be depreciated over two years. However, the most important tax break is an investment tax credit (ranging from 20 percent for basic industry to 40 percent for the sugar industry) for the cost of the capital good (Investment Allowance).
Table 3. Annual Rate of Before-Tax Real Rate of Return, by Project Type* (percent)

<table>
<thead>
<tr>
<th>Tax Item</th>
<th>Projected Inflation Rate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Debt-financed</td>
</tr>
<tr>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Typical tax code</td>
<td></td>
</tr>
<tr>
<td>No investment tax breaks and no indexation</td>
<td>10.0</td>
</tr>
<tr>
<td>No investment tax breaks and indexation</td>
<td>10.0</td>
</tr>
<tr>
<td>Jamaica</td>
<td></td>
</tr>
<tr>
<td>General tax code</td>
<td></td>
</tr>
<tr>
<td>Initial investment allowance (20 percent)</td>
<td>9.1</td>
</tr>
<tr>
<td>Accelerated depreciation (2 years) for new machinery</td>
<td>5.8</td>
</tr>
<tr>
<td>Exempt activities</td>
<td></td>
</tr>
<tr>
<td>(hotels and free-trade areas)</td>
<td>10.0</td>
</tr>
<tr>
<td>Tax credit</td>
<td></td>
</tr>
<tr>
<td>20 percent (building and machinery in some manufacturing and construction)</td>
<td>3.0</td>
</tr>
<tr>
<td>40 percent (buildings and machinery in agriculture and chips)</td>
<td>-4.0</td>
</tr>
</tbody>
</table>

Source: Artana and Navajas (2004). Assumptions: the opportunity cost of capital in real terms is 10 percent and economic depreciation of the asset is 10 percent per year.

Incentives related to CIT allow projects with a negative investment rate of return (IRR) to benefit the private sector. For example, a debt-financed investment in the sugar industry, in a scenario of a 10 percent inflation rate, with a negative social rate of return of 17 percent per year may yield investors a 10 percent positive return because the government covers 40 percent of the investment cost. The implied allocation of capital is highly inefficient: in sectors without subsidies, an equity-financed investment will demand that productivity be high enough to yield IRR in the range of 14 percent. In other sectors, productivity could be so low as to generate negative IRR (Artana and Navajas, 2004). Such distortions may partially explain the reason for poor economic growth despite high total fixed capital formation.

Some studies of the incentive regime in Jamaica suggest that there is substantial bias in favor of capital-intensive projects generally, and larger projects in particular (Artana and Navajas, 2004). As a consequence, these tax exemptions encourage informality in the business sector and penalize those with a small amount of capital, which describes the large majority of native firms. What seems to be especially difficult to justify is such favorable treatment of capital income combined with labor taxes in an economy with high unemployment.
The analysis of the effects of the tax incentives policy suggests that this strategy seems to have succeeded in attracting foreign capital. FDI has increased from US$171 million in 1990 (less than 4 percent of GDP) to US$882 in 2006, representing at present between 7 and 9 percent of GDP. However, the performance is not so impressive when compared to the evolution of worldwide and regional inward FDI flows.

**Figure 5. Inward FDI Flows as a Percentage of GDP**

![Graph showing inward FDI flows as a percentage of GDP from 1989 to 2007.](image)


As in the rest of the English-speaking Caribbean, the export performance of the dynamic sectors has not been able to offset the underperformance of the declining ones. This is reflected in the deterioration of the export of goods and services, measured by the export/GDP ratio. As the average propensity of import (i.e. the ratio of imports to GDP) shows a rising trend, the Jamaican economy is more dependent on foreign capital, implying that most of its internal policies are shaped to attract and capture foreign exchange.
Figure 6. Inward FDI Flows as a Percentage of World and Latam/Caribbean Inward FDI Flows


Figure 7. Exports and Imports as a Percentage of GDP

Source: IMF Statistics.
In fact, there is growing skepticism about the traditionally well-accepted view among economists and policymakers that attracting FDI is essential for economic growth and development. The empirical literature is, however, not conclusive, and very little is understood about the dynamic impact of FDI. The research on which there seems to be consensus was conducted on the importance of the economic and policy context for FDI in determining its eventual impact (CPDC, 2008; Schiffbauer, 2006). In addition, studies of incentive regimes elsewhere point to their ephemeral ability to retain investments once the incentive period has expired.

Taking into account the controversial empirical evidence about the benefits of the tax incentive policy to attract FDI, the estimation of the fiscal cost of this tool and a social cost-benefit analysis of this promotional policy were considered important. Thus, the NIP mandated a review of Jamaica's fiscal incentives to improve the competitiveness of the business environment by making incentives simpler, more transparent, and more performance-based. A Report of the Jamaica Tax Reform Committee in 2004 drew on previous studies of Jamaica’s tax system and made a number of recommendations for tax reform, including commissioning of an independent study on the costs and benefits of incentives to the productive sectors.

An extensive review of proposed tax reform measures is underway, taking into account previous tax reform studies. The Foreign Investment Advisory Service (FIAS) was asked to assist in the review. Among the proposals advanced are a reduction of the corporate income tax rate to 25 percent and the elimination of all tax holidays (IDB, 2006).

However, the long-term plan, Vision 2030 Jamaica, supports the idea “…that it will be necessary to determine the optimal incentives system that will contribute to the successful achievement of the long-term economic development goal…” (PIOJ, 2009), revealing the hesitant position of the government of Jamaica. The Ministry of Finance and the PIOJ asked the IDB to carry out further analysis in this field because of the official reticence or fear of eliminating tax exemptions. The IDB report, presented in 2007, provides a quantified impact analysis of some potential tax reforms, including cutting the investment CIT incentives.40

40 Eliminating CIT incentives will have benefits and costs. The costs are clear: eliminating these incentives, ceteris paribus, will lower the net return to capital and discourage investment for those particular industries. In Jamaica, those industries with tax incentives represent a large share of the total capital stock, so that in aggregate, capital returns will fall for a significant portion of the economy. The benefit from eliminating these exemptions is improved capital productivity. In a tax-package, it is possible to eliminate incentives, then to use the funds to lower the overall rate of corporate taxation. Such a package will raise the return to capital if the lower CIT rate
By way of illustration, in a scenario in which the statutory rate is reduced to 20 percent but at the same time tax incentives and deductions are eliminated for some “targeted” sectors (communications, electricity, construction, and tourism/hotels), it is deemed possible for the economic outcome to be positive. Short-run output increases by 0.4 percent annually, and long-run output rises by 3.8 percent.\textsuperscript{41} On the other hand, lowering corporate profit taxes clearly favors capital owners rather than workers. Although this may be more efficient and may foster long-run growth, it may not necessarily be popular among the majority of Jamaicans.

In addition to this, it is likely that the current fiscal incentives will be very difficult to dismantle because of strong lobbying by rent-seeking organizations, even though they could have been introduced in response to perceived market failures in the past, justified by the notion that there were spillovers associated with investment.

4.3 Micro, Small and Medium Enterprises (MSMEs) and Cluster Promotion

Smaller business operators face obstacles that are remarkably similar across countries. Among the main ones, with only minor adaptations for the Jamaican context, are the following (Tenant, 2008):

- Barriers to entry and non-competitive behavior in markets where small enterprises are potentially competitive;
- Expensive and time-consuming regulatory requirements, such as licensing and registration;
- Official and unofficial levies that discourage small enterprises from growing and becoming formal;
- Laws governing the protection of business and intellectual property and the use of property as collateral;
- Tax structures that distort incentives and discriminate against small firms;

\textsuperscript{41} If all capital were assumed to be mobile capital, then it is possible that the elimination of tax-incentives would lower the overall return to capital, and discourage investment. This would lead to long-run results where the capital stock falls. In the current scenarios, part of the tax-burden is absorbed by specific-capital owners, and the CIT rate reduction from 33.3 percent to 20 percent is substantial enough to raise the overall return to investment.
• Government procurement procedures that discourage successful bidding by small enterprises;

• Labor market rigidities that make hiring and firing workers difficult and expensive, and limit the mobility and flexibility of the labor force; and

• Limited infrastructure and institutions that offer access to finance, information, and markets, particularly transportation, market facilities, and communications infrastructure.

Recognizing these challenges faced by MSMEs, the government has been actively promoting them. Recent changes to the Companies Act of Jamaica make registering these businesses easier. The establishment of government agencies such as the Jamaica Business Development Centre (JBDC) has been the policy response to develop MSMEs.

The JBDC initiative is a cooperative arrangement among government agencies and the private sector, associations, and the academic and research communities. It provides business and technical support services across the spectrum—especially to MSMEs—from guiding business startups to a wide range of consultancy advice for established businesses. Services available at JBDC include advice on operating challenges in existing businesses, review of business plans and strategies, guidance in starting new businesses, preparation of loan requests, financial analysis, and budget development.

