

FINDING A FRESH WIND

REGIONAL TRADE

IT IS SAID THAT THERE IS SAFETY IN NUMBERS. TO MANY, THIS IS A TRUISM WHICH NEEDS NO VALIDATION. TO OTHERS, TESTING QUESTIONS ARISE.

JAMAICA HAS MEMBERSHIP IN A VARIETY OF GROUPINGS. SOME ARE FORMAL ORGANISATIONS LIKE THE BRITISH COMMONWEALTH OF NATIONS. THE ORGANISATION OF AMERICAN STATES (OAS), THE CARIBBEAN COMMUNITY AND COMMON MARKET (CARICOM), AND SOON, PARTICIPATION IN THE FREE TRADE AREA OF THE AMERICAS (FTAA); OTHERS, LIKE THE AFRICAN DIASPORA, ARE INFORMAL LINKS BASED ON HISTORIC AND CULTURAL TIES. OF THESE, JUDGING BY THE FOCUS OF ATTENTION, CARICOM IS THE CENTREPIECE, MORESO NOW THAT THE CARICOM UNION IS TO MOVE TO ITS ULTIMATE PHASE, THE CARIBBEAN SINGLE MARKET AND ECONOMY (CSME). BUT DOES THE CSME OFFER JAMAICA THE BEST PROSPECTS? IS IT OUR BEST STEP FORWARD? THIS PRESENTATION WILL EXPLORE WHETHER THE INVOLVEMENT OF JAMAICA IN THE PROPOSED CARICOM SINGLE MARKET AND ECONOMY IS A WAYWARD JOURNEY OR A FRESH WIND IN OUR SAILS.

CARICOM, AS A GROUP OF LARGELY ENGLISH SPEAKING NATIONS WHOSE SHORES ARE WASHED BY THE CARIBBEAN SEA, IS A FRATERNITY OF 15 MEMBER STATES WHICH SHARE LARGELY SIMILAR HISTORIES, GEOGRAPHICAL FEATURES AND POPULATION MIX. FROM THESE SIMILARITIES A BOND OF HERITAGE HAS DEVELOPED THAT MAKES THESE COUNTRIES MORE THAN NEIGHBOURS.

THE PURPOSE OF THE GROUPING IS MORE THAN FRATERNAL. CARICOM IS A SERIOUS ASSOCIATION OF STATES PURSUING COMMON INTERESTS FOR MUTUAL ECONOMIC, SOCIAL AND OTHER BENEFITS.

IN THE MIX OF MEMBER STATES, WIDE DIFFERENCES ARE AS MARKED AS DEEP SIMILARITIES. HAITI, THE ONLY FRENCH SPEAKING MEMBER, HAS MORE THAN HALF THE POPULATION AND ONE OF THE LOWEST PER CAPITA INCOMES IN THE WORLD, US\$440. SEVERAL COUNTRIES, THOUGH MINI STATES LIKE BARBADOS AND THE BAHAMAS, HAVE MUCH HIGHER PER CAPITA INCOMES, US\$9,750 AND US\$14,560 RESPECTIVELY. BARBADOS WITH ONE OF THE HIGHEST LEVELS OF HUMAN DEVELOPMENT IN THE WORLD, CO-EXISTS WITH ONE OF THE LOWEST IN THE WORLD, HAITI. JAMAICA HAS THE SECOND LARGEST POPULATION, 2.7 MILLION, THE THIRD LOWEST PER CAPITA INCOME, US\$2820, AND THE LARGEST PURCHASING POWER. IN THIS WIDELY CONTRASTING MIX, IT IS THE STRENGTH OF MARKET WHICH POSITIONS JAMAICA AS THE CENTRE PIECE OF THE GROUP.

THE RELATIONSHIP OF JAMAICA WITH ITS CARIBBEAN NEIGHBOURS IN A REGIONAL ORGANISATION, WAS FIRST PUBLICLY DISCUSSED AT A CONFERENCE IN MONTEGO BAY, IN 1947, CALLED BY THE BRITISH SECRETARY OF STATE, ARTHUR CREECH JONES, TO DISCUSS THE QUESTION OF REGIONAL POLITICAL INTEGRATION.

FROM THIS OPENING DISCUSSION, 11 YEARS LATER, THE FEDERATION OF THE WEST INDIES WAS BORN, COMPRISING 10 ENGLISH SPEAKING COUNTRIES. NONE OF THIS GROUP WERE INDEPENDENT COUNTRIES. ALL WERE SEEKING INDEPENDENCE THROUGH THE FEDERAL STRUCTURE.

THE FEDERATION WAS ILL FATED FROM THE START. IT WAS BASED ON THE STRENGTH OF A COMMON HERITAGE, FROM WHICH WAS TO BE FORGED A COMMON DESTINY OF POLITICAL, ECONOMIC AND SOCIAL DEVELOPMENT, THROUGH INTEGRATION.

IF THE COMMONALITIES OF THE FEDERATION WERE ITS STRENGTH, ITS DIVERSITIES WERE ITS WEAKNESS: POPULATION SIZE, INCOME SPREAD, DIFFERENCES AND DISTANCES BETWEEN POLITICAL POWER CENTRES AND, FROM JAMAICA'S POINT OF VIEW, LACK OF SOCIALISATION WITH THE OTHER MEMBER COUNTRIES AND THEIR PEOPLE, IN PARTICULAR.

THE FEDERATION WAS PLANNED FROM THE TOP DOWN. THE PEOPLE WERE NEVER CONSULTED UNTIL THE VERY END WHEN A REFERENDUM WAS HELD IN JAMAICA ON SEPTEMBER 19, 1961, TO DETERMINE ITS FATE. THAT WAS THE DAY THAT THE FEDERATION DIED. IT WAS REJECTED BY THE PEOPLE OF JAMAICA AND, AS SO COGENTLY PHRASED IN THE MEMORABLE WORDS OF DR. ERIC WILLIAMS, PREMIER OF TRINIDAD AND TOBAGO, "ONE FROM TEN LEAVES NOUGHT", THE FEDERATION WAS DISMEMBERED AND ABANDONED. THAT ACUTE ANALYSIS WAS MORE THAN A PIERCING TRUISM. IT SPOKE VOLUMES TO THE STRENGTH OF THE CENTRAL ROLE OF JAMAICA IN THE FEDERAL SCHEME.

THE DEMISE OF FEDERATION PUT AN END TO POLITICAL INTEGRATION, BUT IT DID NOT DESTROY THE CONCEPT OF REGIONAL CO-OPERATION. JUST AS THE FOUNDING OF THE UNIVERISTY COLLEGE OF THE WEST INDIES IN 1948 ESTABLISHED A SUCCESSFUL INTEGRATED STRUCTURE OF HIGHER EDUCATION, THERE WERE OTHER AREAS WHICH COULD BE PURSUED, PARTICULARLY IN ECONOMIC CO-OPERATION.

THE FIRST STEP TO FURTHER CO-OPERATION, WAS THE ESTABLISHMENT OF THE CARIBBEAN FREE TRADE ASSOCIATION (CARIFTA), AN AGREEMENT AMONG MEMBER NATIONS TO ADVANCE TRADE BY ELIMINATING TRADE BARRIERS. THE MACHINERY WAS ESTABLISHED IN 1965 TO ENHANCE REGIONAL TRADE WITH

BROAD OBJECTIVES TO:

- PROMOTE THE EXPANSION AND DIVERSIFICATION OF REGIONAL TRADE, PARTICULARLY BY THE REMOVAL OF EXCESSIVE AND UNNECESSARY TARIFFS;
- ENSURE FAIR COMPETITION;
- FOSTER HARMONIOUS DEVELOPMENT AND LIBERALIZATION OF CARIBBEAN TRADE; AND
- ENCOURAGE THE PROGRESSIVE DEVELOPMENT OF ECONOMIES IN THE REGION.

THE 1973 TREATY OF CHAGUARAMAS TOOK THE NEXT STEP BY ESTABLISHING CARICOM, THE CARIBBEAN COMMUNITY AND COMMON MARKET, TO SUCCEED CARIFTA. A COMMON MARKET IS BROADER THAN A FREE TRADE ASSOCIATION. IT MOVES BEYOND FREE TRADE TO FACILITATE ECONOMIC AND SOCIAL DEVELOPMENT OF MEMBER STATES IN AN INTEGRATED REGION. AS SUCH, ITS OBJECTIVES WERE:

- COORDINATION OF FOREIGN POLICIES;
- COOPERATION IN COMMON SERVICES AND FUNCTIONAL MATTERS SUCH AS: HEALTH, EDUCATION, JUSTICE, CULTURE COMMUNICATION AND INDUSTRIAL RELATION;
- ECONOMIC COOPERATION.

THE LARGER SCOPE OF A COMMON MARKET WOULD INCLUDE EVENTUAL INTRODUCTION OF A COMMON EXTERNAL TARIFF (CET) (AS ORIGINALLY PROPOSED IN 1973) AND FREE MOVEMENT OF LABOUR AND SERVICES, FOCUSSED FIRST ON PROFESSIONALS AND UNIVERSITY GRADUATES.

FURTHER TRANSFORMATIONS WERE EFFECTED. IN 1992, THE TREATY OF CHAGUARAMAS WAS REVISED, FOLLOWED BY A PHASED REDUCTION IN 1993 OF SELECTED TARIFFS TO A MAXIMUM OF 20%, OVER FIVE YEARS, TO FACILITATE INTRODUCTION OF THE COMMON EXTERNAL TARIFF. THESE WERE TO ENABLE THE EXTENSION OF THE COMMON MARKET BY THE INCLUSION OF A NEW REGIME, THE CARIBBEAN SINGLE MARKET AND ECONOMY (CSME), THE ULTIMATE REGIONAL ECONOMIC UNION. THE CSME WOULD BE STRUCTURED AROUND UNIFIED ECONOMIC POLICIES, INCLUDING SIMILAR LEGISLATION AND A SINGLE CURRENCY.

THE NEW REGIME RELIES ON A SERIES OF NINE AMENDMENTS (PROTOCOLS) TO THE TREATY OF CHAGUARAMAS TO BE AGREED AND APPROVED REGIONALLY TO FACILITATE THE FRAMEWORK FOR THE CSME. JAMAICA HAS SIGNED ALL NINE PROTOCOLS.

ALTHOUGH 30 YEARS HAVE PASSED SINCE THE 1973 TREATY OF CHAGUARAMAS

ESTABLISHING CARICOM, AND A DOZEN YEARS SINCE REVISION OF THE TREATY TO FACILITATE TRANSITION TO A SINGLE MARKET AND ECONOMY, A GREAT DEAL OF THE PROGRAMME OF WORK STILL REMAINS TO BE DONE.

A SCHEDULE OF 77 REQUIRED STEPS HAVE TO BE TAKEN TO ENABLE THE CSME TO BE IMPLEMENTED. THESE COVER A WIDE RANGE OF APPROVALS OF:

- POLICIES;
- PROGRAMMES;
- REGULATIONS;
- RESTRICTIONS;
- LEGISLATION;
- AGREEMENTS;
- TREATIES,

AND THE ESTABLISHMENT OF SEVERAL NEW REGIONAL INSTITUTIONS AND AGENCIES.

HAVELOCK BREWSTER, GUYANESE ECONOMIST, SPELLS OUT SOME OF THE ESSENTIAL AREAS OF UNFINISHED LEGISLATION AND POLICIES:

- "NOTHING HAS BEEN DONE ON THE HARMONIZATION OF COMPANY LAW AND SOME MEMBER STATES HAVE RESERVATIONS, IN CONTRAVENTION OF THE NEED FOR CONVERGENCE OF LEGISLATION;
- THE SAME IS TRUE OF THE CUSTOMS LAW, ALTHOUGH THE ORGANISATION OF EASTERN CARIBBEAN STATES HAVE DEVISED THEIR OWN LAW, REFUSING THE CSME VERSION;
- NO MEMBER STATE HAS ENACTED LEGISLATION ALLOWING FOR UNRESTRICTED MOVEMENT OF SERVICES THROUGHOUT THE REGION;
- NO MEMBER STATE HAS YET ESTABLISHED LEGISLATION TO PUT INTO EFFECT TREATY PROVISIONS FOR THE FREE MOVEMENT OF CAPITAL;
- LITTLE HAS BEEN DONE TO HARMONIZE MACRO-ECONOMIC POLICIES".

