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**Jamaica Exporters' Association
June 29, 2011
Wyndham Kingston Hotel**

Imagine a New Brand Jamaica!

Strategies to achieve economic growth



2011

Greetings

Your Excellencies, Sir Patrick Allen, Most Honorable Lady Patricia Allen, President of the Jamaica Exporters Association, Mr. Vitus Evans, [Honorable Prime Minister, Mr. Bruce Golding], Honorable Ministers, distinguished guests, ladies and gentlemen, good evening. It is my pleasure to be here with you.

Introduction

Today marks the culmination of exporters' month. I join with everyone in offering heartfelt congratulations to those companies who are being recognized for achieving excellence in exports, and to all who continue to strive in this challenging business environment. Your contribution to growth is duly noted, and so tonight, in an effort to emulate and multiply these achievements, our focus turns to considering strategies to bolster economic growth. As we ponder how we might achieve a level of growth that translates to shared prosperity, improved living standards and a reduction in poverty, I challenge you to:

- Imagine a new "Brand Jamaica," where low crime, welcoming business environment, high productivity, and fiscal prudence equal strong economic growth;

- A new Brand Jamaica, where the confines of national boundaries do not limit the vision of maximizing potential value-added from natural endowments; and
- A new Brand Jamaica, where the global stage is the accepted metric of comparison, and the country, recognizing parts are secondary to the whole, is unified in being active participants in realizing that vision.

To begin, how do we achieve more growth?

More growth is generated by getting as much as possible from the combination of technology, capital, labor, and other inputs. Growth facilitators include a stable and enabling economic environment, sufficient access to and provision of financing, adequate institutional frameworks, good governance and rule of law. On the other hand, a high tax burden, market distortions, political instability, and the absence of the enablers inhibit growth.

To act means a prior recognition of a need. Sometimes, our growth/wealth creation model needs a hard look, a dispassionate critique highlighting strengths and weaknesses - a review of our

individual and national portfolios as it were. To imagine the future, we must at least understand where we are in the present and the factors contributing to the current state.

What has been Jamaica's experience?

Over the past two decades, Jamaica has experienced growth averaging a mere 1%, and its share of exports globally has declined relative to Latin America and other Caribbean countries like Trinidad and Tobago and the Dominican Republic. Relatively undiversified exports and limited markets make us highly vulnerable to external shocks. Further, compared to other countries in the Caribbean, labor costs have been less competitive. According to the World Bank, between 1993 and 2007, real wages grew faster than labor productivity, contributing to a reduction in profitability among the various sectors.

The low growth can be linked to a few key obstacles – high levels of crime, deficient human capital, a challenging business environment, and fiscal distortions - each contributing to low productivity- directly or indirectly - through economy-wide linkages.

To map a path different to that which exists, it would seem reasonable to think about strategies to mitigate the impact of these key obstacles. So let us agree that the status quo is unacceptable and take some time to re-imagine the future.

On high crime: Imagine Brand Jamaica with the present crime rate reduced by one half or more? According to the PIOJ Growth Strategy, the cost of crime is about 5% to 7% of GDP, making crime the single most important impediment to boosting growth. A laser focus on crime reduction would also translate to increases in productivity from redirected resources, and benefits from enhanced social integration.

On deficient human capital: Imagine Brand Jamaica ranking among the top 25 countries for pay and productivity, rather than the bottom 25 where we are presently? Imagine for a moment if 80% of Jamaica's workforce were in areas of high productivity, using high-end technology, solid secondary or tertiary education, or certified technical skills? What if Jamaica ranked among the world's top 50 countries for talent retention rather than the bottom 40 for brain drain? Imagine the impact on Jamaica's competitiveness on the global stage - businesses would attract and retain the brightest and best, and be willing to pay for their services; workers could be redeployed where they are needed, with a

flexibility akin to military stealth; we would think beyond the successful Target Europe program, and set sights on Target Asia, tapping into the vast Chinese market, and on Target Middle East, a sharply growing market.

On the challenging business environment: Imagine Brand Jamaica with a highly favorable ranking with respect to perceived public sector corruption, rather than being number 87 out of 178 countries? What if Jamaica ranked among the top 40 countries for provision of basic key requirements for doing business, such as strong institutions, infrastructure, a stable macroeconomic environment, health services, and primary education? Think of the potential influx of foreign and local investment capital, the magnet of business interest and activity, and the opportunities for global partnerships!

On fiscal distortions: Imagine Brand Jamaica ranking among the top 10 countries for tax compliance in the Doing Business Report rather than in the bottom 10? Imagine a more simplified tax system that is more equitable across industries, and where the need for waivers is only for charitable and humanitarian purposes, making about 20 percent of revenue available for social development?

The most significant growth impact will come from removing these key growth obstacles. Notably all these factors require significant resources and cannot be achieved in a short space of time. But once addressed, the benefits that will accrue are tremendous. If Jamaica can achieve 1% growth from the removal of each key obstacle, imagine what the country could do if these problems are diligently addressed in a coordinated manner! I hope your imagination is now on fire!

How do we go about tackling those challenges?

While there isn't a panacea common to all countries at any point in time, experience suggests the need for a commonly-shared vision expressed in well articulated objectives, a sense of urgency to act, good governance with defined accountability, clear communication to all stakeholders, recognition of how initial conditions and constraints impact the transition between the short-, medium-, and long term, a commitment to stay the course because there is no overnight magic bullet, and an acceptance that linkages dictate that all sectors and stakeholders have to play their part. In fact, we should ask: Do we have the endowments, the business environment, human, technological, and financial resources to effectively develop a dynamic and sustainable

export-based Brand Jamaica? It also means looking critically at the model of development we have been using.