JBDC is one of the co-implementing agencies of the Private Sector Development Programme (PSDP), an innovative initiative launched in 2004. The PSDP is a five-year technical assistance program jointly funded by the European Union (EU) and the government of Jamaica. The broad objective of the PSDP is to address the competitiveness challenges that the MSMEs face. It seeks to:

• Improve the macroeconomic environment by identifying and addressing policy and regulatory-level opportunities and constraints to MSME development;

• Provide firm and sector-level assistance to companies in the MSME sector, improving their productivity and competitiveness via grants that are promoted and/or administered by private sector organizations and support institutions (PSOs);
• Strengthen PSOs via capacity building support on a cost-sharing basis, thereby enhancing their ability to increase the assistance they provide to MSMEs.

The Jamaica Trade and Invest (JTI, formerly JAMPRO) is the core-implementing agency and has been set up as a Project Management Unit to coordinate the activities of the program. This unit works closely with two other co-implementing agencies, the Private Sector Organization of Jamaica (PSOJ) and the JBDC. General oversight functions are delegated to a Steering Committee, comprising representatives of the government and the private sector (JIT, JBDC, PSOJ, Jamaica Exporters’ Association, Jamaica Manufacturers’ Association, and the Small Business Association of Jamaica), with the European Commission (EC) as observer. Activities under the PSDP correspond to three major components with 12 support programs (see Table 4).

The PSDP has a total budget of €28.67 million, which is available to business operators within Jamaica’s productive and services sector, as well as to their intermediary private sector organizations and support institutions, to grow their businesses and improve their competitiveness. Of this budgeted amount, €20 million represents grant funds from the EU, with the remaining amounts to be provided by the government and beneficiaries who are supported by the program.
### Table 4. PSDP at a Glance

<table>
<thead>
<tr>
<th>THREE FOCUS AREAS</th>
<th>TWELVE SUPPORT PROGRAMMES</th>
<th>KEY FEATURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. EMPOWERING PSOs AND SUPPORT INSTITUTIONS AND ENHANCING NATIONAL COMPETITIVENESS</td>
<td>1. Target Growth Competitiveness Committee</td>
<td>Monitoring of competitiveness issues; policy formulation</td>
</tr>
<tr>
<td></td>
<td>2. PSO Capacity Building Scheme</td>
<td>Cost sharing grants for institutional strengthening &amp; development</td>
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<tr>
<td></td>
<td>3. Cost Sharing Business Development Services (BDS)</td>
<td>Funding on a 80:20 cost sharing ratio</td>
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<tr>
<td></td>
<td>4. Enterprise Rating &amp; Upgrading</td>
<td>Rating &amp; benchmarking of companies</td>
</tr>
<tr>
<td></td>
<td>5. Market Penetration</td>
<td>Support to MSMEs to penetrate existing &amp; new markets</td>
</tr>
<tr>
<td></td>
<td>6. Consortia BDS</td>
<td>Funding of multiple workshops &amp; seminars conducted by PSOs</td>
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<tr>
<td></td>
<td>7. Back Office Services</td>
<td>Specialized BDS for MSMEs through PSOs</td>
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<tr>
<td></td>
<td>8. Business Information Points</td>
<td>Provision of value added info &amp; services</td>
</tr>
<tr>
<td></td>
<td>9. Export Centres</td>
<td>Provision of tools and services to develop export capabilities of MSMEs</td>
</tr>
<tr>
<td></td>
<td>10. Cluster &amp; Sector Initiatives</td>
<td>Facilitating cluster development activities</td>
</tr>
<tr>
<td>2. ENHANCING ENTERPRISE COMPETITIVENESS</td>
<td>11. Corporate Finance Broker (CFB) Unit</td>
<td>Financial advice and handholding of MSMEs to access external sources of financing</td>
</tr>
<tr>
<td></td>
<td>12. Mutual Guarantee Company (MGC)</td>
<td>Completion of feasibility study to explore the setting up of MGCs in Jamaica</td>
</tr>
</tbody>
</table>

The criteria for selecting PSOs to benefit from PSDP funding include being an organization legally registered in Jamaica (with majority Jamaican ownership) involved in the delivery of business development and/or support services, serving members and clients primarily in the MSME sector.

For MSMEs, selection will include consideration of the following:

- The importance of the company to the economy, measured by the relative size of its existing export turnover;
• The status of the company as a legally registered entity, operating in any of the productive and service sectors outlined in the National Industrial Policy;
• Size of the company, favoring those which operate with less than €1 million in assets and/or employ fewer than 200 people;
• Sustainability of the business, measured by debt performance, as well as the company’s management base and export growth potential;
• The ability of the entity to co-finance activities; and
• The capacity of the company to reduce its dependence on government and donor subsidies in the long run.

Larger companies may also be eligible for assistance, if their application and proposals demonstrate direct linkages to secondary or smaller suppliers and contractors in the MSME sector.

Potential beneficiaries of PSDP funding must apply following the publication of Call for Proposals notices (periodically on the PSDP web site as well as in the local newspapers), which is the open and transparent mechanism required by the European Development Fund (EDF) to publicize the availability of grant funds and to invite eligible applicants to submit proposals.

Among the most interesting activities of PSDP is the one carried out within the Target Growth Competitiveness Committee. It is a multi-sectoral body of representatives from the private sector, labor, and government, which conducts research on the MSMEs and lobbies for policy changes at the government level through policy papers and public awareness campaigns. Its scope is to develop a national competitiveness strategy for Jamaica by the end of the program in 2009.

Since December 2007, the PSDP has been run through a process of organizing beneficiaries and PSOs via the use of the “cluster approach.” Future clients will be chosen on the basis of this strategic direction. Under the PSDP’s Cluster and Sector Initiative (CSI)
component, the process of accessing financial and technical assistance will be more streamlined and will reach a more broad-based target group. PSOs will lead cluster development activities and manage grants and other technical assistance on behalf of the clusters. This approach is being undertaken because it is thought that clusters create opportunities for entrepreneurs to better identify their problems, compare themselves with others, do benchmarking, overcome limitations of size, obtain information about sectoral needs, and be involved in the development of their value chain.

The target set by the program is to assist up to ten clusters for the duration of the PSDP. The clusters selected for grant assistance belong to four targeted sectors (creative industries, tourism, agribusiness, and services).

**Table 5. Selected Clusters and Managing PSO**

<table>
<thead>
<tr>
<th>PSDP Clusters</th>
<th>Managing PSO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authentic Jamaican Gifts and Crafts</td>
<td>JBDC</td>
</tr>
<tr>
<td>Jamaica Wellness</td>
<td>JBDC</td>
</tr>
<tr>
<td>Jamaican Fashion and Apparel</td>
<td>JBDC</td>
</tr>
<tr>
<td>Egg Industry</td>
<td>Jamaica Egg Farmers Association</td>
</tr>
<tr>
<td>Jamaica Fish</td>
<td>Aquaculture Contract Farmers Association</td>
</tr>
<tr>
<td>Jamaica Music Business Network</td>
<td>Recording Industry Association of Jamaica</td>
</tr>
<tr>
<td>Negril and Western Jamaica MSMEs</td>
<td>Negril Chamber of Commerce</td>
</tr>
<tr>
<td>Small Ruminants</td>
<td>Jamaica Sheep Farmers Association</td>
</tr>
<tr>
<td>Tourism</td>
<td>The Competitive Company</td>
</tr>
<tr>
<td>Visual and Performing Arts</td>
<td>JTI</td>
</tr>
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</table>

The process of cluster selection was performed through a Call for Expressions of Interest, where a total of 42 clusters, through their representative PSOs, submitted notes detailing the long-term strategies that would be required for their respective value chains. A five-person independent committee reviewed the submissions and short-listed 15 of them, following evaluation criteria such as potential contribution to economic growth, employment, export growth, and potential for building competitiveness. The selected group moved to the second phase of the application process, submitting detailed grant applications which were evaluated by an independent Evaluation Committee completing the final approval. The selected clusters and their respective coordination PSOs are shown in Table 5.

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44 The application process included clarification workshops, one-on-one sessions, and technical assistance, to facilitate it.
The general idea is that all PSDP support must be run within the context of what is good for the value chain first, i.e. within the context of a cluster.

The rest of the components of PSDP already launched are the following:

- **Enterprise Rating and Upgrading (ERU)**, which operates by conducting in-depth assessment/benchmarking of enterprises (affiliated with any of the ten approved clusters), and rating them against other local and international competitors to identify gaps and areas for improvement, followed by the development of a plan for upgrading. The program provides financial support for upgrading efforts. The JBDC and JTI will implement this activity on behalf of the PSDP.