ENACTING THIS EXHAUSTIVE PROGRAMME COULD PRECLUDE THE COMMENCEMENT OF THE CSME BY THE TARGET DATE OF DECEMBER, 2004, UNLESS JAMAICA AND OTHER MEMBER STATES DEDICATE THEIR LEGISLATIVE AGENDA IN PARLIAMENT AND A GREAT DEAL OF ADMINISTRATIVE TIME TO BRING THE CSME INTO EFFECT AT THAT EARLY DATE. FOR JAMAICA, THIS LEVEL OF SPECIAL PRIORITISATION WOULD BE JUSTIFIED ONLY IF THE CSME WAS OF TRULY CRITICAL IMPORTANCE TO FUTURE DEVELOPMENT. ACCORDINGLY, THE POTENTIAL IMPACT OF THE CSME ON FUTURE DEVELOPMENT PROSPECTS FOR JAMAICA MUST NOW BE CONSIDERED.

THE CARIBBEAN SINGLE MARKET AND ECONOMY IS, FIRST AND FOREMOST, AN ECONOMIC UNION, AS ITS TITLE BETRAYS. THE CENTRAL OBJECTIVE IN BROAD TERMS IS ENHANCEMENT OF THE MOVEMENT OF GOODS, SERVICES, PEOPLE AND

CAPITAL.

JAMAICA, LIKE MANY OTHER CARIBBEAN PARTNERS, HAS A LONG HISTORY OF TRADE, INCLUDING THE EXPLOITS OF PIRATES WHO PREYED ON MERCHANT VESSELS AND COASTAL SETTLEMENTS IN THE CARIBBEAN REGION. PORT ROYAL, IN JAMAICA, WAS ONE OF THE MOST ACTIVE TRADING PORTS IN THE HEMISPHERE BECAUSE OF ITS UNIQUELY SECURE POSITION LOCATED AT THE OPENING TO THE VIRTUALLY ENCLOSED KINGSTON HARBOUR. IT WAS THE ENTREPOT OF THE REGION IN THE 17TH CENTURY FOR TRADING IN COMMERCIAL GOODS AND TREASURE FROM WHATEVER SOURCE.

THIS PHASE OF NEFARIOUS TRADE WAS CONTEMPORANEOUS WITH THE EXPORT OF SUGAR AS THE DOMINANT DOMESTIC ECONOMIC ACTIVITY.

FOR NEARLY 450 YEARS, FROM 1513 TO 1965, THE FORTUNES OF THE JAMAICAN ECONOMY EBBED AND FLOWED WITH THE FORTUNES OF SUGAR, AND FOR A SHORTER TIME AND LESSER EXTENT IN LATER YEARS, BANANA CULTIVATION. FROM THESE TWO CROPS, MANY GREAT FORTUNES WERE MADE, MOSTLY ABROAD, THOUGH MANY WERE ALSO LOST. BUT THROUGHOUT THESE TIMES, JAMAICA WAS PRIMARILY AN EXPORTER OF GOODS, LARGELY AGRICULTURAL COMMODITIES AS RAW MATERIALS.

A NEW EXPORT INDUSTRY EMERGED AT THE MID POINT OF THE 20TH CENTURY: BAUXITE AND ITS PROCESSED PRODUCT, ALUMINA. WITHIN A FEW YEARS THIS BECAME THE NUMBER ONE EXPORT INDUSTRY. IN THE DECADE IMMEDIATELY FOLLOWING THE PROCLAMATION OF INDEPENDENCE FOR JAMAICA IN 1962, TOURISM, ANOTHER EXPORT EARNER ALSO EMERGED, WITH RICH RETURNS IN EXTERNAL EARNINGS. THESE TWO MAJOR PLAYERS, ADDED TO THE TRADITIONAL AGRICULTURAL EXPORTS, POSITIONED JAMAICA FOR A GLORIOUS EXPORT-DRIVEN FUTURE WITH STRONG SURPLUSES IN EXTERNAL EARNINGS. BUT THIS WAS NOT TO BE THE CASE. ONE BY ONE, THE EXPORT BASE OF THE JAMAICAN ECONOMY ERODED DRASTICALLY FROM A POSITION OF STRENGTH IN THE 1960s TO SEVERE DEPRESSION BY THE END OF THE 1970s.

FIRST, AGRICULTURAL EXPORTS SLUMPED PRECIPITOUSLY. FROM 431,000 TONS IN 1965, SUGAR DECLINED AND HAS REMAINED ON A DECLINING TREND TO THE PRESENT, DESPITE A SHORT REVIVAL IN THE 1970s. CURRENT PRODUCTION OF 150,000 TONNES IS ONE OF THE LOWEST EVER.

BY THE END OF THE SEVENTIES, DIMINISHING MARKETABILITY, POOR YIELDS AND TWO HURRICANES, BACK TO BACK, WIPED OUT WHAT WAS LEFT OF THE DECLINING PROSPECTS OF A THRIVING BANANA EXPORT INDUSTRY. EXPORTS PLUNGED FROM 240,417 TONS IN 1965 TO 20,000 TONS IN 1981.

THE CURRENT PRODUCTION IS 65,000 TONS.

WITH THE ADVENT OF AN IMPOSED LEVY ON BAUXITE PRODUCTION IN 1974, AS A REACTION TO THE EXCEPTIONAL INCREASE IN OIL PRICES AT THAT TIME, THE INDUSTRY DECLINED FROM 15.0 MILLION TONNES OF BAUXITE PRODUCED IN 1974, TO 12.2 MILLION BY 1980. PRODUCTION, ALTHOUGH NOW RECOVERING, HAS NEVER RETURNED TO THE HIGH POINT OF 1974. OVER THE PERIOD, JAMAICA SLUMPED FROM BEING THE NUMBER ONE WORLD PRODUCER TO NUMBER FOUR.

TOURISM, THE GREAT HOPE FOR DOMESTIC GROWTH AND NEW EXTERNAL EARNINGS, RAPIDLY DECLINED BECAUSE OF THE COUNTER PRODUCTIVE POLITICAL AND IDEOLOGICAL POLICIES OF THE 1970s WHICH DISCOURAGED NORTH AMERICAN VISITORS. BY THE END OF THAT DECADE, HOTELS REPRESENTING HALF THE NUMBER OF FIRST CLASS ROOMS IN THE COUNTRY HAD TO BE TAKEN OVER BY GOVERNMENT TO AVOID CLOSURE OF SEVERAL PRIME PROPERTIES.

IN 1974, THE NET INTERNATIONAL RESERVES OF THE BANK OF JAMAICA WERE REDUCED TO NEGATIVE BALANCES WHICH CONTINUED FOR SOME 20 YEARS. THE ECONOMY PLUNGED INTO A STATE OF DEEP DEPRESSION LOSING SOME 20% OF GDP OVER EIGHT CONSECUTIVE YEARS OF NEGATIVE GROWTH, A GLOBAL WORST PERFORMANCE.

IT WAS IN 1973, DURING THAT DEPRESSING PERIOD THAT THE CARIBBEAN COMMUNITY AND COMMON MARKET (CARICOM) WAS LAUNCHED. CARICOM WAS SEEN AS THE LOGICAL EXTENSION OF CARIFTA, THE CARIBBEAN FREE TRADE ASSOCIATION, LAUNCHED IN 1965. BUT EQUALLY, IT WAS THE EXPRESSION OF A HOPEFUL EXPECTATION THAT AS A VEHICLE FOR THE ESTABLISHMENT OF A COMMON MARKET, IT WOULD BE A REGIONAL MECHANISM TO ENHANCE DECLINING EXPORTS BY FACILITATING ECONOMIC EXPANSION WITHIN THE REGION.

AGAINST THIS BACKGROUND OF HIGH EXPECTATION, THE PERFORMANCE OF CARICOM TRADE WITH JAMAICA MUST BE ADDRESSED TO ASSESS THE IMPACT ON THE JAMAICAN ECONOMY AND THE POTENTIAL OF CARICOM FOR REVIVING THE STAGNANT ECONOMIC PERFORMANCE OF THE PAST DOZEN YEARS, PARTICULARLY THROUGH NEW INITIATIVES OF A COMMON MARKET AND A SINGLE MARKET AND ECONOMY.

REGIONAL TRADE WITH JAMAICA OVER THE YEARS, SINCE THE INCEPTION OF CARICOM IN 1973, HAS PERSISTED AS A LOW IMPACT ECONOMIC ACTIVITY, PARTICULARLY IN EXPORTS. IN 1973, EXPORTS FROM JAMAICA TO CARICOM WERE 6.3% OF JAMAICA'S TOTAL EXPORTS AND 5.2% OF TOTAL IMPORTS. BY

2001, JAMAICAN EXPORTS TO THE REGION WERE AN INSIGNIFICANT 4.1% AND IMPORTS FROM CARICOM AN INSUBSTANTIAL 12.7%.

THE WEAK EXPORT PERFORMANCE BY JAMAICA IS FURTHER REFLECTED IN COMPARISON TO BARBADOS' EXPORTS. IN 2001, BARBADOS, THOUGH MUCH SMALLER IN TERRITORIAL AND ECONOMIC SIZE THAN JAMAICA, EXPORTED US\$83 MILLION IN GOODS AND SERVICES TO CARICOM COUNTRIES; JAMAICA EXPORTED ONE-HALF THAT VALUE, US\$43 MILLION. EXPORTS BY JAMAICA TO ALL CARICOM COUNTRIES IN 2002 WERE US\$50.6 MILLION, LESS THAN THE EARNINGS OF SUGAR EXPORTS BY JAMAICA IN THAT YEAR.

IN THE 30 YEARS OF CARICOM TRADE, JAMAICA HAS MOVED FROM BEING A NET EXPORTER IN CARICOM TO A NET IMPORTER, A POSITION WHICH HAS PREVAILED SINCE 1992 WITH A WIDENING GAP EACH YEAR.

FIGURE 1 AND TABLE 1 DEPICT THE WIDENING GAP BETWEEN EXPORTS AND IMPORTS. FIGURE 1A AND TABLE 1A ILLUSTRATE THE SAME GAP USING PERFORMANCE DATA IN TERMS OF PERCENTAGE OF REGIONAL IMPORTS AND EXPORTS TO TOTAL JAMAICAN IMPORTS AND EXPORTS. THE DATA SHOWS THAT, BASED ON A CONTINUATION OF WEAK EXPORT PERFORMANCE AND INCREASING IMPORTS, RESTORATION OF A POSITIVE BALANCE OF TRADE IS IMPOSSIBLE.