The growth performance of the last decade or two suggests that the fiscal incentives model has not been sufficient in generating sustained growth. Experience shows that, in general, the provision of tax incentives is not a long-term growth strategy. Why? The design, cost-benefit calculus, prioritization among recipient sectors, opportunity costs to non-recipients, appropriate monitoring, and exit are not always easy to calibrate or implement. Further, any benefits that may have accrued eventually dissipate if beneficiaries do not ensure that they can be competitive when the incentives cease.

A sometimes complementary strategy of growth through diversification aims to obtain the greatest use of national endowments through maximizing downstream value-added and horizontal linkages across sectors. Jamaica's major sectors can be characterized as relatively closed. Mining has few linkages across sectors, while tourism has

relatively weak inter-sectoral linkages¹.

Consider that Jamaica is about 80 percent limestone, a base material for numerous industrial and chemical products. Jamaica has ample reserves of high grade bauxite-alumina, and capacity to produce sugar, not forgetting hospitality services. Should we limit exports to just tons of the raw products? Imagine how many limestone-, alumina- and sugar-based derivatives we can produce? Imagine how far an intensified R&D program can take us, especially if fully integrated with a dynamic tertiary program? What associated high-tech skills can be fostered? How much financial growth can be spurred? And how much aggregate demand and employment? Given the dependence of these activities on energy, and the potential benefits, how urgent is the need to address cost-reducing and efficiency-generating solutions to energy production?

Although we tend not to acknowledge such, when a country's financial and economic position deteriorates, this outcome itself is a shared responsibility, even if all units did not contribute equally. Therefore,

¹ Unlocking Growth in Jamaica, World Bank 2011.

generating growth is a shared responsibility, and strategies need to be holistic and involve all stakeholders – i.e., government, private sector, households, and international development partners. Here are a few ideas. On the side of the government, we must:

- Continue the commitment to fiscal responsibility and prioritization in the context of limited resources. Subscribe to better public financial management by improving the credibility and transparency of the budgeting process; improving debt management, and enhancing tax administration and compliance
- Commit to improving the environment for doing business, such as simplifying the tax system, reducing crime, and targeting an improvement in the aggregate and worst individual rankings by a factor of one half in the next two to three years
- Invest in human capital towards a well educated, flexible work force, able to adapt to the every changing global environment; encourage Jamaicans living abroad to participate in the new Brand Jamaica effort, effectively mitigating the impact of brain drain.
- Build buffers to mitigate the impact of frequent natural disasters.

Remember all stakeholders play an integral role in this re-branding effort. The private sector therefore needs to buy into a cultural re-orientation. A study by Holden and Holden identified over 200,000 incentives in Jamaica, covering a wide area of activities. Even if beneficiaries argue some positive benefit, incentives are costly, directly in terms of who is providing them, and indirectly in terms of the opportunity cost of what could have been done with those resources. They should be evaluated, therefore, in terms of cumulative costs and benefits, and in terms of their effectiveness in solving the impediments they were meant to mitigate. By that measure, incentives should be targeted within a prioritizing framework, be time bound, measureable, capable of being monitored, and implemented with a contingent exit plan. That said, the private sector can:

- Develop viable business cases independent of the need for government direct support
- Commit to international competitiveness and pursuit of excellence

- Pursue opportunities for greater economic diversification in goods and services, and new markets
- Build support for R&D through partnerships with tertiary education institutions
- Play a leading role in defining qualifications and occupational standards,

International Development Partners, such as the Inter-American Development Bank, International Monetary Fund, and the World Bank Group can also contribute. As a group, they :

- finance and support the development of economic infrastructure;
- provide policy advice and technical assistance, including the sharing of best practices to help foster improved governance, transparency, and accountability;
- provide support in improving competitiveness, tax expenditure reform, improving access to finance; and strengthening of land property rights.

- facilitate global trade, capital flows, and a stable international monetary system, indirectly creating the environment for transactions in goods, services, and financial assets with nonresidents

The IMF has a strong relationship with Jamaica and will continue to support its efforts toward macroeconomic reform and sustainable economic growth.

With a deepening in the financial crisis in 2008, a collapse in the three pillars supporting the Jamaican economy-- exports, remittances, and foreign direct investment, the Government of Jamaica approached the IMF in 2009 with a proposal to enter into a 27-month Standby Arrangement. Traditionally, the IMF's main focus has been on encouraging countries to correct macroeconomic imbalances, reduce inflation, and undertake key trade, exchange, and other market reforms needed to improve efficiency and support sustained economic growth.

Jamaica's program includes quantitative targets as well as structural reforms related to fiscal consolidation, to address the crippling debt burden, and financial sector stability, to reduce the risk of systemic meltdown. These are being tackled by targeting fiscal surpluses aimed at reducing the debt over the medium-term and a Fiscal Responsibility

Framework to manage expenditure, enhance transparency and increase accountability. This includes a Central Treasury Management System (CTMS) to better manage financial transactions across government sectors. As you know, the Fund has completed each of the three reviews of the program, and drew down the program disbursements.

These recent improvements are a start; they are by no means sufficient. We must continue to chip away at the issues that limit capacity. Tackling growth **today** requires not only a comprehensive effort, but one capable of addressing some “shorter” run gains without compromising sustainability. It also demands long-term vision not just by the government but also the private sector. Including you the exporters!

In summary, Jamaica must continue to address its constraints, building an environment where the private sector can pursue growth opportunities with minimal direct government support. There is no one action that will get Jamaica on the path to sustainable growth. All sectors need to share some of that responsibility and imagine a new Brand Jamaica! Now challenge yourselves, starting this year, to help realize that vision.