- **Export Centres and Business Information Points**: provide export advisory services, and standardized and value-added business information, respectively. Services can be obtained through different modes, such as internet, printed material and personal/telephonic contact. There are three primary partners responsible for implementing the Export Centres and Business Information Points island-wide. JTI has overall management responsibility, and the agency collaborates with the JEA and the JBDC in the delivery of the service.

- **Corporate Finance Broker (CFB) Unit**: acts as a mediator between businesses and financial institutions that agree to participate in this program, so that the former can gain increased access to financing. The main services provided by this unit are business plan analysis; cash flow and budget review; review of marketing strategy, sales and distribution plans; review of technical strategy, production plan, and process flow; and identification of sources of finance and workshops on financial issues.

As part of the PSDP, consultancy firms and individual business service providers can become registered partners with the PSDP under what is expected to be an exhaustive database: the Business Service Provider registration facility. Besides being a mechanism to offer services to the public, qualified business service providers that are entered into this database will also have the opportunity to provide relevant services to PSDP beneficiaries under various
components of the program, including training for specific tasks such as enterprise competitiveness assessor for the ERU.

Through its components, this program aims to tackle several problems associated with small and medium-sized enterprises (SMESs). The lack of formal channels to identify and discuss with the authorities the challenges and opportunities faced by SMESs represents a very important problem. The process of developing an effective policy for MSMEs was initiated by the Ministry of Industry, Commerce and Technology, which has responsibility for the MSME sector. This ministry began researching the issues facing the sector and investigating international experiences in MSME development. The Target Growth Competitiveness Committee supported by the PSDP propelled the process by initiating discussions on a wider scale, including with a range of stakeholders. Those discussions precipitated decisions on the design of the policy process.

According to Hausmann and Rodrik (2003), the public-private dialogue is among the main characteristics of the new style of industrial policymaking. The idea is that imperfect knowledge of specific market distortions creates the need for an identification policy process, and because of this, policymakers should systematically be able to obtain information from the business sector about the constraints and opportunities that it faces. The institutional framework related to processes and procedures for selecting instruments to be used or sectors to be targeted has thus become one of the most relevant issues in the modern understanding of industrial policy.

Other traditional problems affecting MSMEs that this program intends to tackle are high transaction costs, which are barriers to entry to some markets, such as foreign countries; asymmetric information, which prevents firms from obtaining loans under normal conditions in the financial system, and the need for business capacity building. The cluster approach to development seems to represent a response to the coordination failures that reduce the supply of specialized providers of raw materials and components, the growth of a pool of sector-specific skills, and the rise of specialized technical, administrative, and financial services. Moreover, the essence of high-performance clusters is that they provide a stimulating learning environment for companies through a mix of competition and collaboration. Following this idea, the worldwide
growth of industry and regional clusters and business networks has been impressive, and the Jamaican cluster development program is another example of this.45

In spite of the potential benefits to firms, evidence shows that inter-firm cooperation and other features of successful clusters do not always emerge spontaneously. Three main factors significantly hinder this process: a) the significance of the transaction costs that need to be borne to identify suitable network partners and to forge relationships, b) the imperfect market functioning for the provision of crucial inputs for network development such as information and innovation; and c) the high risk of “free riding,” especially in contexts where the legal framework to back up joint endeavors is relatively underdeveloped.

The available literature bears out that the intervention of an "external agent" that facilitates the emergence of clusters can greatly reduce the significance of the above factors. Therefore, while cluster development was ideally a private-sector driven process, there is also an argument for government intervention in cluster promotion, especially in developing countries, such as those in the Caribbean, where private organizations are weak. An important principle in the design and provision of cluster development is demand orientation. The PSDP satisfies this principle through the process of selecting the clusters to be promoted.

Another operating principle that should be included in the policy of clustering is that the final stage of the cluster-building exercise should be a self-management phase. This means that the respective group of enterprises earning greater autonomy from the network brokers is capable of independently carrying out further joint activities. Self-management is not always an easy step. Clusters often tend to lean on broker's assistance for a longer time than initially envisaged. To avoid dependency, a recommended rule is that the fees which are normally charged to the network for the assistance given by the broker, which are initially quite low, should be progressively increased to encourage autonomy. The temporary condition of the PSDP seems to satisfy this rule.

Although the framework in which the PSDP helps to develop MSMEs is fairly adequate, it could fail to achieve its goals. A necessary condition for its success is that entrepreneurs must be enthusiastic in order to participate in this program. This is an important issue because in the past decade, there have been several government-funded business support services geared

45 However, little, if any, attempt has been made so far to gather systematic information about the policies and practices of these clusters (ECLAC, 2006).
towards developing and expanding MSMEs in Jamaica, but most Jamaican entrepreneurs have not taken advantage of these services. According to a survey carried out by the PSDP in 2008, when firms were asked “Have you ever used government-funded business support services?”, only 8 percent of respondents said “yes.” When those who claimed never to have used government-funded enterprise services were asked the reason for not using such services, roughly 50 percent failed to provide a response. Of those who did answer, an overwhelming 67.3 percent cited lack of awareness as the main reason. Issues of awareness or the lack of awareness have been longstanding where government support for enterprise development and expansion is concerned.

Undoubtedly, the government’s efforts through the PSDP have been important for the creation of an environment where entrepreneurship is encouraged. However several other strategies must be developed in order to effectively benefit Jamaican entrepreneurs.

4.4 ICT Strategy: E-Powering Jamaica 2012

The development of Jamaica’s ICT sector began in the early 1990s, with the collaborative efforts of the public and private sectors. Since then, the Jamaica Computer Society Education Foundation (JCSEF), with support from the Business Partners for Education, the Ministry of Education and Culture, the Human Employment and Resource Training Trust/National Training Agency (HEART/NTA), and other partners in the private sector, have been implementing programs to improve the quality of education in Jamaican schools through the introduction of computer technology.

In 1992, the JCSEF, in partnership with the HEART Trust/NTA, the private sector through the Business Partners, and secondary school communities, launched the Jamaica 2000 Project. The aim of this project was to establish a fully equipped 15-station computer laboratory in each secondary school, community college, and teachers college and provide in-service training for teachers. The initial aim of the project was to provide opportunities for students of the upper secondary level to pursue computer studies in the Caribbean Examination Council (CXC) examinations so that the pool of potential computer professionals could be enlarged. The use of computers later evolved to include remedial education in numeracy and literacy for students enrolled at the lower secondary level.
With the support of the IDB, the Ed tech 20/20 Technology in Education Project, which placed computer facilities in primary schools, was initiated by the Round Table Think Tank, a body comprising representatives from the public and private sectors, educators, the media and JCSEF.

The importance of promoting ICT was formally recognized in the National Implementation Plan (1996), which stated “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” (p. 27). The government of Jamaica made projections in the NIP which indicated that opportunities existed for information technology to be the driving force in the development of interactive training programs and distance education which would enhance training efforts of the information technology industry itself as well as through the entire educational system.

In accordance with this vision of using ICTs as tools to achieve national goals, in 1999 the government took steps to expand this industry. It liberalized the telecommunications sector lifted the monopoly on telephone services previously enjoyed by Cable and Wireless Jamaica Limited (C&W) and by Telecommunications of Jamaica. Since then, the telecommunications industry has experienced among the highest levels of expansion and investment of any sector in the Jamaican economy. One indicator of the sector’s performance is the explosion in the number of telecommunications licenses granted, increasing from a total of two in 2000 to 426 by 2006. Similarly, the number of internet service provider (ISP) licenses in Jamaica increased from 45 in 2001 to 80 by 2006. The formalization of the cable industry in 1998 opened up opportunities for 55 cable companies operating by 2007 to provide subscriber television services island-wide.

Another indicator of the performance of this industry comes from the data for sectoral investment and earnings. FDI inflows to the ICT sector averaged US$69 million per annum over the period 2001-2005, representing 11 percent of total FDI inflows over the period. Annual inflows of earnings from communication services and computer and information services have averaged US$199 million over the period 2001-2005, while annual outflows from these services averaged US$76 million, indicating that the ICT sector generated average net foreign exchange earnings of US$123 million annually between 2001 and 2005.

Jamaica has developed as one of the premiere destinations for Business Process Outsourcing and Contact Centers for service providers looking to the Caribbean for a near-shore
outsourcing location, largely due to the large English-speaking, trainable labor pool, proximity to the largest outsourcing market in the world (the United States), and competitive cost. Jamaica Trade and Invest (JTI) estimates that the ICT projects facilitated by JTI in the telecommunications and call centre industries employ over 14,000 persons, many of whom are engaged in the export of services. There are currently 18 contact centers in the sector, two of which are local companies and 16 are multinationals.