Figure 1: Jamaica's Trade With CARICOM 1970-2002

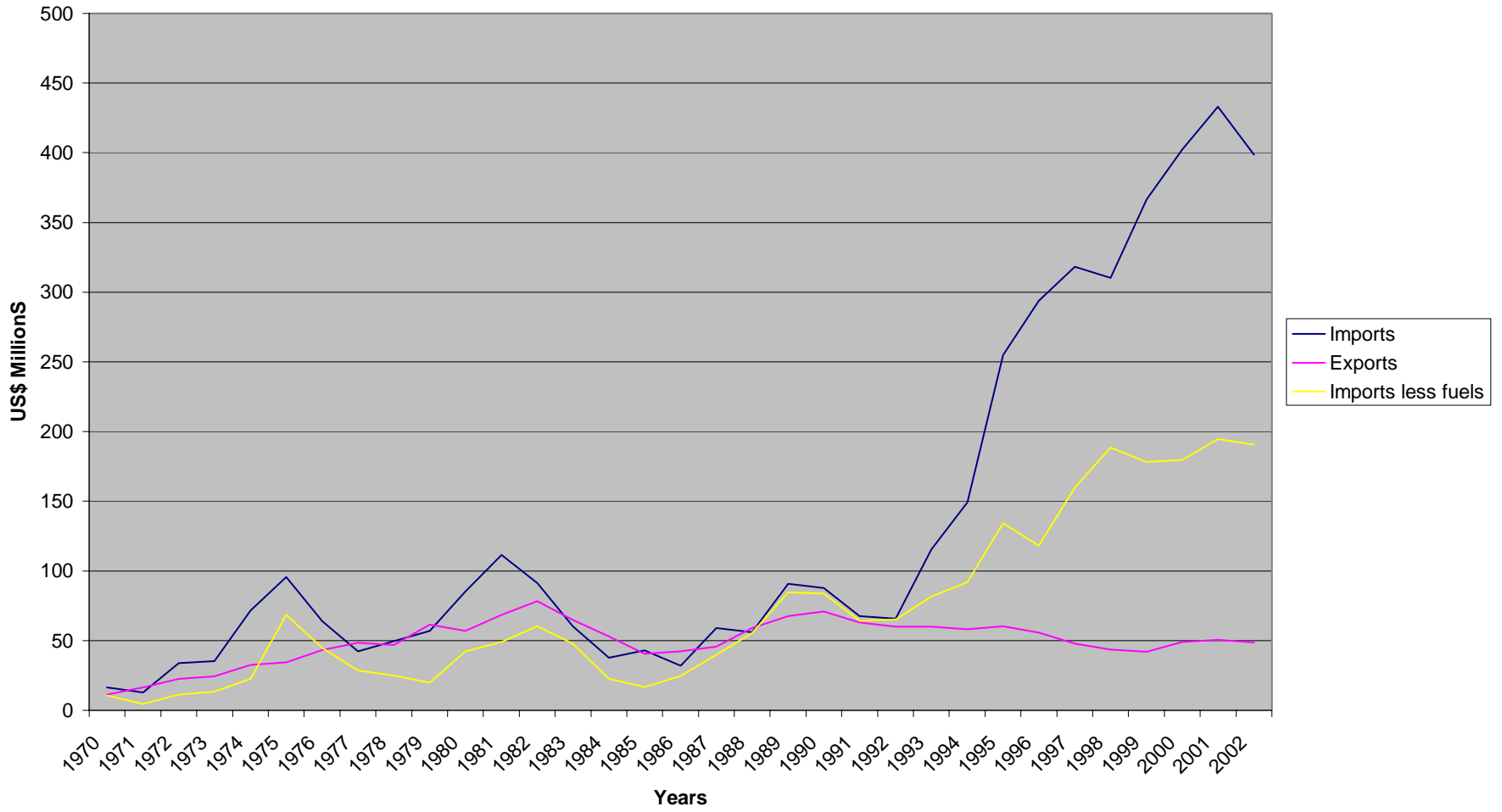


Table 1

Jamaica's Trade with CARICOM in US millions 1970 -2002																	
Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Imports	16.3	12.8	33.8	35.3	71.5	95.5	63.8	42.3	49.5	56.9	85.4	111.4	91.3	60.3	37.9	43.0	32.1
Exports	11.4	16.4	22.6	24.5	32.6	34.4	43.2	48.5	47.0	61.6	57.0	68.5	78.4	64.8	52.9	40.6	42.3
Imports less fuels	10.8	4.6	11.2	13.4	22.4	68.4	44.8	28.5	24.9	19.7	42.2	48.9	60.3	47.9	22.5	16.8	24.8

Year	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Imports	59.0	55.9	90.8	87.7	67.6	65.9	115.4	149.1	254.8	293.8	318.1	310.3	366.8	402.3	433.0	398.7
Exports	45.6	59.1	67.5	71.0	63.1	60.0	59.9	58.1	60.4	55.7	47.7	43.6	42.0	49.0	50.6	48.7
Imports less fuels	39.9	55.4	84.8	83.8	64.3	65.1	81.5	92.1	134.2	118.3	159.7	188.5	178.0	179.6	194.5	190.7

Figure 1A: Jamaica's trade with CARICOM in Percentage Terms

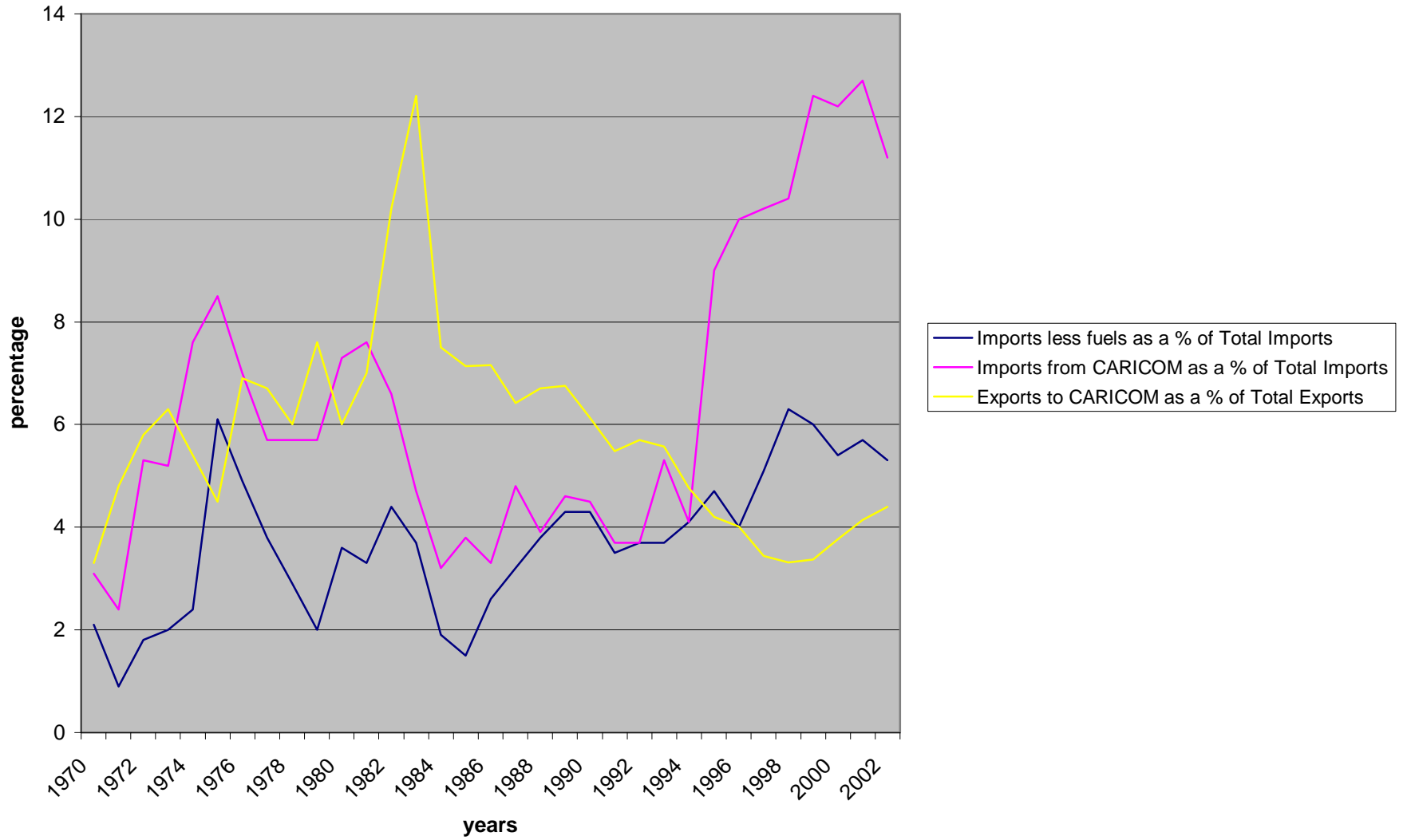


Table 1A
Jamaica's trade with CARICOM in Percentages

Years	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Exports to CARICOM as a % of Total Exports	3.3	4.8	5.8	6.3	5.4	4.5	6.9	6.7	6.0	7.6	6.0	7.0	10.2	12.4	7.5	7.1	7.2
Imports from CARICOM as a % of Total Imports	3.1	2.4	5.3	5.2	7.6	8.5	7.0	5.7	5.7	5.7	7.3	7.6	6.6	4.7	3.2	3.8	3.3
Imports less fuels as a % of Total Imports	2.1	0.9	1.8	2.0	2.4	6.1	4.9	3.8	2.9	2.0	3.6	3.3	4.4	3.7	1.9	1.5	2.6

Years	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Exports to CARICOM as a % of Total Exports	6.4	6.7	6.8	6.1	5.5	5.7	5.6	4.8	4.2	4.0	3.4	3.3	3.4	3.8	4.1	4.4
Imports from CARICOM as a % of Total Imports	4.8	3.9	4.6	4.5	3.7	3.7	5.3	4.1	9.0	10.0	10.2	10.4	12.4	12.2	12.7	11.2
Imports less fuels as a % of Total Imports	3.2	3.8	4.3	4.3	3.5	3.7	3.7	4.1	4.7	4.0	5.1	6.3	6.0	5.4	5.7	5.3

INABILITY OF THE JAMAICAN ECONOMY TO INCREASE EXPORTS TO CARICOM OVER THE PAST 30 YEARS BY ANY REASONABLE MARGIN HAS DRAWN MUCH ATTENTION AND COMMENT.

THIS WEAK EXPORT PERFORMANCE IS AT THE HEART OF QUERRIES NOW BEING RAISED BY SCHOLARLY STUDIES AS TO WHETHER JAMAICA CAN OVERCOME ITS ANAEMIC EXPORT RECORD AND, IF NOT, WHETHER THERE IS ANY PURPOSE IN EXTENDING ITS CARICOM INVOLVEMENT BY PARTICIPATING IN THE PROPOSED CARICOM SINGLE MARKET AND ECONOMY.

THE REASONS FOR THIS LISTLESS PERFORMANCE IS NOT TO BE FOUND IN ANY LACK OF PRODUCT ACCEPTANCE BY CONSUMERS. IN A REGION WHERE THE PRODUCING COUNTRIES CARRY MUCH THE SAME LINES OF PRODUCTION, PREFERENCE IS LARGELY DRIVEN BY COMPETITIVE PRICING.

STUDIES HAVE FOUND THAT THE MAIN CONTRIBUTORS TO THE LACK OF PRICE COMPETITIVENESS IN JAMAICAN EXPORTS ARE:

- LOW PRODUCTIVITY ARISING LARGLEY OUT OF;
 - INADEQUATE SKILLS; AND
 - MACRO-ECONOMIC INSTABILITY.

PRODUCTIVITY

PRODUCTIVITY, THOUGH OF GREAT IMPORTANCE AS AN UNDERLYING FACTOR, IS NOT AN INDEX PROMINENTLY IN USE IN ASSESSING ECONOMIC PERFORMANCE.

IN A STUDY OF 10 COUNTRIES BY JAMAICA PROMOTIONS LTD (JAMPRO) ON THE APPAREL INDUSTRY, THE DOWN PLAYING OF PRODUCTIVITY MEASUREMENTS WAS ELOQUENTLY STATED:

"DESPITE THE RHETORIC ABOUT PRODUCTIVITY, THE COUNTRY HAS NOT CAPTIVATED THE CONCEPT THROUGH MEASUREMENT AND PROCEDURES. OFFICIAL STATISTICS AND PUBLICATIONS, PRIVATE AND PUBLIC, DO NOT FEATURE IT. HENCE, THERE IS NO IMBIBING OF IT BY THE GENERAL COMMUNITY, NO UTILISATION IN POLICY PRONOUNCEMENTS, NO INCLUSION OF IT IN TRAINING AND EDUCATION PROGRAMMES AND NO REFERENCE TO IT IN ORGANISATION AND INDUSTRY PLANNING".

AS STATED, THERE IS MUCH TALK ABOUT PRODUCTIVITY, BUT LITTLE MORE THAN ON-AND-OFF ACTION DESPITE THE CRUCIAL NATURE OF THE MEASUREMENT.

IN THE 1980s, THE PUBLIC SECTOR BUDGET WAS BEING RESTRUCTURED ON A PERFORMANCE BUDGETING BASIS WITH PRODUCTION TARGETS AS PART OF THE PUBLIC SECTOR REFORM PROGRAMME TO IMPROVE PRODUCTIVITY. THIS APPEARS TO HAVE BEEN SIDELINED. THE TEACHING PROFESSION IS NOW TO BE

PUT ON A PERFORMANCE BASIS, A WELCOMED STEP IN LINE WITH THE CALL IN THE JAMAICA LABOUR PARTY MANIFESTO. BECAUSE OF THE NUMBER OF FACTORS TO BE ASSESSED, THIS WILL NOT BE AN EASY TASK, BUT HOPEFULLY IT WILL BE MORE THAN ANOTHER PASSING EFFORT.

RECENT SCHOLARLY STUDIES ON PRODUCTIVITY ALL CITE LOW PRODUCTIVITY RATES AS ONE OF THE MAIN REASONS FOR NON-COMPETITIVE PRODUCTION IN THE JAMAICAN ECONOMY.

BENTHAN HUSSEY, LABOUR MARKET CONSULTANT WITH THE PLANNING INSTITUTE OF JAMAICA, IN A COMPREHENSIVE STUDY OF PRODUCTIVITY AMONG SELECTED COUNTRIES, COMPARES AVERAGE PRODUCTIVITY OVER 1960-1990 IN TERMS OF CONTRIBUTION TO GDP PER CAPITA, WHICH IS A PROXY FOR PRODUCTIVITY:

TABLE 2

GDP PER CAPITA	US\$
USA	\$31,009
CANADA	\$26,982
TRINIDAD	\$22,988
SINGAPORE	\$12,657
BARBADOS	\$11,481
DOMINICAN REPUBLIC	\$6,496
JAMAICA	\$5,723

THE SAME PATTERN HOLDS FOR THE WIDER CARIBBEAN.

TABLE 2A

GDP PER CAPITA IN CARIBBEAN COUNTRIES 2002	
COUNTRY	US\$ GDP PER CAPITA
Cayman Islands	\$26,144
The Bahamas	\$15,108
The British Virgin Islands	\$14,943
Virgin Islands	\$14,729
Barbados	\$14,528
Martinique	\$10,491
Puerto Rico	\$9,905
Trinidad and Tobago	\$9,575
Antigua and Barbuda	\$7,959
St. Kitts and Nevis	\$7,070

Turks and Caicos	\$7,063
Costa Rica	\$6,628
Dominican Republic	\$5,628
Guyana	\$4,877
St. Lucia	\$4,425
Grenada	\$4,416
Dominica	\$4,097
Montserrat	\$4,093
Jamaica	\$3,639
Suriname	\$3,410
Belize	\$3,085
St. Vincent	\$2,777
Haiti	\$1,824
Cuba	\$1,717

THIS WAS NOT ALWAYS THE CASE. LOOKING AT THE DATA IN 10 YEAR INTERVALS, JAMAICA'S PRODUCTIVITY RATE BETWEEN 1960-69 WAS AMONG THE HIGHEST, COMPARABLE TO BARBADOS AND SINGAPORE AND MUCH HIGHER THAN THE USA, CANADA, TRINIDAD AND THE DOMINICAN REPUBLIC. BUT THE JAMAICAN PRODUCTIVITY RATE DECREASED IN THE 1970s BY 1.36% PER ANNUM AND IN THE 1980s BY 1.11%, WHILE OTHER COUNTRIES IN THE STUDY IMPROVED THEIR PERFORMANCE OVER THAT PERIOD.

ONE OF THE PRINCIPAL REASONS FOR THE NEGATIVE MOVEMENT OF JAMAICAN PRODUCTIVITY, THE STUDY FOUND, WAS THAT WAGES INCREASED ANNUALLY BY 1.8% AND UNIT LABOUR COSTS BY 3.1% WHILE PRODUCTIVITY WAS DECREASING BY 1.4%. THIS MOVEMENT IS IN THE WRONG DIRECTION. IF WAGE INCREASES EXCEED PRODUCTIVITY, COMPETITIVENESS IN THE PRICE OF GOODS WILL DETERIORATE AND THE PURCHASING POWER OF CONSUMERS WILL ERODE.

SOME SPECIFIC SECTORS OF THE ECONOMY ILLUSTRATE THE IMPACT ON THE WORK FORCE WHEN WAGE INCREASES OUT-STRIP PRODUCTIVITY GROWTH.

AGRICULTURE HAS A NOTORIOUSLY LOW PRODUCTIVITY RATE, IN GOOD PART BECAUSE OF LOW AND INEFFICIENT PRODUCTION IN THE SUGAR INDUSTRY WHICH DOMINATES THE SECTOR. ACCORDING TO THE FINDINGS OF THE REPORT OF THE TASK FORCE ON THE SUGAR INDUSTRY IN JAMAICA, 2001, THE AVERAGE COST OF PRODUCTION OF SUGAR IN JAMAICA IS CONSIDERABLY GREATER THAN OTHER COMPARABLE COUNTRIES:

- JAMAICA US\$660 PER TON
- ACP COUNTRIES US\$375 PER TON

THIS IS UNDERSTABLE GIVEN THAT PRODUCTION PER MAN PER DAY IN JAMAICA IS .87 TONNES IN COMPARISON WITH THE INTERNATIONAL MARKET, WHICH AVERAGES 3.0 TONNES PER MAN PER DAY.

COMPARISON OF THE IMPACT OF LABOUR RATES ON THE COST OF SUGAR IS ILLUSTRATED IN TABLE 3 WHICH SHOWS A SLIPPAGE IN COSTS OF LABOUR AS PERCENTAGES OF THE COST OF SUGAR FROM 17% IN 1993 TO 30% IN 1999.

TABLE 3:
CONTRIBUTION OF LABOUR TO THE PRODUCTION COST OF SUGAR

1993	
COST OF SUGAR	US\$.18 CENTS/LB
LABOUR COST	US\$.02 CENTS/LB
LABOUR AS A PERCENTAGE OF COST	17%
1999	
COST OF SUGAR	US\$.30 CENTS/LB
LABOUR COST	US\$.10 CENTS/LB
LABOUR AS A PERCENTAGE OF COST	33%

BASED ON THESE COSTS, THE SUGAR INDUSTRY IN JAMAICA HAS LOST MUCH GROUND.

THE PROBLEM EXTENDS BEYOND THE AGRICULTURAL SECTOR. APPAREL EXPORTS ARE A PRIME EXAMPLE OF A THRIVING SUB-SECTOR IN MANUFACTURING WHICH BECAME ONE OF THE LARGEST EXPORT EARNERS IN THE ECONOMY BETWEEN 1985-1995. IT HAS SINCE BEEN REDUCED TO A FEW SURVIVING PRODUCERS AND THE WORK FORCE OF 40,000 LARGELY LAID OFF.

A JAMPRO STUDY SETS OUT A STUNNING COST COMPARISON WHICH SHOWS UP THE OVER-PRICING OF JAMAICAN PRODUCTION. MEASUREMENT OF THE LABOUR COST PER AVAILABLE WORKING HOUR PUTS JAMAICA AT THE TOP OF THE TABLE OF COSTS.

	<u>US\$</u>
<u>JAMAICA</u>	<u>364</u>
COSTA RICA	336
COLUMBIA	332
DOMINICAN REPUBLIC	300
NICARAGUA	233
HONDURAS	233

GUATAMALA	232
EL SALVADOR	220

WAGE COSTS ARE A FACTOR NOT ONLY IN THE INDUSTRIAL SECTOR BUT PUBLIC ADMINISTRATION AS WELL. DENNIS CHUNG, FINANCIAL CONSULTANT, FOUND THAT WAGES IN CENTRAL GOVERNMENT EXPENDITURE GREW BY 12.7% PER ANNUM WHILE TAX REVENUES INCREASED BY 11.7% ANNUALLY, BETWEEN 1998-2003.

ALL SECTORS IN THE JAMAICAN ECONOMY ARE NOT EQUALLY UN-PRODUCTIVE. COMPARATIVELY HIGH PRODUCTIVITY LEVELS ARE FOUND IN SOME SECTORS:

TABLE 4

SECTORS SHOWING PRODUCTIVITY LEVELS	
HIGH PRODUCTIVITY	J\$
MINING	286,600/WORKER
TRANSPORT	51,000 "
MANUFACTURING	36,000 "
CONSTRUCTION	23,000 "
LOW PRODUCTIVITY	
AGRICULTURE	7000 "

LABOUR COST IS NOT THE ONLY FACTOR CONTRIBUTING TO NON-COMPETITIVE INDUSTRIES IN JAMAICA, LIKE SUGAR AND APPAREL MANUFACTURING. INDEED, WAGE COSTS IN THESE INDUSTRIES ARE ALREADY COMPARATIVELY LOW AND COULD NOT REALISTICALLY BEAR THE BURDEN OF FURTHER COST REDUCTION TO RE-ESTABLISH COMPETITIVENESS.

USING THE SAME UNIT WAGE COSTS, THE PRIVATELY OWNED AND OPERATED SUGAR COMPANIES HAVE ALREADY ACHIEVED MUCH HIGHER PRODUCTIVITY. THEIR ADJUSTMENTS HAVE BEEN IN HIGH TECHNOLOGY AND SOUND MANAGEMENT. IT IS THE PUBLICLY OWNED SUGAR PRODUCING OPERATIONS WHICH HAVE FAILED TO APPLY APPROPRIATE TECHNOLOGY AND PROPER INDUSTRY-STYLE MANAGEMENT. THE RESULT HAS BEEN DISMAL PRODUCTIVITY LEVELS, HEAVY FINANCIAL LOSSES ANNUALLY, JOB DISPLACEMENTS AND A CONTINUING SAGA OF THREATENED EXCLUSION OF SOME JAMAICAN EXPORTS FROM THE INTERNATIONAL MARKET BECAUSE OF FAILURE TO MEET COMPETITIVE PRICING.

TECHNOLOGICALLY DRIVEN PRIVATE SECTOR OWNERSHIP AND/OR MANAGEMENT OF THE SUGAR PRODUCING PUBLIC COMPANIES WOULD CERTAINLY LIFT THE PRODUCTIVITY RATE IN SUGAR, AND BY EXTENSION, AGRICULTURE AT LARGE AND IMPROVE THE NATIONAL LEVEL.

THE APPAREL SUB-SECTOR IS ANOTHER EXAMPLE OF THE IMPACT ON COMPETITIVENESS BY THESE NON- WAGE FACTORS.

TREVOR HAMILTON, MANAGEMENT CONSULTANT, IN A STUDY FOR THE JAMAICA MANUFACTURER'S ASSOCIATION, POINTS TO THE OVER- HEAD FIXED COSTS IN MANUFACTURE, WHICH ARE MUCH HIGHER IN JAMAICA THAN IN REGIONAL COUNTRIES:

<u>JAMAICA</u>	<u>58%</u>
COSTA RICA	38%
TRINIDAD	37%

THERE ARE A HOST OF COSTS WHICH CONTRIBUTE TO THESE HIGHER OVERHEADS IN MANUFACTURING AND DOING BUSINESS IN JAMAICA: SUCH AS, UTILITIES, SECURITY AND SOCIAL BENEFITS.

TABLE 5

PRODUCTIVITY AND OTHER COSTS	
UTILITIES	167% HIGHER
SECURITY	110% HIGHER
TELEPHONE	34% HIGHER
OPERATING PERSONNEL	22-42% HIGHER
SOCIAL COSTS & FRINGE BENEFITS	93% HIGHER

THESE TRANSLATE TO HIGHER UNIT COSTS AND DECREASED COMPETITIVENESS WHICH STRONGLY AFFECT THE ABILITY OF JAMAICAN PRODUCERS TO COMPETE AGAINST IMPORTS DOMESTICALLY, AS WELL AS IN THE EXPORT MARKET.

THE SAME PATTERN OF INFLUENCE BY LOW PRODUCTIVITY SECTORS, AS IN AGRICULTURE, FLOWS THROUGH THE ECONOMY. HUSSEY'S STUDY SHOWS THAT OVER 80% OF THE WORK FORCE IS ENGAGED IN LOW PRODUCTIVITY ACTIVITIES. THE INFLUENCE OF THIS DOMINANCE IS A LOWERING OF THE NATIONAL RATE. JAMAICA PAYS A PRICE IN REDUCED NATIONAL EFFICIENCY AND COMPETITIVENESS IN CARRYING TOO HEAVY A BURDEN OF LOW PRODUCTIVITY SECTORS.

BUT PRODUCTIVITY IS INFLUENCED NOT ONLY BY LABOUR COSTS. FAR FROM IT. THE MANUFACTURING SECTOR WHICH RELATES TO THE EXPORT MARKET IN CARICOM, INDICATES OTHER TELLING AREAS OF IMPACT BY MANY FACTORS.