A.T. Keaney, an expert assessment and global management consulting firm that analyzes and ranks the top 50 locations worldwide and provides the most common remote functions, ranked Jamaica in 2007 as one of the top offshore destinations in the world. Jamaica is the only English-speaking Caribbean location on the list.

A range of international indices show that Jamaica has generally achieved a position midway among the nations of the world in the development of its ICT sector. For example, under the e-Readiness ranking produced by the Economist Intelligence Unit (EIU), which provides an assessment of a country’s status in terms of connectivity and its ICT environment, Jamaica’s 2007 ranking is 43 out of 69 countries. The World Economic Forum Network Readiness Index for 2006-2007 ranked Jamaica 45th of 122 countries in terms of the ICT environment, network readiness, and usage of ICT.

In fact, Jamaica compared favorably to Latin American and other Caribbean countries on a number of indicators relating to access, including the number of mobile subscribers and internet subscribers per 1,000 persons. However, it was behind the region in telephone main lines and personal computers per 1,000 persons and percentage of households with television sets. Jamaica also compared favorably on indicators relating to affordability, institutional efficiency and sustainability, and ICT applications, but trailed in the number of broadband subscribers, at 3.4 per 1,000 persons compared to 16.5 per 1,000 persons for the region.

The Jamaican government has put in place a number of tax incentives aimed at facilitating the growth of the ICT sector. Some of these are included in the Export Free Zone Act, the Export Industry Encouragement Act and Accelerated Depreciation/Special Capital Allowance. In addition to these general incentives, companies in the ICT sector with single entity free zone status can apply for licenses to provide their own telecommunications.46

46 This provision may allow them to achieve significant cost savings using technology such as Very Small Aperture Terminals.
Complementing these policies, the government has implemented a deliberate strategy to develop capabilities in a wide range of services. The Ministry of Energy, Mining and Telecommunications, which is responsible for setting the overall policy framework to guide the development of the ICT sector in Jamaica, also formulated the first five-year National ICT (NICT) Strategy in 2001. A year later, in May 2002, the government established the Central Information Technology Office (CITO), which is linked to the Ministry but is nonetheless an independent agency whose main mandate is strategic planning. CITO has recently launched a new five-year NICT Strategy for 2007-2012, the so-called E-Powering Jamaica 2012.

E-Powering Jamaica 2012 has been adopted as the foundation for the ICT sector plan within the long-term development plan for Jamaica’s Vision 2030. It is being spearheaded by the Planning Institute of Jamaica (PIOJ). This new five-year NICT Strategy is the result of extensive consultations and background research, as recommended by major multilateral organizations. The consultation effort included participation from industry leaders, government executives, planners, industry analysts, civil society, and the broader public, through direct interviews, electronic surveys, key influencers group meetings and round table discussions, and public forums held in Montego Bay, Ocho Rios, and Kingston. The background research undertaken consisted of the analysis of approaches used by several other countries in the development of their policies and strategies. The idea was to benchmark Jamaica’s unique approach against countries that are more or less parallel in a similar stage of economic and social development, such as Ghana and CARICOM partners Barbados and Trinidad and Tobago, those that have moved dramatically forward by leveraging the development opportunities presented by ICTs, such as Chile, Ireland, Malaysia and Singapore, well as more advanced economies, such as Canada and New Zealand.

The agreed objectives for the update project were to significantly increase the number of citizens that are educated and computer literate and improve their access to the ICT networks at affordable prices in order to generate more active use of the Internet for education, business development and public administration. The aim is to improve Jamaica’s position as a leader in the delivery of ICT-enhanced services and new investment opportunities within the Caribbean.

\[47\] The Ministry was responsible for the Telecommunications Act 2000 which governed the liberalization of the sector.
It requires improving the access and ownership of computers throughout the society, enhancing Internet penetration by establishing a more widely dispersed ICT infrastructure and deep broadband penetration (in publicly accessible spaces, including government buildings and housing developments, libraries, post offices, schools, and cyber centers), ensure involvement of rural Jamaica and inner city communities in the implementation of the NICT Strategy with the creation of Community Access Points (CAPs), and promoting greater use of Free and Open Source Software (FOSS) across all sectors of society.

There are several interlinked strategic thrusts within this stratagem, including education and training, expansion and diversification of wired and wireless broadband networks, and the establishment of an optimal e-governance framework. This is in addition to the promotion of e-business and ICT industry development with the assistance of JTI, and the promotion and search for financing for the development of a National ICT Research and Innovation Centre.

Table 6. E-Powering Jamaica 2007-2012, Strategic Thrusts and Objectives

<table>
<thead>
<tr>
<th>Strategic Thrusts</th>
<th>Strategic Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and Training</td>
<td>Highly Educated and Well Trained Jamaicans for the ICT Sector and Broader Business Community</td>
</tr>
<tr>
<td>Network Readiness and Infrastructure Development</td>
<td>Widely Available, Affordable, and Reliable High Speed Connectivity to ICT Network Infrastructure</td>
</tr>
<tr>
<td>e-Government</td>
<td>Greater Use of e-Government Services</td>
</tr>
<tr>
<td>e-Business and ICT Industry Development</td>
<td>Expanded Job Creation, Entrepreneurship and New Business Development</td>
</tr>
<tr>
<td>Research and Innovation</td>
<td>Growth in Innovation and Development of New ICT Products and Services</td>
</tr>
<tr>
<td>Cultural Content and Creativity</td>
<td>Greater Global Recognition and Rewards from Brand Jamaica</td>
</tr>
<tr>
<td>Legislative and Policy Framework</td>
<td>Greater Confidence in the Conduct of Digital Transactions</td>
</tr>
</tbody>
</table>

The Education and Training strategic thrust is positioned at the top to emphasize its fundamental importance. This prioritization is supported by feedback derived from the consultation process, where stakeholders emphasized the development of human capacity from pre-primary to tertiary levels and beyond, so as to cultivate a highly educated, well-trained workforce available to the ICT sector. The main policy goals in this area are to integrate
computer education into the pre-primary, primary and secondary school curricula, encourage open access to learning materials in support of teachers and students, develop an integrated network to serve schools and other educational institutions, encourage public-private sector partnerships in ICT training and structure programs for industry, facilitate learning, and implement incentives to attract and retain highly trained IT specialists locally and from the Jamaican diaspora.

Education and Training, Network Readiness and Infrastructure Development (which refers to extending the reach and range of broadband wired and wireless network infrastructures),48 and Legislative and Policy Framework (which seeks to build confidence in the secure use of ICT infrastructure and services by enacting and enforcing related regulations)49 are considered the three most strategic thrusts. They that are cross-cutting and they represent areas of strategic development that should be successfully implemented and established in order to give rise to effective advancement in all other areas, such as promoting e-government, e-Business and ICT Industry Development, research and innovation,50 and supporting the building of Brand Jamaica in the digital world (Cultural Content and Creativity).

The strategies to achieve the goals under the policy in progress include reviewing tax and duty policies for ICT in order to attract major specialized corporations to invest in Jamaica, expanding ICT-focused business parks for major service providers, developing financial and non-financial incentives and resource pools for Jamaican FDI, and creating incentives for rapid adoption and use of new generation networks. The official consideration of the ICT sector as one of Jamaica’s top contributors to GDP leads to the adoption of a strategy-driven approach that focuses on the need to identify and deliberately promote key areas of ICT industrial development. These sub-sectors have been chosen to exploit indigenous capabilities and foster sustainable growth of a knowledge-based economy.

48 The Ministry of Energy, Mining and Telecommunications recently led the development of the revised draft Telecommunications Policy 2007 to provide an updated policy framework for the sector. The policy has declared as its mandate the establishment of an island-wide modern telecommunications network, universal service for all Jamaicans, and wide deployment of broadband services.
49 The Electronic Transactions Act 2006 was enacted in April 2007 to promote confidence and security in electronic transactions. The government is also developing other companion legislations to further enhance the development of the sector, including the Data Protection Bill and the Cyber Crime Bill.
50 It includes funding for the development of a National ICT Centre of Excellence, driven by collaboration between universities and colleges, private and public sector, local research and development institutions, and international partners.
E-Powering Jamaica 2012, coordinated by CITO, is being implemented in a decentralized manner through an effective partnership of the respective government ministries, departments, and agencies with businesses, educational and training institutions, and communities across the country, as well as with regional partners and programs including CARICOM, the IDB, CIDA and the World Bank.\(^{51}\) The consensus view is that the most appropriate mechanism for the implementation, operation, and management of a government communications network is a PPP, following the model successfully applied by a number of countries including Canada, Chile, Singapore, and Trinidad and Tobago.