STUDIES BY BENTHAN HUSSEY, DENNIS CHUNG AND DILLON ALLEYNE, A UNIVERSITY OF THE WEST INDIES ECONOMIST, HAVE ANALYSED THE CAUSES OF LOW

PRODUCTIVITY AS PRINCIPAL CONTRIBUTORS TO THE LACK OF COMPETITIVENESS OF JAMAICAN GOODS AND SERVICES. THEY HAVE OFFERED RECOMMENDATIONS WHICH HAVE BEEN LARGELY IGNORED OR IMPLEMENTED WITH LESS THAN FULL FORCE. SO THE PROBLEM REMAINS. BETHAN HUSSEY SUMS IT UP:

- "VARIOUS INITIATIVES HAVE NOT BEEN SUSTAINED;
- MORE BROADLY THERE IS NO EVIDENT CULTURE OF PRODUCTIVITY."

HENCE, JAMAICA LAGS BEHIND OTHER COUNTRIES. JAMAICAN EXPORTS ARE PRICED OUT OF THE MARKET AND DOMESTIC PRODUCTION IS UNABLE TO ADEQUATELY COMPETE AGAINST IMPORTS WHILE NEIGHBOURING AND OTHER COUNTRIES WITH LESSER POTENTIAL LEAD THE WAY.

THIS IS NOT A VIABLE SCENARIO FOR ENTRY INTO THE CARICOM SINGLE MARKET AND ECONOMY. CURRENT CONDITIONS OF ECONOMIC FRAILTY AND LITTLE EVIDENT PROSPECTS FOR OVERCOMING NON-COMPETITIVE PERFORMANCE, WOULD EXPOSE THE JAMAICAN ECONOMY TO STILL GREATER DISPLACEMENT OF LOCAL PRODUCTION WITH NO GREATER ABILITY TO EXPAND JAMAICAN EXPORTS. THE TRADE GAP WOULD WIDEN AND THE CRISIS IN THE ECONOMY WORSEN WITH PARTICIPATION IN THE CSME UNDER THESE CONDITIONS.

FROM THE JAMAICAN PERSPECTIVE, THE QUESTION MUST BE ASKED: IS THE CSME TO BE ABANDONED OR IS THERE ROOM TO IMPROVE PRODUCTIVITY AND COMPETITIVENESS OF JAMAICAN PRODUCTION TO ENABLE PARTICIPATION TO BE WORTHWHILE ?

PRODUCTIVITY IS A MEASUREMENT, NOT A FUNCTION. IT IS THE THERMOMETER THAT MEASURES THE STATE OF A CRITICAL ASPECT OF ECONOMIC HEALTH.

AS A MEASUREMENT, PRODUCTIVITY IS NOT THE SOURCE OF THE PROBLEMS WHICH AIL THE ECONOMY. THE SOURCE LIES WITH THE DIFFERENT INPUTS WHICH IMPACT ON THE FUNCTIONING OF THE ECONOMY. CHIEF AMONG THESE ARE:

- HUMAN RESOURCE CAPABILITY;
- MACRO-ECONOMIC STABILITY.

THESE ARE TWO ALL-EMBRACING CATEGORIES OF INPUTS THAT GREATLY AFFECT PRODUCTIVITY AND COSTS.

FOR PURPOSES OF THIS PRESENTATION, THE IMPACT OF HUMAN RESOURCES AND MACRO-ECONOMIC STABILITY ON PRODUCTIVITY MUST BE ANALYSED TO DETERMINE WHETHER THERE IS ROOM FOR THE IMPROVEMENT NECESSARY TO SUFFICIENTLY REDEEM THE WEAK EXPORT PERFORMANCE OF THE JAMAICAN ECONOMY IN ORDER TO JUSTIFY PARTICIPATION IN THE CARIBBEAN SINGLE

MARKET AND ECONOMY.

HUMAN DEVELOPMENT

HUMAN CAPITAL FORMATION IS A CRITICAL LINK IN THE PRODUCTION PROCESS. THE EDUCATION SYSTEM, IN PARTICULAR, PROVIDES THE TRAINING GROUND FOR SKILLS TO IMPROVE PRODUCTIVITY.

THE EDUCATION SYSTEM IN JAMAICA IS FUNDAMENTALLY FLAWED. IT IS SUBSTANTIALLY UNDER-FINANCED IN COMPARISON TO THE MAJORITY OF CARICOM PARTNERS. ALLOCATIONS SHOULD TOTAL AT LEAST 15% OF BUDGET EXPENDITURE. THIS HAS NEVER BEEN ATTAINED EXCEPT IN ONE YEAR, 1997. A COUNTRY ASSESSMENT REPORT COMMISSIONED ON JAMAICA BY UNCTAD/UNDP ENTITLED JAMAICA GLOBALIZATION, LIBERALISATION AND SUSTAINABLE HUMAN DEVELOPMENT, 2001, SETS OUT EXPENDITURE ANNUALLY AS A PERCENTAGE SHARE OF THE BUDGET BETWEEN 1991 AND 1999: THIS IS ILLUSTRATED IN TABLE 6.

TABLE 6

YEAR	EXPENDITURE ON EDUCATION AS % SHARE OF THE BUDGET
1991	10.0
1992	11.0
1993	12.0
1994	10.5
1995	8.5
1996	11.0
1997	15.0
1998	13.0
1999	11.0
2000	9.61
2001	9.58
2002	10.06
2003	10.2
2004 (projected)	8.92

2000-2004 data from Ministry of Education

THE CARICOM SECRETARIAT DATA BASE RANKS JAMAICA THIRD LOWEST OF 11 COUNTRIES OF THE REGION IN GOVERNMENT EXPENDITURE ON EDUCATION, AVERAGED OVER 1998-2001. ONLY GUYANA AND HAITI ARE LOWER.

THE ALLOCATION THIS YEAR IS PARTICULARLY ASTONISHING SINCE A LANDMARK RESOLUTION WAS AGREED LAST YEAR BY GOVERNMENT TO INCREASE THE

BUDGETARY ALLOCATION BY 1% PER ANNUM FOR FIVE YEARS TO ATTAIN THE 15% TARGET. THIS COMMITMENT HAS BEEN DISHONOURED. THE CURRENT BUDGETARY ALLOCATION THIS YEAR (8.92%) IS EVEN LESS THAN THE AMOUNTS PROVIDED IN THE PAST (10%).

NOTWITHSTANDING BUDGETARY TIGHTNESS, EDUCATION HAS TO BE PRIORITISED TO AVOID THE HUMAN RESOURCE CALAMITY WHICH IS ALREADY MUSHROOMING THROUGHOUT THE SOCIAL AND ECONOMIC SECTORS OF JAMAICA, AND WITH DIRE CONSEQUENCES. FAILURE TO HONOUR A PARLIAMENTARY COMMITMENT OF A BINDING NATURE IS TO BE CONSIDERED NOT JUST A POLITICALLY DISHONOURABLE ACT, OR WEAKENING OF RESOLVE, BUT A FAILURE TO SUFFICIENTLY UNDERSTAND THE GRAVITY OF THE CONSEQUENCES TO THE SOCIAL AND ECONOMIC FABRIC OF THE COUNTRY.

SOME OF THE EMBARASSINGLY, WEAK PERFORMANCES OF THE EDUCATION SYSTEM WILL ASSIST IN REMINDING THE AUTHORITIES OF THE RISKS TO WHICH THE COUNTRY IS EXPOSED AND THE CHARGE THEY BEAR TO PREVENT FURTHER FAILURE.

THE RECORD OF DEPRESSING PERFORMANCES CAN BE LIMITED TO ONLY THOSE AREAS WHICH IMPACT MOST DIRECTLY ON PRODUCTION.

THE UNCTAD/UNDP, IN REFERENCE ABOVE, REMINDS THAT:

- *"IT IS ESTIMATED THAT 30-40% OF GRADE SIX STUDENTS ARE FUNCTIONALLY ILLITERATE;"*
- *"SOME 70% OF ALL STUDENTS WHO SIT CXC EXAMS ACHIEVE NO PASSES AT ALL;"*
- *"JAMAICAN PASS RATES IN ENGLISH AND MATHEMATICS FROM 1991-97, AVERAGED 27% AND 25% RESPECTIVELY, RANKING JAMAICA 15 OUT OF 17 COUNTRIES IN THE REGION";*
- *"BOTH BASIC LITERACY AND NUMERACY ARE VERY POOR AMONG NEW LABOUR FORCE ENTRANTS AND OLDER WORKERS...MAKING THE TRAINING OF TECHNICAL SKILLS ALL THE MORE DIFFICULT".*

LITTLE WONDER THAT JAMAICA RANKS THIRD LOWEST ON RATINGS IN VITAL AREAS OF THE EDUCATION SYSTEM. THE STATISTICAL DATA BASE OF UNESCO FOR THE REGION RANKS JAMAICA THIRD LOWEST IN LITERACY AT 79.9%. BELIZE AND DOMINICA ARE MARGINALLY LOWER.

IT IS NOT ONLY THE DISMAL PERFORMANCE OF THE SECTOR WHICH MATTERS IN REGARD TO PRODUCTIVITY. THE SECTOR IS ITSELF A MISFIT IN THE SOCIETY, PRODUCING AT ONE END, 70% SCHOOL LEAVERS WITH NO SKILLS AT ALL, AND AT THE OTHER END, 80% OF UNIVERSITY GRADUATES WHO, ACCORDING TO A

WORLD BANK REPORT, LIVE ABROAD.

SURELY NOTHING MORE NEED BE SAID TO CONFIRM THAT THE DEVELOPMENT OF HUMAN RESOURCES IN JAMAICA, PARTICULARLY THE EDUCATION SYSTEM, ON CURRENT BASIS, IS NOT BENEFITTING THE DRIVE TO PREPARE THE ECONOMY FOR THE DEMANDS OF THE COMPETITIVE REGIONAL ENVIRONMENT OF THE CSME, MUCH LESS GLOBAL TRADE.

HERE AGAIN, JAMAICA IS AT A GRAVE DISADVANTAGE IN THE REGIONAL SETTING. THE EDUCATION SYSTEM AS IT CURRENTLY STANDS IS NOT GEARED TO LIFTING PRODUCTIVITY AND IMPROVING COMPETITIVENESS IN THE MARKETING OF JAMAICAN GOODS AND SERVICES AND, FROM THE LACK OF PRIORITY THE SECTOR IS RECEIVING, THIS CONDITION WILL CONTINUE TO PREVAIL.

THE MACRO-ECONOMY

AMONG THE FACTORS THAT INFLUENCE THE COST COMPETITIVENESS OF JAMAICAN GOODS AND SERVICES, NONE HAVE WIDER APPLICATION OR DEEPER IMPACT THAN THE MONETARY AND FISCAL POLICIES WHICH DETERMINE:

- EXCHANGE RATE;
- INFLATION; AND
- INTEREST RATES.

IN THE DECADE OF THE 1990s TO THE PRESENT, THE JAMAICAN ECONOMY HAS BEEN A CLASSICAL SHOWCASE OF THE USE OF INAPPROPRIATE ECONOMIC POLICIES RESULTING IN EXTENSIVE MONETARY AND FISCAL INSTABILITY. THE FIRST HALF OF THIS PERIOD TO 1995, SAW EXTRAORDINARY INCREASES IN MONEY SUPPLY WHICH FLOODED THE SYSTEM WITH EXCESSIVE LIQUIDITY, INDUCING HIGH INFLATION AND PROHIBITIVE INTEREST RATES.

MONEY SUPPLY, INFLATION AND INTEREST RATES ARE INTERACTIVE. THE EXTENT TO WHICH THEY CORRELATE IS DEMONSTRATED IN TABLE 7, WHICH SHOWS CLOSELY RELATED PATHS.

TABLE 7

AVERAGE PERCENTAGE CHANGE 1990 - 1995	
MONEY SUPPLY	33.2%
INFLATION	38.9%
INTEREST RATES	49.21%

THE MONETARY INDISCIPLINE OF THIS PERIOD TRIGGERED HIGHER COST IN THE DOMESTIC PRODUCTION OF GOODS AND SERVICES THROUGH MORE COSTLY

INPUTS FROM PROHIBITIVE INTEREST RATES.

THIS MONETARY INDISCIPLINE CONTINUED FOR FIVE YEARS WITHOUT CONTROL. GOVERNMENT FINALLY AWAKENED, IN 1996, TO THE COLLOSAL DAMAGE WHICH WAS OCCURRING THROUGHOUT THE ECONOMY TO BUSINESS AND PERSONAL LIVES: DISLOCATIONS WERE CAUSING WIDE SPREAD COLLAPSE IN BUSINESS OPERATIONS AND FAMILY BUDGETS, INCLUDING A GREAT MANY CLOSURES AND RAMPANT JOB LOSSES.

A SUDDEN POLICY REVERSAL WAS INTRODUCED WHICH REDUCED MONEY SUPPLY ABRUPTLY FROM 27.02% IN 1995, TO 10.69% IN 1996. THE RIGHT STEP WAS TAKEN AT LAST, BUT IN THE WRONG WAY. PREDICTABLY, THERE WERE SEVERE REPERCUSSIONS TO THE HASTY ACTION WHICH SHOULD HAVE BEEN SPREAD OVER A PERIOD INCREMENTALLY, TO ALLOW FOR TIMELY ADJUSTMENTS. THE MOST SEVERE CONSEQUENCE WAS THE UNDOUBTED CONTRIBUTION TO THE VIRTUAL COLLAPSE OF THE FINANCIAL SYSTEM. SOME 40 BANKS, INSURANCE COMPANIES AND BUILDING SOCIETIES, WENT UNDER.

IT IS NOT INTENDED TO REPEAT HERE THE LINKAGE BETWEEN THE RECKLESSNESS OF FISCAL POLICIES AND MONETARY INDISCIPLINE FROM 1991, AND THE UNPRECEDENTED CRISIS THEY CREATED IN THE FINANCIAL SYSTEM. I HAVE DONE THIS ON MORE THAN ONE OCCASION IN OTHER PRESENTATIONS. IT IS NOT ESSENTIAL TO THE ARGUMENTS OF THIS PRESENTATION ON FACTORS GOVERNING COMPETITIVENESS, TO REPEAT THEM HERE.

SUFFICE IT TO SAY THAT THE COST OF THIS CRISIS TO THE PUBLIC REVENUES EVENTUALLY WAS AN ASTONISHING \$140 BILLION, OR AN EQUALLY ASTONISHING 40% OF GDP! NOTHING LIKE THIS FINANCIAL APOCALYPSE HAS EVER OCCURRED IN MODERN JAMAICAN HISTORY.

TO MEET THIS EXCEPTIONAL COST, GOVERNMENT HAD TO BORROW EXTENSIVELY. THIS DEMAND, TOGETHER WITH THE ISSUE OF GOVERNMENT INSTRUMENTS TO DRY UP LIQUIDITY IN ORDER TO CONTROL MONEY SUPPLY, CAUSED A BALLOONING OF PUBLIC DEBT FROM 80% OF GDP IN 1996 TO 100% IN 1999. INTEREST PAYMENTS FOLLOWED SUIT, INCREASING FROM \$27 BILLION TO \$42 BILLION OVER THE SAME PERIOD. THE BURDEN ON THE CENTRAL GOVERNMENT BUDGET TRANSFORMED THE POSITIVE FISCAL BALANCE, BETWEEN 1989 AND 1995, TO A NEGATIVE BALANCE, IN 1996. THE BALOONING DEBT, BURGEONING INTEREST PAYMENTS AND NEGATIVE FISCAL BALANCES, CONTINUE TO WORSEN TO THE PRESENT TIME.

THE DECADE OF INSTABILITY IN THE 1990s SHOW A WELL DEFINED PATTERN OF IMBALANCE. FROM 1991 TO 1995, THE ECONOMY WAS CHARACTERISED BY

MONETARY INSTABILITY AND FISCAL STABILITY. SINCE 1996 TO THE PRESENT, THE SITUATION HAS BEEN REVERSED TO MONETARY STABILITY AND FISCAL INSTABILITY.

BUT ONE FACTOR REMAINED CONSTANT THROUGHOUT THIS ENTIRE PERIOD OF INSTABILITY: EXCEPTIONALLY HIGH INTEREST RATES. THIS HAS BEEN AN OVERBEARING BURDEN TO PRIVATE BUSINESS AND PUBLIC SECTOR BUDGETING. IT IS PERHAPS THE PRINCIPAL FACTOR IN THE INABILITY TO ACHIEVE COMPETITIVE COSTS IN THE PRODUCTION OF GOODS AND SERVICES. GROWTH IN NON-TRADITIONAL EXPORTS, AS A CONSEQUENCE, HAS BEEN STAGNANT IN CARICOM AND OTHER MARKETS AND DOMESTIC PRODUCTION CONTINUES TO BE DISPLACED BY IMPORTS FROM CARICOM AND ELSEWHERE.

THE IMPACT OF HIGH INTEREST RATES IS PERVASIVE, SPREADING DAMAGE THROUGHOUT THE ENTIRE ECONOMY. UNTIL THIS WEAKNESS IS CORRECTED AND COMPETITIVE INTEREST RATES ACHIEVED, IN A SUSTAINABLE AND CREDIBLE MACRO-ECONOMIC ENVIRONMENT, COMPETITIVELY PRICED GOODS AND SERVICES WILL NOT BE ACHIEVABLE.

IN THIS NON-COMPETITIVE SCENARIO, PARTICIPATION IN A CARICOM SINGLE MARKET AND ECONOMY IS OF LITTLE OR NO VALUE TO THE FUTURE PROSPECTS OF DEVELOPMENT OF THE JAMAICAN ECONOMY. INDEED, IT COULD BE DETRIMENTAL BY OPENING THE DOOR WIDER TO GREATER IMPORTS WITHOUT COMPENSATING EXPORTS.

SEVERAL HIT-AND-RUN ATTEMPTS HAVE BEEN MADE OVER THE PAST FEW YEARS BY THE BANK OF JAMAICA TO REDUCE INTEREST RATES. THE BANK OF JAMAICA, IN KEEPING WITH THE ROLE OF A CENTRAL BANK, PURSUES A POLICY OF INTERVENTION BY BUYING AND SELLING FOREIGN EXCHANGE TO CONTROL DEMAND AND SUPPLY IN ORDER TO ADJUST INTEREST RATES. THE POLICY IS IMPLEMENTED UNEVENLY WITH SOMETIMES SHARP AND UNSETTLING CHANGES IN RATES.

THIS HIT-AND-RUN APPROACH PRODUCES A SEE-SAW EFFECT IN TRYING TO REDUCE INTEREST RATES WITHOUT WEAKENING THE EXCHANGE RATE. THIS IS THE CLASSICAL DILEMMA OF CENTRAL BANKS: ATTEMPTING TO KEEP TWO VARIABLES, THE INTEREST RATE AND EXCHANGE RATE IN CHECK AT THE SAME TIME. IN JAMAICA, THE JUGGLERS IN THIS PERFORMANCE HAVE BEEN UNABLE TO KEEP BOTH BALLS IN THE AIR SIMULTANEOUSLY. ONLY ONE BALL CAN BE CONTROLLED AT A TIME. IF THE POLICY PRIORITY IS THE LOWERING OF INTEREST RATES THEN THE EXCHANGE RATE MUST BE FIXED TO ALLOW MAXIMUM CONTROL OF INTEREST RATES TO BE REALISED.

THERE WAS A TIME WHEN PROMOTING A FIXED EXCHANGE RATE AS A CORNER

STONE OF ECONOMIC POLICY WAS HERETICAL, CERTAINLY IN IMF CIRCLES. BUT MANY COUNTRIES HAVE NOW ADOPTED EXCHANGE RATE POLICIES WHICH FIX OR PEG THE DOMESTIC CURRENCY TO AN INTERNATIONALLY CONVERTIBLE CURRENCY, INVARIABLY THE US DOLLAR, BUT INCLUSIVE OF THE FRANC, DEUTSCHE MARK AND EURO.

IN THE CARIBBEAN REGION, 30 OF 36 STATES FIX THEIR EXCHANGE RATES TO THE US DOLLAR, OR, IN THE CASE OF FRENCH STATES, THE FRENCH FRANC. EIGHT OF THESE 30 COUNTRIES HAVE GONE FURTHER TO SUBSTITUTE US DOLLARS (DOLLARISATION) OR FRANCS, FOR DOMESTIC CURRENCY.

PEGGING THE EXCHANGE RATE HAS PROVEN OVERWHELMINGLY POPULAR IN THE CARIBBEAN WITH VERY GOOD RESULTS. A CORRELATION OF THE EXCHANGE RATE REGIME IN FORCE IN THIRTEEN INDEPENDENT NATIONS IN THE CARIBBEAN AND THE AVERAGE COMMERCIAL BANK (LENDING) RATE, OVER 1994-1998, SHOW UNMISTAKABLY THAT THOSE COUNTRIES, EXCEPT BELIZE, WITH PEGGED EXCHANGE RATES HAVE SINGLE DIGIT OR LOW DOUBLE DIGIT COMMERCIAL BANK LENDING RATES. THIS IS EXPLICITLY OUTLINED IN AN IMF OCCASIONAL PAPER #201 ENTITLED DEVELOPMENTS AND CHALLENGES IN THE CARIBBEAN REGION. TABLE 8 BELOW SETS OUT THE CORRELATION:

**CARICOM COUNTRIES: INTEREST RATES
(in percent a year, end of period)**

<u>Countries</u>	Exchange rate regime	Average commercial lending rate in percent for the period 1994 – 1998
Antigua and Barbuda	EC\$: Pegged to the US\$	10.1 – 12.2
The Bahamas	Pegged to the US\$	6.8
Barbados	Pegged to the US\$	10.8
Belize	Pegged to the US\$	15.9
Dominica	Pegged to the US\$	9.0 – 10.4
Grenada	Pegged to the US\$	10.5
Guyana	Managed float	17.9
Jamaica	Managed float	37.8
St. Kitts and Nevis	EC\$: Pegged to the US\$	9.6 – 12.8
St. Lucia	EC\$: Pegged to the US\$	9.4 – 10.5
St. Vincent and the Grenadines		10.0 – 11.6
Suriname	Managed float	18.3
Trinidad and Tobago	Managed float	15.9

THE IMPACT OF FIXED EXCHANGE RATES ON INFLATION IS ALSO WELL ESTABLISHED. A CRITICAL CORRELATION IS MADE BETWEEN EXCHANGE RATE REGIMES AND AVERAGE INFLATION RATES OVER THE PERIOD 1980-1998 ESTABLISHING THAT COUNTRIES WITH FIXED EXCHANGE RATES ALSO HAD LOW INFLATION. DATA ON INFLATION RATES, TAKEN FROM THE IMF OCCASIONAL PAPER, WAS CORRELATED WITH DATA ON EXCHANGE RATE REGIMES, AS ILLUSTRATED BY PROFESSOR ALVIN WINT IN A WELL DOCUMENTED AND INSIGHTFUL BOOK COMPETITIVENESS IN SMALL DEVELOPING ECONOMIES INSIGHTS FROM THE CARIBBEAN. TABLE 8A SETS OUT THE COMPARISON OF 13 CARICOM COUNTRIES.

TABLE 8A

CARIBBEAN COUNTRIES

<u>Consumer price index inflation, in percentage points compared to exchange rate regimes</u>	
Countries with low inflation	Countries with fixed exchange rates pegged to the US dollar
	Average inflation rate 1980 - 98
Antigua and Barbuda	3.4
The Bahamas	4.1
Barbados	4.2
Belize	3.3
Dominica	3.4
Grenada	3.5
St. Kitts and Nevis	3.6
St. Lucia	3.3
St. Vincent and the Grenadines	3.6

Countries with high inflation	Countries with flexible exchange rates
	Average inflation rate 1980-98
Guyana	25.4
Jamaica	34.6
Suriname	312.9
Trinidad and Tobago	9.6

NINE COUNTRIES WITH RATES PEGGED TO THE US DOLLAR AVERAGED 3.3%-4.1% PER ANNUM INFLATION RATES. BY COMPARISON, 4 COUNTRIES WITH FLEXIBLE EXCHANGE RATES AVERAGED 95% PER ANNUM INFLATION.

THE PATTERN OF CORRELATIONS CAN BE TAKEN ONE STEP FURTHER, INDEED, TO THE ULTIMATE COMPARISON: THE RELATIONSHIP BETWEEN FIXED EXCHANGE RATES AND THE LEVEL OF PER CAPITA INCOME. PROFESSOR ALVIN WINT, PROFESSOR OF INTERNATIONAL BUSINESS AND HEAD OF THE DEPARTMENT OF MANAGEMENT STUDIES, UNIVERSITY OF THE WEST INDIES, MAKES THE COMPARISON WHICH CLEARLY INDICATES, IN TABLE 8B, THAT 26 OF THE 35 COUNTRIES REVIEWED WITH UPPER MIDDLE TO HIGH PER CAPITA INCOME LEVELS HAVE FIXED EXCHANGE RATES.