In sum, Jamaica has sought to identify new areas of competitive advantage in service exports, partially as a response to unfavorable prospects for traditional exports. One of the sectors identified for export development is ICT, as the size of the international information services market has grown, and Jamaica has already demonstrated significant potential in this area. Jamaica has been experiencing an explosion of interest from companies abroad as a preferred location for business process, customer contact and information technology outsourcing. This interest, due in part to natural comparative advantages, has also been facilitated by a deliberate government ICT strategy to develop capabilities in a wide range of services and to market and promote Jamaica as a premier location for offshore ICT services.

The government is committed to the development of a strategy for export growth in ICT, but at the same time it has indicated the need for a notable private sector involvement.

From a theoretical point of view, there is justification for promoting the use of ICT, especially in Jamaica. One argument is the presence of economy-wide externalities associated with this particular productivity-enhancing public good. In addition, Jamaica seems to have comparative advantages in ICT services. According to Rodriguez-Clare (2005), the best industrial policy entails the direct promotion of clustering in sectors in which the country has comparative advantages. Jamaica has emphasized strategic collaboration with the private sector concerning the design-related issues of the ICT promotion policy. This satisfied the most modern concept of industrial policy recommendations, as governments do not know what public inputs they need to provide (an “information problem” per Hausmann and Rodrik, 2008).

\(^{51}\) At present a number of ministries are developing ICT plans, jointly with CITO, including the Ministry of Education (E-learning) and the Ministry of National Security.
4.5. Export Promotion

Export promotion policies have acquired a fundamental role in overall economic strategy and policy orientation in Jamaica. Export Free Zones (EFZ) represent one of the main instruments for this purpose (See Section 4.2). EFZs are generally defined as geographically delimited areas administered by a single body, offering certain incentives (generally duty-free importing and streamlined customs procedures, for instance) to businesses which physically locate within the zone.

In Jamaica, EFZs are governed by the Jamaica Export Free Zones Act of 1982. Before an enterprise can take advantage of the concessions made available by this act, it has to be registered in Jamaica, export at least 85 percent of its production outside the CARICOM area in the case of a manufacturing company and 100 percent in the case of non-manufacturing companies, conduct all transactions in U.S. currency, and be located within the free zone area.

The "free-zone" status enables manufacturers and service providers to benefit from the indefinite exemption from income tax on profits as well as import duties, licensing and quantitative restrictions, with customs procedures being reduced to a minimum. A special provision under this Act also permits the repatriation of foreign exchange by overseas investors to its parent company without any form of recourse on the part of the Jamaican government. Incentives associated to EFZs also include location facilities. Approved activities are warehousing and storing, manufacturing, trans-shipment operations, exporting, importing, services operations, assembling, processing, refining, and merchandising.

Changes to this legislation introduced in 1996 permitted enterprises that are publicly managed free zones, free zones under the control of private sector development and management, and single entity free zones (SEFZ) outside the EFZ to apply for free zone status (that is, individual companies designated as free zones).

The first EFZ, Kingston Free Zone (784,000 square feet), was established in 1976. It was later followed by Montego Bay Free Zone (488,110 square feet), Garmex Free Zone (697,000 square feet), Cazoumar Free Zone52 (70,000 square feet, created in 2000) and Portmore Free Zone. All zones, except the Cazoumar Free Zone, are publicly owned.

52 Perhaps the most notable trend over the past 15 years has been the growing number of privately owned, developed, and operated zones worldwide. Available data suggest that private zones are less expensive to develop and operate than their public counterparts, and yield better economic results (FIAS, 2008).
The Port Authority of Jamaica, in collaboration with the Ministry of Foreign Affairs and Foreign Trade, is presently looking for investors with the objective of creating a massive logistical center, including a free zone (Caymanas Multi-Purpose Industrial Park/ Caymanas Economic Free Zone). The EFZ will house business entities drawn from some of the key growth sectors of the Jamaican economy, namely, ICT), manufacturing and agro-processing, and creative industries. The Economic Free Zone will also house a research institute and business incubation centers.

The relevance of FTZ in Jamaica policy design is increasing as international trade liberalization advances. Traditional trade policy focuses on market access by guaranteeing preferential access to developed countries’ markets. As a consequence, Jamaica participates in four main preferential schemes:

- Caribbean Basin Initiative (CBI): 28 Central American and Caribbean countries receive duty-free access to the U.S. market for a specified list of products;
- CARIBCAN: Commonwealth Caribbean countries receive duty-free access to the Canadian market for most products except textiles and apparel as long as they satisfy the specific requirements of rules of origin;
- Generalized System of Preferences (GSP): several industrialized countries allow for duty concessions to exports originated in developing countries. The magnitude of the duty concession and the number of countries covered vary among countries. Jamaican products are accorded GSP benefits by Australia, Austria, Canada, the Czech Republic, the European Union, Japan, New Zealand, Poland, the Slovak Republic and Switzerland; and
- ACP: Jamaica is member of the African, Caribbean and Pacific group of states that benefit from the Cotonou agreement with the EU. In the case of Jamaica covers trade in bananas, sugar and rum. These preferential trading agreements have been replaced by Economic Partnership Agreements, free trade areas that will enter fully into force in 2020. Trade liberalization is considered a major economic concern over the next years as many products –mainly from agricultural sector- are losing their preferential market access.
Smallness has important implications for export performance and the development of an export strategy. Small economies’ inability to reap benefits from economies of scale and scope leads to higher unit costs as a result of sub-optimal firm size, lack of complementary in tradable activities, domestic production of inputs, and inefficient spatial productive hierarchy. Due to their insularity, transport costs are higher per unit of traded goods than for other countries. Moreover high transport costs constrain the development of productive activities such as agriculture and manufacturing that are dependent on imported inputs.

Small states, such as those of the Caribbean, are more likely to produce a narrow range of products. For this reason, it is often suggested that CARICOM states do not generally pursue export diversification goals. An exception to this norm has been Jamaica, which has had a wider scope for export diversification. This goal has nonetheless encountered important limitations at the level of policy formulation and implementation. The high values of diversification index attests to the narrow export base of the countries of the region, including Jamaica (UNCTAD, 2003). Another indicator of the poor results of Jamaican diversification policy is that traditional exports have remained by far the most important component of merchandise exports, representing 71 percent of the total on average during 1995-2000 and 72 percent in 2007.

The mining sector, dominated by bauxite and alumina, is an important source of foreign exchange and the most important component of traditional exports. As the export value of these minerals is affected by variations in their international price, it diminishes their basis as a potential export platform, and technical and social problems will then follow. In the last decade, exports of manufactures suffered a substantial reduction, mainly as a consequence of the strong decline in the share of apparel exports (from more than 15 percent of total exports to less than 2 percent) due to Mexican competition related to the North American Free Trade Agreement (NAFTA) in the U.S. market.
Table 7.

Selected Caribbean Countries: Export Patterns

<table>
<thead>
<tr>
<th></th>
<th>Number of commodities exported</th>
<th>Diversification Index</th>
<th>Concentration Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barbados</td>
<td>65</td>
<td>0.732</td>
<td>0.177</td>
</tr>
<tr>
<td>Dominica</td>
<td>16</td>
<td>0.63</td>
<td>0.433</td>
</tr>
<tr>
<td>Jamaica</td>
<td>74</td>
<td>0.857</td>
<td>0.571</td>
</tr>
<tr>
<td>Suriname</td>
<td>35</td>
<td>0.847</td>
<td>0.659</td>
</tr>
<tr>
<td>T&amp;T</td>
<td>144</td>
<td>0.796</td>
<td>0.408</td>
</tr>
</tbody>
</table>

Note: The diversification index refers to the absolute deviation of the country share from the world structure. Higher values indicate less diversification in the export structure. The concentration index is the Herfindahl-Hirschmann index; it ranges from 0 to 1, and a value of 1 is an indication of maximum concentration.


Within this overall economic and export context (declining manufacturing sector, an agricultural sector that is losing its preferential market access, and a mining sector subject to external shocks), the Jamaican authorities have opted for a trade policy that has two main objectives: protectionism combined with export promotion (see Table 7). The new policy recognizes that Jamaica must create a broad export base and reflects the authorities’ concern over Jamaica’s lack of competitiveness. It also highlights the importance of regional, hemispheric, and multilateral trading arrangements.

The dynamics of recent trade liberalization place great importance on the continued development of focused investment and export promotion mechanisms such as EFZs that provide a simplified regulatory environment. In fact, for developing countries, EFZs traditionally have had both a policy and an infrastructure rationale.

In terms of policy, EFZs have traditionally been considered a useful tool as part of an overall economic growth strategy to enhance industry competitiveness and attract FDI. Through EFZs, governments aim to develop and diversify exports while maintaining protective barriers, to create jobs, and to pilot new policies and approaches (for example, in customs, legal, labor,

53 This policy replaces the previous one, which focused on market access through agreements granting preferential conditions.
54 EFZs are viewed as highly effective tools for job generation, particularly for women entering the workforce. Evidence suggests that such zones are a much more significant source of employment in smaller countries with populations of less than 5 million, like Jamaica, than in larger countries.
and public-private partnership aspects). Tax breaks are conferred to firms that export most of their production, and this is a way to use tax policy to favor footloose “successful” investment (Rodríguez-Clare, 2004). EFZs also allow for more efficient government supervision of enterprises, provision of off-site infrastructure, and environmental controls. In sum, EFZs can be seen as a policy to “try” an open economy within a not-so-open environment. In this case, EFZs should be a transitional policy, not a permanent one.

![Table 8.](image)

<table>
<thead>
<tr>
<th>Diversify exports</th>
<th>Objectives and Strategies to Achieve Them</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. Diversify exports</td>
</tr>
<tr>
<td></td>
<td>a. Negotiate removal of tariff and non-tariff barriers in overseas market with an asymmetrical time frame</td>
</tr>
<tr>
<td></td>
<td>b. Provide incentives for development of domestic capital formation</td>
</tr>
<tr>
<td></td>
<td>c. Assist in the development of strategic firms</td>
</tr>
<tr>
<td></td>
<td>2. Displace imports</td>
</tr>
<tr>
<td></td>
<td>a. Facilitate access to cheaper imports</td>
</tr>
<tr>
<td></td>
<td>b. Slow the pace of domestic tariff and non-tariff reduction</td>
</tr>
<tr>
<td></td>
<td>c. The pace of tariff and non-tariff reduction should conform to the growth and development of the domestic capital stock</td>
</tr>
<tr>
<td></td>
<td>3. Attract foreign capital flows</td>
</tr>
<tr>
<td></td>
<td>a. Implement charter for returning residents</td>
</tr>
</tbody>
</table>

Source: Ministry Paper No.69.

EFZs can be considered horizontal PDPs that attempt to solve some market failures, as international trade and FDI are regarded as two key channels for technology transfer. The lack of empirical evidence supporting this assertion suggests that if the amount of tax expenditures associated with this program is high, as it is in the case of Jamaica, it is worthwhile carrying out a cost-benefit analysis of this policy. On the other hand, what makes EFZs a possible facilitating channel for cluster development and positive externalities is more related to agglomeration than to tax breaks.

More importantly, however, in developing countries, EFZs can be seen as the response to government failures. If the country is not attractive to investment because of insufficient

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55 Still, EFZs could limit linkages between the firms located there and the rest of the economy, making them a poor development policy (Rodríguez-Clare, 2004).
56 Clustered firms improve productivity through technology or knowledge spillovers.
infrastructure, high tax burdens, policy instability, or other government failures, an EFZ can be a mechanism to provide specific public goods in a more efficient manner (since it is geographically targeted) and to isolate firms from other appropriability risk. In this way, EFZs can play an important role in attracting FDI by offsetting some aspects of an adverse investment climate, through offering world class facilities and best practices (FIAS, 2008). In the case of Jamaica, crime and inefficient government bureaucracy appear as the most problematic factors for business growth (World Economic Forum, 2008), and both obstacles are relatively easily addressed through EFZs facilities, without compensatory measures such as tax breaks.57

The general experience shows that while EFZs have been effective in addressing economic growth and development objectives, they have not been uniformly successful (FIAS, 2008). Jamaica's free zones used to be the main apparel production centers. The scaling down of this industry since 1998 has also affected free-zone exports. EFZs employed over 6,000 people in 2007, down from 16,444 in 1994; exports58 by EFZ entities amounted to US$40 million in 2007 (6.5 percent of non-traditional exports and 2 percent of total exports), US$115 million in 2000 and close to US$300 million in the mid-1990s. The Bank of Jamaica has reported that exports from free-trade zones are affected by the relocation of companies to lower cost countries.

Most of the factory space in the Kingston and the Garmex EFZs is used for warehousing and distributing activities. In 2003, 14 enterprises were engaged in the Kingston Free Zone (six in manufacturing), down from 17 enterprises in 2002. The Montego Bay Free Zone has succeeded in expanding ICT business and increasing employment, despite the loss of most of its manufacturing enterprises.59 In 2002, it had 22 enterprises in operation, of which 16 were in information technology, five in manufacturing and one in warehousing and distribution. In 2003 the number had decreased to 17 enterprises. The Garmex Free Zone has also suffered from decreasing manufacturing activities. In 1997 a decision was taken to dezone part of the area in a venture to undertake non-free-zone activities. Currently, only three manufacturing companies (all in garment manufacturing) are operational. The Cazoumar Free Zone, the first private free zone

57 Obviously, the most appropriate approach should be to eliminate those obstacles that provoke the government failure.  
58 Neither imports nor exports from EFZs are included in national trade statistics.  
59 The Montego Bay Free Zone is particularly conducive to investments in the information technology sector due to the presence of Jamaica Digiport International, which holds powerful data transfer facilities for international exchanges as well as sophisticated imaging, voice, and facsimile services.
in Jamaica, currently has five operators (all in IT and IT-related areas) and employs 1,000 persons.

In short, the Free Zone regime in Jamaica, at the macro level, has facilitated investment (foreign and local) in traditional as well as in new areas of business and has provided employment, but is failing to contribute to foreign exchange earnings. The original objective of EFZs was to promote non-traditional exports to third markets, but the non-traditional exports ratio is stagnated, and those originated in EFZs are a very low proportion of the total. EFZs exports have therefore also poorly contributed to market diversification.

A related phenomenon could be low value-added in some of the FDI activities involved (explaining, in part, the investment-growth paradox of the Jamaican economy), highlighting weak production linkages with the productive apparatus. Three decades of zone development experience suggests that the failure or success of a zone is linked to its policy and incentive framework, where it is located, and how it is developed and managed. This experience shows that the use of generous incentives packaged to offset other disadvantages (such as poor location or insufficient facilities) is ineffective in terms of overall zone performance, due in large part to the increasing commonality of zone investment incentives in recent years (FIAS, 2008).

Besides these fiscal incentives, Jamaica provides some facilities for export financing, with the National Export-Import Bank being the main institution offering instruments such as the Export Credit Facility, a post-shipment facility that provides working capital support in local currency to exporters (see Table 9).
<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Export credit insurance</strong></td>
<td>Covers foreign receivables against the risk of nonpayment by foreign buyers</td>
</tr>
<tr>
<td><strong>Foreign currency lines of credit for short term trade credit</strong></td>
<td>Covers imports of raw materials, equipment, capital goods, spare parts by firms involved in manufacturing, distribution, agriculture or service provision</td>
</tr>
<tr>
<td><strong>Cuban line of credit</strong></td>
<td>Aimed at facilitating the entry of Jamaican exports to Cuba</td>
</tr>
<tr>
<td><strong>Export factoring program</strong></td>
<td>Assists in the development and diversification of nontraditional exports</td>
</tr>
<tr>
<td><strong>Export credit facility</strong></td>
<td>Provides working capital support in domestic currency to exporters of non-traditional products. Loans are granted for a maximum of 120 days on a revolving basis</td>
</tr>
<tr>
<td><strong>Bankers export credit facility</strong></td>
<td>Provides shipment finance in domestic currency to exporters of non-traditional goods. Loans are granted for a maximum of 120 days on a revolving basis</td>
</tr>
<tr>
<td><strong>Pre-shipment facility</strong></td>
<td>Includes prepaid shipment financing in domestic currency to exporters of non-traditional products. Loans are granted for a maximum of 90 working days to purchase local raw material for export</td>
</tr>
<tr>
<td><strong>Export loan</strong></td>
<td>Provides loans on a short or medium term basis and on concessionary terms of financing</td>
</tr>
<tr>
<td><strong>CoPack Facility</strong></td>
<td>The facility has a capital, operates on a revolving basis and it consists of working capital loans that allow access to one short term low cost pre-shipment financing</td>
</tr>
<tr>
<td><strong>Ornamental fish farming loan program</strong></td>
<td>Grants funding to farmers (existing and new entrants) in the export trade of ornamental fish, to farmers providing vital linkages to exporters</td>
</tr>
<tr>
<td><strong>Modernization fund for exporters</strong></td>
<td>Provides loans to exporters firms or foreign exchange earner.</td>
</tr>
<tr>
<td><strong>Small business facility</strong></td>
<td>Provides working capital finance at a preferred rate of interest to small and medium sized business</td>
</tr>
</tbody>
</table>

*Source: UNCTAD (2003).*
Jamaica is also active in trade promotion activities through Jamaica Trade and Invest (JTI, formerly JAMPRO), a national agency focused mostly on investment and export promotion within the leisure industry (tourism, film, and music); manufacturing; bauxite and mining; agriculture and agro-industry; information technology and knowledge services.