OF THE REMAINING NINE COUNTRIES, WITH LOW TO LOWER MIDDLE INCOME LEVELS, TWO HAVE FIXED EXCHANGE RATE REGIMES AND SEVEN USE MANAGED FLOATS.

TABLE 8B
CARIBBEAN EXCHANGE REGIME CHOICE

Territory	Income Category	Exchange Regime
Anguilla	High Income	EC\$: Pegged to US\$
Turks and Caicos Islands	High Income	Dollarized
Aruba	High Income	Pegged to US\$
Bahamas	High Income	Pegged to US\$
French Guiana	High Income	Pegged to the currency of France
US Virgin Islands	High Income	Dollarized
Bermuda	High income	Pegged to US\$
British Virgin Islands	High income	Dollarized
Cayman Islands	High income	Pegged to US\$
Cuba	Low income	Fixed regime with closed window; Floating market rate
Dominica	Lower middle income	Pegged to US\$
Dominican Republic	Lower middle income	Managed float
Belize	Lower Middle Income	Pegged to the US\$
French West Indies (Guadeloupe, Martinique, St. Martin, St. Barthelemy)	Upper middle income/high income	Use currency of France
Grenada	Lower middle income	Pegged to US\$
Guyana	Low income	Managed float
Haiti	Low income	Managed float
Jamaica	Lower middle income	Managed float
Montserrat	Upper Middle income	EC\$: Pegged to US\$
Netherlands Antilles (Curacao, Bonaire, Saba, St. Maarten, St. Eustatius)	High income	Pegged to US\$
Puerto Rico	Upper middle income	Dollarized
St. Kitts and Nevis	Upper middle income	EC\$: Pegged to US\$
St. Lucia	Upper middle income	EC\$: Pegged to US\$
St. Vincent and the Grenadines	Lower middle income	EC\$: Pegged to US\$
Suriname	Lower middle income	Managed float
Trinidad and Tobago	Upper middle income	Managed float
Antigua and Barbuda	Upper Middle Income	EC\$: Pegged to the US\$
Barbados	Upper Middle Income	Pegged to the US\$

FROM THESE COMPARISONS IT IS CLEAR THAT THERE IS A POSITIVELY ESTABLISHED EMPIRICAL CORRELATION BETWEEN A FIXED EXCHANGE RATE AND;

- LOW INTEREST RATES;
- LOW INFLATION; AND
- UPPER MIDDLE – HIGH INCOME PER CAPITA,

ON A SUSTAINABLE BASIS.

THIS CORRELATION IS PERSUASIVE ARGUMENT FOR A FIXED EXCHANGE RATE AS THE CENTRE-PIECE OF A MACRO-ECONOMIC POLICY TO STABILISE THE ECONOMY BY A COMBINED LOW INTEREST RATE - LOW INFLATION STRATEGY, A COMBINATION WHICH HAS ELUDED THE JAMAICAN AUTHORITIES FOR MORE THAN A DOZEN YEARS, SINCE 1990.

THE DAMAGE CREATED TO THE ECONOMY BY THE OVER-BURDEN OF EXCESSIVELY HIGH INTEREST RATES, CANNOT BE OVER-ESTIMATED. BUSINESS AND PRIVATE HOUSEHOLD HAVE BEEN DISLOCATED. INDIVIDUALS HAVE SUFFERED FROM JOB DISPLACEMENTS IN FAILING ENTERPRISES AND OPPORTUNITIES LOST FOR JOBS IN A FAILING ECONOMY. DOMESTIC PRODUCTION AND EXPORTS HAVE STAGNATED UNDER CRIPPLING INTEREST RATES, AMONG OTHER FACTORS, REFLECTING ON THE EMBARRASSING FAILURE OF THE LOW INFLATION, HIGH INTEREST RATE POLICY OF THE PAST DOZEN OR MORE YEARS.

THE QUESTION IS NOT WHETHER A FIXED EXCHANGE RATE TO STABILISE THE ECONOMY IS DESIREABLE BUT HOW AND WHEN, AND WHERE DOES THIS STRATEGY FIT INTO PROSPECTS OF THE CARIBBEAN SINGLE MARKET AND ECONOMY?

MONETARY SYSTEMS

TO FACILITATE TRADE AND INVESTMENT IN THE CSME, IT IS PROPOSED THAT A CARIBBEAN MONETARY UNION (CMU) BE ESTABLISHED WITHIN THE FRAMEWORK OF THE CARIBBEAN SINGLE MARKET AND ECONOMY. THE CMU WOULD BE REGULATED BY A CARIBBEAN MONETARY AUTHORITY (CMA). THIS CONCEPT ORIGINATED AMONG REGIONAL CENTRAL BANK GOVERNORS IN 1990 WITH A TARGET DATE FOR IMPLEMENTATION IN 2000.

CENTRAL TO THE CONCEPT OF A CMU IS THE CREATION OF A SINGLE CARIBBEAN CURRENCY TO REPLACE REGIONAL CURRENCIES.

THE CRITERIA FRAMED FOR PARTICIPATION IN THE CMU, REQUIRE MEMBER COUNTRIES TO MAINTAIN A MINIMUM OF:

- (1) THREE MONTHS IMPORT COVER IN FOREIGN EXCHANGE RESERVES FOR AT LEAST TWELVE MONTHS;
- (2) A STABLE EXCHANGE RATE AGAINST THE US DOLLAR FOR 36 MONTHS;

- (3) AN EXTERNAL DEBT SERVICE RATIO OF NO MORE THAN FIFTEEN PERCENT OF THE VALUE OF EXPORTS.

A NUMBER OF THE PROPOSED PARTICIPATING COUNTRIES IN THE CMU, INCLUDING JAMAICA, CANNOT MEET THESE CRITERIA.

SEVERAL PROBLEMS SURROUND THE CONCEPT OF A CMU AND A SINGLE CURRENCY. BASICALLY, IT IS MISCONCEIVED. THE REPLACEMENT OF ALL REGIONAL COINAGE WITH A SINGLE CURRENCY IS INTENDED TO FACILITATE REGIONAL TRADE IN THE CARICOM SINGLE MARKET. BUT THE LEVEL OF INTRA-REGIONAL TRADE IN THIS MARKET IS SO SMALL THAT THE CREATION OF A CURRENCY TO FACILITATE A RELATIVELY MISERLY VOLUME OF INTRA-CARICOM TRADE IS RIDICULOUS. (SEE TABLE 9A FOR INTRA-REGIONAL TRADE PERFORMANCE).

A SECOND REASON FOR A CARIBBEAN MONETARY UNION IS THAT THE CARIBBEAN MONETARY AUTHORITY (CMA) WOULD BE INTRODUCED AS A REGIONAL MONETARY INSTITUTION TO ADMINISTER A FIXED EXCHANGE RATE REGIME WITH A SINGLE CURRENCY. THIS WOULD ENABLE MONETARY AND FISCAL STABILITY TO BE ESTABLISHED FOR THE REGION. BUT WITH THE EXCEPTION OF JAMAICA, GUYANA, HAITI AND SURINAME (AND POSSIBLY TRINIDAD), THIS MACRO-STABILITY ALREADY EXISTS, BASED ON THE FIXED EXCHANGE RATE OF THE OECS COUNTRIES AND THE PEGGED CURRENCIES OF BARBADOS, BAHAMAS AND BELIZE. WHAT INCENTIVE WILL EXIST THEN FOR THESE STABLE ECONOMIES TO BE INVOLVED IN A CMU WHICH OFFERS NOTHING BETTER THAN WHAT THEY HAVE ALREADY ACHIEVED? WORSE YET, THE DISTINCT POSSIBILITY OF WEAKENING THEIR OWN MACRO- CREDIBILITY, BY INVOLVEMENT WITH THE INSTABILITY OF JAMAICA, GUYANA, HAITI AND SURINAME, WOULD BE A REAL THREAT.

A WELL DOCUMENTED COMPREHENSIVE PAPER BY MYRVIN ANTHONY AND ANDREW HUGHES HALLETT OF THE UNIVERSITY OF STRATHCLYDE, GLASGOW, SCOTLAND, RAISES THE QUESTION: IS THE CASE FOR ECONOMIC AND MONETARY UNION IN THE CARIBBEAN REALISTIC? IT DISCUSSES THE BEST OPTIONS FOR A REGIONAL SINGLE CURRENCY. IT DISMISSES THE IDEA ON THE BASIS OF THE PROPORTIONATELY SMALL AMOUNT OF INTRA-CARICOM TRADE WHICH WOULD NOT JUSTIFY THE NEED FOR A SINGLE CURRENCY. FEW CARICOM COUNTRIES HAVE REGIONAL TRADE PERFORMANCES EXCEEDING 10% OF THEIR GDP AND THESE ARE THE LEAST PERFORMERS OF THE GROUP.

BUT CORRELATION OF TRADE BETWEEN THE REGION AND THE USA IS QUITE DIFFERENT. BOTH IMPORTS AND EXPORTS WITH THE USA ARE SIGNIFICANT PERCENTAGES OF GDP. TABLE 9 AND 9A MAKE THE COMPARISON.

TABLE 9
Intra-regional trade as a percentage of GDP by country

Country	Year	Exports	Imports
Antigua and Barbuda	1994	0.7	9.0
Barbados	1996	5.0	6.2
Belize	1996	0.08	1.7
Dominica	1996	10.2	13.7
Grenada	1994	2.4	15.3
Guyana	1990	4.2	7.6
Jamaica	1994	1.7	6.8
Montserrat	1994	0.9	10.8
St. Kitts and Nevis	1996	0.4	10.6
St. Lucia	1996	1.9	11.3
St. Vincent and the Grenadines	1995	10.6	14.7
Suriname	1995	10.6	14.7
Trinidad and Tobago	1996	11.1	1.5

Source: CARICOM Secretariat and IMF and IFS Databases

TABLE 9A

Regional trade with US in percentage of GDP by country

Country	Year	Exports	Imports
Antigua and Barbuda	1994	12.6	20.4
Barbados	1995	10.9	17.7
Belize	1995	18.44	28.8
Dominica	1994	4.0	7.8
Grenada	1994	14.3	17.5
Guyana	1993	19.9	26.5
Jamaica	1994	19.8	37.5
Montserrat	1994	n.a.	n.a.
St. Kitts and Nevis	1992	3.4	16.3
St. Lucia	1994	8.9	16.6
St. Vincent and the Grenadines	1995	2.1	16.7
Suriname	1993	64.7	158.0
Trinidad and Tobago	1995	22.8	19.7

Source: CARICOM Secretariat and IMF IFS Databases, and IMF Direction of Trade statistics

FROM THE TRADING PATTERN ILLUSTRATED ON THESE TABLES, THE MORE LOGICAL CONCLUSION IS THAT UTILISING THE US DOLLAR AS THE SINGLE CURRENCY MAKES FAR BETTER SENSE THAN THE CREATION OF A REGIONAL CURRENCY BECAUSE OF THE DOMINANT DIRECTION OF TRADE OF CARICOM COUNTRIES WITH THE USA.

THE COGENT ARGUMENT FOR ADOPTING A FIXED RATE OF EXCHANGE TO ESTABLISH MACRO-STABILITY ON A SUSTAINABLE BASIS AND THE EQUALLY PERSUASIVE ARGUMENT TO AVOID A SINGLE CURRENCY OF CARIBBEAN DENOMINATION, RAISE THE QUESTION OF THE MONETARY REGIME TO ADMINISTER A FIXED EXCHANGE RATE.

THERE ARE BASICALLY TWO TYPES OF MONETARY INSTITUTIONS WHICH ADMINISTER MONETARY REGIMES: CENTRAL BANKS AND CURRENCY BOARDS.

CENTRAL BANKS HAVE DISCRETIONARY POWERS OVER MONETARY POLICY. THIS DISCRETION ALLOWS THE PARITY OF THE EXCHANGE RATE TO BE CHANGED WITH THE DICTATES OF MONETARY POLICY.