JTI helps exporters promote their products and locate and penetrate foreign markets by providing marketing information. It has opened offices in several cities, including New York and London, intending to facilitate trade and to represent Jamaican companies at trade fairs. The economic justification for government involvement in these activities is based on the theory of asymmetric information and other market failures. The evidence suggests that on average export promotion agencies have a positive and statistically significant impact on national exports (Lederman, Olarreaga et al., 2006).

The performance of the Jamaican agency in its efforts to connect businesses to international markets has been considered outstanding by the International Trade Centre60 and the World Trade Organization (WTO). In the last two years, it has won the Global Export Promotion Award for the best trade promotion organization from a small country. Among the issues considered for Jamaica to have been selected was the dialogue launched with key stakeholders, aimed at developing a unified national export strategy.

JTI is also seeking to develop new markets. It is the main implementing agency of programs such as the Private Sector Development Programme (PSDP), and through their own initiatives in non-traditional target areas. In particular, JTI has selected the following strategic projects to support:

i) **Flavors of Jamaica**, which focuses on market entry and partnership opportunities for individuals or clusters of companies dealing with functional foods, nutraceutical ingredients, seasonings, condiments, spices, and other authentic Jamaican food and beverages. It involves the developing and testing of market entry strategies for North America, Europe and regional markets.

ii) **Linkages**: JTI has developed a strategic relationship with hotel chains within the country, and is working to establish a reliable supply chain to create access to the hotel market for Jamaican food and beverage suppliers.

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60 Agency of the United Nations.
Thus, with respect to export promotion in Jamaica, there are two very different policy approaches: the traditional one, through the EFZs, and the more modern and innovative one, supporting the first comers to new developments and strengthening linkages with the main external market, geographically indoors: tourism.

EFZs implied a considerable fiscal effort but did not help to boost exports or to diversify the economy. On the contrary, the innovative approach of JTI –although too early to be properly assessed—seems to follow modern principles of industrial policy development: as a discovery process—one where firms and the government learn about underlying costs and opportunities and engage in strategic coordination.

Beyond the critical appraisal of EFZs and the cost-benefit analysis suggested, a relevant issue in the discussion of this PDP is its compatibility with WTO rules. Related to this, Export Industry Encouragement Act and the Jamaica Export Free Zones Act have been brought before the WTO as containing export subsidies. Jamaica was in the first instance expected to eliminate its export subsidies by the January 1, 2003 in order to be in compliance with the requirements of WTO’s Agreement on Subsidies and Countervailing Measures. Pursuant to Doha Ministerial Decision on implementation, Jamaica however received an extension which expired on December 31, 2004. The extension is renewable annually under fast-track procedures subject to transparency and standstill requirements.

5. Summary and Conclusion

Historically, the Jamaican economy has had an agricultural base. New economic developments began with bauxite mining (after 1952) and the tourism boom in the 1950s and 1960s. However, brisk economic growth in these years was followed by modest performance over the last two to three decades. Despite the structural reforms implemented in the 1990s, however, the current GDP per capita at constant prices is roughly the same as it was in 1970, when only few sectors have been dynamic (tourism, telecommunication and bauxite) and unemployment rates have remained above 10 percent of the labor force.

The causes are complex, but behind such a poor performance has been the heavy burden imposed by a long history of high public debt. High debt requires increased tax collection and external borrowing, and it may also have helped to keep interest rates relatively high.

61 However, these market-oriented reforms were incomplete: the State still plays a large role in the economy.
In addition, the “debt overhang” appears to have very little effect on investment, the usual channel through which debt affects growth, but rather skewed it towards safer but lower-return activities and industries. Actually, investment rates are high—averaging over 25 percent of GDP in the last 15 years—as Jamaica has been attracting FDI through a flawed tax system that favors capital expenditures, even when they are not very productive. High investment can also reflect an inefficient substitution of capital for labor due to rising and high real wages—pushed by powerful trade unions—and labor market rigidities. The trend of high investment rate and low growth has implied a decline in productivity of 0.5 percent a year from 1960 to 2000, compared to a 0.9 percent increase for the world average (Downes, 2004).

Furthermore, high debt services and generous tax incentives to investment (tax expenditures) limit the government’s ability to channel funds into social and physical infrastructure. Given the complementarities between public and private investment, countries with very low public investment, such as Jamaica, appear to grow more slowly, even if private investment remains high.

Though there are other possible reasons for the coexistence of a relatively high investment/GDP ratio and low economic growth, such as the underestimation of GDP due to the increasing significance of the informal sector; or that much of the capital created in the early 1990s has been to protect against crime; the great levels of emigration of the most skilled labor force; or the macro volatility and constraints on growth caused by natural disasters (hurricanes and floods), it is likely that high debt and tax incentives for investment are key explanatory factors.

The complicated and comprehensive incentive schemes undoubtedly dominate the industrial policy of the country. Jamaica, like most other Caribbean economies, followed this policy inspired by the strategy known as “Industrialization by Invitation” formulated by Nobel Laureate Sir Arthur Lewis. Lewis thought that the limited amount of islands trade prevented these economies from exporting on a competitive basis because they could not afford incurring the cost of breaking into established export supplier markets. Instead, he recommended that these small countries should, through a series of incentives, attract foreign entrepreneurs to install and open their businesses and factories in the islands. Foreign capital was therefore viewed as a means of overcoming limitations to industrial development imposed by the small volume of trade of Caribbean economies.
In addition, foreign capital would contribute to the acquisition and development of fundamental managerial, entrepreneurial and administrative skills that were absent in newly-developing economies. Over time, after a learning period, it was thought that local entrepreneurs would possess the capacity to start their own ventures and the creation of their respective national industrial bases.

English-speaking countries, following these proposals, passed a series of fiscal legislative incentives upon gaining their independence. They also formed a regional integration scheme (CARICOM) that provided the framework for a customs union and, at least during the 1970s, a common regional approach to industrialization and tax incentive policies. The regional policy of fiscal subsidies was formalized in the Agreement for the Harmonization of Fiscal Incentives (1973). The agreement conceived fiscal policy as a microeconomic tool providing incentives to promote industrialization and to develop the mining and tourism sectors. While the legal framework was conceived at the regional level, its implementation was carried out at the national level.

In the case of Jamaica, its tax system includes an extensive set of incentives for investments, many of which have accumulated over a period of more than half a century and are accessible to local and foreign investors. Typically they provide relief from income tax on earnings as well as concessions on import taxes and duties to eligible enterprises for a period of time that may range up to fifteen years, while some incentives provide other benefits such as capital allowances. Many incentives are specific to particular sectors; the most benefited ones are tourism, industry, bauxite and mining, agro-processing, creative industries, shipping and ICT, all of them strategically selected by the government through different economic development plans.

Some generous investment incentives are granted through the EFZs, one of the main instruments for promoting non-traditional exports to third markets. The "free-zone" status enables manufacturers and service providers to benefit from the indefinite exemption from income tax on profits as well as import duties, licensing and quantitative restrictions, with customs procedures being reduced to a minimum.

Therefore, since the 1970s and 1980s, Jamaica’s industrial policy of Jamaica was based on two pillars: granting selected tax incentives to attract FDI and/or as part of an export promotion strategy. The complex system of tax incentives distorts the actual structure of taxation, with the result that the private sector in Jamaica is relatively highly taxed on one hand,
or not taxed at all on the other. The implied allocation of capital is very inefficient: taking into account the level of interest rates, in sectors without subsidies, investment projects require that productivity be extremely high; in other sectors, productivity could be so low as to allow even negative rate of return projects.

Beyond the distortions generated by such a policy, the dedicated tax expenditures, and the extensive informality induced in non-favored sectors, it has contributed to rent-seeking behavior and corruption. Previous studies have shown that the prevailing paradigm for public-private dialogue in Jamaica has been predominantly informal, with an alarmingly high amount of ministerial discretion in the provision of exemptions for tax and customs.

The analysis of the effects of the tax incentive policy suggests that this strategy seems to have been successful in attracting foreign capital. However, the performance is not so impressive when compared to the evolution of worldwide and regional inward FDI flows. In addition, as in the rest of the English-speaking Caribbean, the export growth of the dynamic sectors has not been sufficient to offset the underperformance of the declining ones, and EFZs have contributed poorly to market diversification.

From an analytical point of view, there is growing skepticism about the traditionally well-accepted view among economists and policymakers that attracting FDI is essential for economic growth and development. The empirical literature is not conclusive about the positive externalities to the rest of the economy which might justify the promotion of both foreign investment and exports. On the other hand, with the benefits of EFZs are more related to agglomeration than to tax breaks, which make this tool a possible channel for cluster development (considered a source of positive externalities).

In developing countries, EFZs have been seen as the response to government failures: EFZs can play an important role in attracting FDI by offsetting some aspects of an adverse investment climate, through offering world-class facilities and best practice policies.\textsuperscript{62} Three decades of zone development experience suggests that the use of generous incentives packages to offset other disadvantages is ineffective in terms of overall zone performance, due in large to the increasing commonality of zone investment incentives in recent years.

\textsuperscript{62} The EFZs can also be seen as a policy to “try” an open economy within a no so open environment, but in this case, the EFZs should be a transitional policy, not a permanent one.
These results make the case study more relevant. A preliminary assessment suggests that the Jamaican economy does not escape the general pattern: strong examples of the hypothesis of low spillovers are the very few linkages found between tourism development and local communities, and between firms in the EFZs and the rest of the economy. On the other hand, crime and inefficient government bureaucracy appear as the most problematic factors for business growth, and both obstacles are relatively addressed through EFZs facilities, without even compensatory measures as tax breaks.

The controversial empirical evidence about the benefits of the tax incentive policy to attract FDI suggests that if the amount of tax expenditures associated with this program is supposed to be high, as it is in the case of Jamaica, it would be worthwhile to carry out a cost-benefit analysis of this policy. At present, an extensive review of proposed tax reform measures is underway, taking into account previous tax reform studies. The Foreign Investment Advisory Service was asked to assist in the review, and among the proposals advanced are a reduction of the corporate income tax rate to 25 percent and the elimination of all tax holidays. However, the government of Jamaica is reluctant to do this. Even though they were introduced in response to perceived market failures in the past, fiscal incentives are very difficult to dismantle because of strong lobbying by rent-seeking organizations.

While export promotion and foreign investment attraction continue to constitute the most relevant policies carried out presently, since the beginning of the present decade a new set of PDPs has been put in place. Most of these policies share with the traditional ones the vertical approach: they are focused on specific areas, sectors, and industries. However, they seem to respond to the most modern vision of industrial policy: they involve a closer and formal approach to public-private dialogue, they promote clustering in sectors that already show some comparative advantage, and they try to address coordination and information failures.

One example of this new generation of policies is the Master Plan for Sustainable Tourism Development, formulated in 2003. It was designed as a two-stage process to facilitate consultation to build consensus on the direction in which the industry should take. Recognizing that the key to improving the competitive position of Jamaican tourism is greater diversification,

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63 IDB (2007) simulated a scenario where the statutory rate was reduced to 20 percent, but at the same time tax-incentives and deductions were eliminated for some “targeted” sectors (communications, electricity, construction, and tourism/hotels). Under these conditions, it was possible for the economic outcome to be positive: short-run output increased by 0.4 percent annually and long-run output rose by 3.8 percent.
the plan emphasizes the forging of stronger linkages between tourism and other productive sectors, greater community involvement, showcasing of Jamaica’s culture and heritage, and event-led promotion. It is considered that a sustainable market position must be based on Jamaica’s heritage, which is natural, cultural, historic and built. In this way, this PDP aims at fostering the leakages of tourism to the rest of the economy.

The apparent coordination failures that the Master Plan aims to address seem to arise from the perceived desirability of differentiating Jamaica from other similar places in the region by focusing on its culture and heritage, which requires greater involvement of local communities.

The plan highlights the importance of creating linkages between the tourism industry and other sectors, through minimizing leakages (food, drinks, linens, towels, etc.). This is an area where self-discovery externalities must have been preventing the development of certain activities. It is likely that some goods could be locally produced in a profitable way, but learning “what and how” requires investments whose social value exceeds their private one. The national agency of investment and export promotion, JTI, is working on this area through the development of its own initiatives. For example, JTI has developed a strategic relationship with hotel chains within the country, and is working to establish a reliable supply chain to create access to the hotel market for Jamaican food and beverages suppliers.

It would be interesting to review the coherence of the Master Plan with the traditional tax incentive regime. For example, tourist resorts import some of the foodstuffs that they use, and this is not surprising given the duty concessions set by the legal framework. The “all-inclusive” hotels, the largest ones on the island, seem to have weak linkages to the rest of the economy because they are not integrated with the communities in which they are located. Yet most incentives are aimed at these large facilities.

Other example of initiatives included among the new style of industrial policy is the Private Sector Development Programme (PSDP), a joint project of the Government of Jamaica and the European Union launched in 2005. The PSDP intends to enhance the performance of small and medium enterprises applying modern approaches, such as firm and sector assistance and/or grants that are managed by private sector organizations and support institutions, clustering, and formal dialogue between public and private sectors.

The selected clusters for grant assistance are to four targeted sectors (creative industries, tourism, agribusiness, and services), and were chosen taking into account their comparative advantages.
According to Hausmann and Rodrik (2003), the institutional framework—in particular, public-private dialogues—related to processes and procedures for selecting instruments to be used or sectors to be targeted become one of the most relevant aspects of modern industrial policy.

With respect to clusters, in spite of the potential benefits for enterprises, evidence shows that inter-firm cooperation and the other features of successful clusters do not always emerge spontaneously due to market/government failures (transaction costs, high risk of “free riding”, etc.). The available literature bears out that the intervention of an “external agent” that facilitates the emergence of clusters can greatly reduce the significance of these obstacles. Therefore, while cluster development is ideally a private-sector driven process, there is also an argument for government intervention in cluster promotion.

With regard to export promotion, in the last years the traditional policy approach through the EFZs has been complemented by a more modern and innovative one. It includes JTI supporting the first comers to new developments (facilitating the expansion and development of agribusiness and agro-processing in non-traditional target areas and markets), and being active in trade promotion activities. The economic justification for government involvement in these activities is based on the theory of asymmetric information and other market failures. The resulting evidence suggests that on average export promotion agencies have a positive and statistically significant impact on national exports.\textsuperscript{65}

EFZs implied a considerable fiscal effort and did not help to boost exports or to diversify the economy. On the contrary, the innovative approach of JTI—although too early to be assessed—seems to be the modern way of thinking about industrial policy: a process of discovery where firms and the government learn about underlying costs and opportunities and engage in strategic coordination.

The two approaches of industrial policy that are present in many areas of the Jamaican economy are also evident in the ICT sector. Jamaica has developed as one of the premiere destinations to Business Process Outsourcing and Contact Centers, largely due to the large English-speaking, trainable labor pool, close proximity to the largest outsourcing market in the world, and competitive cost.

\textsuperscript{65} The performance of the Jamaican agency in its efforts to connect businesses to international markets has been considered outstanding by the International Trade Centre and the World Trade Organization: in the last two years, it has won the Global Export Promotion Award for the best trade promotion organization from a small country.
Having identified ICT as one of the sectors for export development, the government implemented a deliberate strategy to develop capabilities in a wide range of ICT services. The most recent one is a five-year NICT Strategy for 2007-2012, the so-called project E-Powering Jamaica 2012, which was the result of extensive consultations and background research, as recommended by major multilateral organizations.

The agreed objectives for the updated project were to significantly increase the number of citizens that are educated and computer literate and to improve their access to ICT networks at affordable prices, in order to generate more active use of the Internet for education, business development, and public administration. The aim is to improve Jamaica’s position as a leader in the delivery of ICT-enhanced services and new investment opportunities in the Caribbean.

The strategies to achieve the goals under the policy in progress include reviewing tax and duty policies for ICT in order to attract major specialized corporations to invest in Jamaica, expanding ICT-focused business parks for major service providers, developing financial and non-financial incentives and resource pools for Jamaican FDI, and creating incentives for rapid adoption and use of new generation networks.

From a theoretical point of view, there is justification for promoting the use of ICT, especially in Jamaica. One argument is the presence of economy-wide externalities associated with this activity: it is the kind of public good that enhances the productivity of the whole economy. Besides, Jamaica seems to have comparative advantages in ICT services. According to Rodriguez-Clare (2005), the best industrial policy entails the direct promotion of clustering in sectors in which the country have comparative advantages, but a policy against comparative advantage may be even welfare improving in the presence of large and inter-industry externalities.

In summary, behind the poor performance and the paradox of high investment and low growth of the Jamaican economy are the “debt trap” and a highly distortive tax incentive structure to attract FDI and promote exports. Although industrial policy is moving towards a more modern conceptual design, the old schemes seem politically difficult to be dismantled. If possible, the common mistakes of the past should be avoided. Subsidies must be contingent on performance and granted on a temporary basis.
References


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