ESTABLISHMENT OF CENTRAL BANKS BECAME POPULAR BETWEEN 1900 AND THE 1940s WHEN THE NUMBERS EXPANDED FROM 18 TO 40. THIS WAS IN KEEPING WITH THE PREVAILING ECONOMIC WISDOM OF THE TIME TO ABANDON THE FIXED PARITY OF THE GOLD STANDARD IN ORDER TO ALLOW MORE DISCRETION IN FINANCIAL POLICY.

THE INCREASED POPULARITY OF CENTRAL BANKS WAS PUSHED BY THE NEWLY ESTABLISHED INTERNATIONAL MONETARY FUND (IMF) IN 1945. THIS APPROACH WAS JUST IN TIME TO MEET THE WAVE OF COLONIAL TERRITORIES ATTAINING INDEPENDENCE AND ANXIOUS TO DECISIVELY CUT THE BONDS WITH THEIR FORMER COLONIAL MASTERS. THESE COUNTRIES WELCOMED THE ADVENT OF CENTRAL BANKS AS CONSISTENT WITH THEIR EXPRESSIONS OF SOVEREIGNTY. FOR THIS AND OTHER REASONS, CENTRAL BANKS BECAME THE CHOICE OF MONETARY INSTITUTIONS, AND POLITICAL DISCRETION OVER MONETARY POLICY BECAME THE MODUS OPERANDI IN MOST OF THESE COUNTRIES.

POLITICAL CONTROL OVER FISCAL AND MONETARY POLICIES IS EXPECTED TO PRODUCE STABILITY AND GROWTH IN THE ECONOMY. THIS IS SO WHEN THE LEVERS OF CONTROL ARE PRUDENTLY HANDLED, AS IS THE CASE IN MANY COUNTRIES LARGE AND SMALL. BUT THERE ARE ALSO MANY COUNTRIES WHICH CANNOT HANDLE DISCRETIONARY POWERS WITHOUT ABUSING THEM FOR POLITICAL REASONS. JAMAICA HAS HAD MORE THAN ONE EPISODE SINCE INDEPENDENCE IN WHICH THIS MISUSE OF DISCRETIONARY POWERS HAVE DEVASTATED THE ECONOMY.

IN COUNTRIES WHERE THE RULE OF LAW AND INSTITUTIONS OF GOVERNMENT ARE WEAK, A CENTRAL BANK SUBJECT TO POLITICAL CONTROL IS NOT THE APPROPRIATE REGIME FOR PROTECTING THE VALUE OF THE CURRENCY FROM THE RAVAGES OF INFLATION AND DEVALUATION.

FOR THOSE COUNTRIES WHICH CANNOT FOLLOW THE GREEK CONCEPT OF RULE BY LAW, NOT BY MEN, THE CURRENCY BOARD IS THE MONETARY REGIME WHICH WILL GUARANTEE THE PRESERVATION OF THE VALUE OF THE CURRENCY BY MANDATING A FIXED RATE OF EXCHANGE BY THE SYSTEM, AND BY LAW.

A CURRENCY BOARD, BY DESIGN, HAS NO DISCRETIONARY MONETARY POWERS. ITS PRINCIPAL FUNCTION IS TO EXCHANGE THE DOMESTIC CURRENCY IT ISSUES FOR AN ANCHOR CURRENCY AT A FIXED RATE. IT CANNOT EXTEND ANY CREDIT. IT CANNOT PRINT MONEY. HENCE, THERE IS NO POTENTIAL FOR INFLATION. THE RISK OF POLITICAL INTERFERENCE IS MINIMAL.

CURRENCY BOARDS PRE-DATE CENTRAL BANKS, BUT WERE LARGELY SIDE-LINED BY THE RELATIVELY NEW CONCEPT OF CENTRAL BANKING. CURRENCY BOARDS ARE NOW RETURNING IN POPULARITY AS COUNTRIES FACED WITH ECONOMIC INSTABILITY EXPRESS A PREFERENCE FOR A REGIME WHICH CAN PROVIDE AND SUSTAIN STABILITY.

A FURTHER OPTION TO THE CURRENCY BOARD IS A VARIATION IN WHICH THE RATE OF EXCHANGE IS NOT ONLY FIXED BUT THE DOMESTIC CURRENCY IS REPLACED BY AN ANCHOR CURRENCY, USUALLY THE US DOLLAR ("DOLLARIZATION"); THIS IS THE ULTIMATE IN A RULE-BOUND SYSTEM.

TABLE 10 COMPARES THE THREE SYSTEMS, AS OUTLINED BY PROFESSOR STEVE HANKE, PROFESSOR OF APPLIED ECONOMICS, JOHN HOPKINS UNIVERSITY, ONE OF THE LEADING PROPONENTS OF CURRENCY BOARDS AND DOLLARIZATION.

TABLE 10
Comparing the merits of Three Monetary regimes

	Central Bank	Currency Board	Dollarization
Issues notes and coins	Yes	Yes	Done by foreign issuer
Exchange rate (a)	Floating or pegged	Fixed	Fixed
Foreign reserves	Variable	Full coverage	Held by public
Convertibility	Subject to restriction	Guaranteed	Unnecessary
Lender of last resort	Almost always	No	No
Responsible for financial stability	Increasingly	No	No
Regulates commercial banks	Almost always	No	No
Transparency (b)	Generally low	Generally high	Total transparency
Risk of political interference	High	Low	Low
Capacity for deficit finance	Unlimited	None	None
Inflation potential	Unlimited	None	None
Encourages fiscal discipline	No	Yes	Yes
Can be implemented quickly	No	Yes	Yes
Requires preconditions for operation	Yes, several	No	No
Staff Size	Large	Small	None
History in developing countries ©	Poor	Good	Good

A FURTHER INTERESTING COMPARISON BY PROFESSOR HANKE, IS THE CORRELATION BETWEEN THE PERFORMANCE OF CURRENCY BOARD AND CENTRAL BANK COUNTRIES. IN TABLE 11 AND 11A, CURRENCY BOARD OPERATIONS OUT PERFORM CENTRAL BANK SYSTEMS IN GDP, INFLATION AND FISCAL DEFICITS.

TABLE 11

**CURRENCY BOARD VERSUS CENTRAL BANK PERFORMANCES
(NINETY-EIGHT DEVELOPING COUNTRIES, 1950-1993)**

System	GDP Growth Rate (%)	Annual Average Inflation (%)	Fiscal Deficit (% of GDP)
Currency board	2.6 (535)	7.0 (523)	2.2 (338)
Central bank	1.7 (2,694)	33.8 (2,663)	3.7 (1,769)

**CURRENCY BOARD VERSUS CENTRAL BANK PERFORMANCES
(MEMBERS OF THE INTERNATIONAL MONETARY FUND, 1970-1996)**

System	Number of Observations	GDP Growth Rate (%)	Annual Average Inflation (%)	Fiscal Deficit (% of GDP)
Currency board	115	3.2	5.6	2.8
Central bank	695	1.6	48.3	4.4

IN THE 1990s, A NUMBER OF COUNTRIES WITH DEEP ECONOMIC PROBLEMS OPTED FOR CURRENCY BOARD REGIMES AS SOLUTIONS:

ARGENTINA } - TO COPE WITH
ESTONIA } HYPERINFLATION AND A
LITHUANIA) COLLAPSING ECONOMY

BULGARIA - FACED WITH DEFAULT ON INTERNATIONAL DEBT
AND ON THE VERGE OF A REVOLUTION

BOSNIA) - EMERGING FROM A
HERZEGOVINA) DEVASTATING CIVIL WAR

TABLE 12
ARGENTINA BEFORE AND AFTER SETTING UP A CURRENCY BOARD (1 APRIL 1991)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Annual inflation (year-end %)	4,928.6	1,344.5	84.0	17.5	7.4	3.9	1.6	0.0	0.3	0.7	-1.8	-0.5
Change in real GDP (%)	-6.9	-1.8	10.6	9.6	5.7	5.8	-2.8	5.5	8.1	3.9	-3.1	-0.2
Interest rates (money market rate, % per annum, at year-end)	1,387,179	9,9695,422	71.33	15.11	6.31	7.66	9.46	6.23	6.63	6.81	6.99	8.15
Fiscal balance (% of GDP)	-7.6	0.1	-0.1	-0.2	0.9	-0.3	-1.0	-2.2	-1.5	-1.4	-2.5	-2.4
Foreign reserves (in U.S. \$ billions)	3	6	7	12	15	16	16	20	22	25	26.4	22.9
FDI (in U.S. \$ millions)	1,028	1,836	2,439	4,045	2,555	3,635	5,610	6,949	9,161	7,280	24,148	11,154

TABLE 12A

ESTONIA BEFORE AND AFTER SETTING UP A CURRENCY BOARD (20-24 JUNE 1992)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Annual inflation (annual average %)	23.1	210.5	1,076	89.0	47.7	29.0	23.1	11.2	8.1	3.3	4.0
Change in real GDP (%)	-6.5	-13.6	-14.2	-9.0	-2.0	4.3	4.0	10.4	5.0	-0.7	6.9
Commercial banks average lending rates (short-term, 1-3 months, %)	NA	NA	59.2	36.6	24.6	19.0	14.8	11.9	15.1	11.1	7.4
Fiscal balance (% of GDP)	2.9	4.7	-0.3	-0.7	1.3	-1.2	-1.0	2.2	-0.3	-4.6	-0.3
Foreign reserves (in U.S. \$ billions)	NA	NA	196	389	447	583	640	760	813	906	935
FDI (in U.S. \$ millions)	NA	NA	82.3	162.2	214.4	201.5	150.2	266.2	580.5	305.2	386.9

TABLE 12B**BULGARIA BEFORE AND AFTER SETTING UP A CURRENCY BOARD (1 JULY 1997)**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Annual inflation (annual average %)	338.9	79.4	63.8	121.9	32.9	310.8	549.2	1.7	7.0	11.4
Change in real GDP (%)	-11.7	-7.3	-1.5	1.8	2.1	-10.1	-6.9	3.5	2.4	5.3
Interest rates (money market rate, % per annum)	69.6	49.7	66.4	101.2	101.2	435.0	7.0	5.2	4.6	4.7
Fiscal balance (% of GDP)	-3.7	-5.2	-10.9	-5.8	-5.8	-12.7	-2.5	1.0	-1.0	-1.0
Foreign reserves (in U.S. \$ billions)	616	1,207	960	1,311	1,311	793	2,474	3,056	3,056	3,460
FDI (in U.S. \$ millions)	56	42	40	105	105	109.0	504.8	537.2	537.2	1001.5

TABLE 12C**LITHUANIA BEFORE AND AFTER SETTING UP A CURRENCY BOARD (1 APRIL 1994)**

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Annual inflation (annual average %)	1,175	188.8	72.2	35.5	13.1	8.4	2.4	0.3	1.5
Change in real GDP (%)	-21.3	-16.2	-9.8	3.3	4.7	7.3	5.1	-4.2	2.7
Commercial banks average lending rates (short-term, 1-3 months, %)	135.2	91.6	33.0	29.5	20.0	13.3	13.3	14.5	13.4
Fiscal balance (% of GDP)	0.5	-5.3	-4.8	-4.5	-4.5	-1.8	-5.9	-8.5	-2.8
Foreign reserves (in U.S. \$ billions)	107	412	587	819	834	1,063	1,460	1,242	1,356
FDI (in U.S. \$ millions)	NA	30.2	31.3	72.6	152.4	354.5	925.5	486.5	378.9

TABLE 12D
BOSNIA AND HERZEGOVINA BEFORE AND AFTER
SETTING UP A CURRENCY BOARD (11 AUGUST 1997)

	1995	1996	1997	1998	1999	2000
Annual inflation (annual average %)	-4	-25	14	5	0	2
Change in real GDP (%)	21	86	40	13	9	10
Commercial banks median lending rates to households (short-term, 1-3 months, %)	146.7	55.6	29.6	26.0	28.0	24.0
Fiscal balance (% of GDP)	0	-3	-1	-2	-1	-3
FDI (in U.S. \$ millions)	207	235	80	175	455	488

SUMMARIES OF TABLES 12 – 12D REVEAL THE OFTEN DRAMATIC RESULTS IN CURBING HYPERINFLATION AND PRODUCING GDP GROWTH, REDUCTION OF INTEREST RATES, ACCEPTABLE FISCAL BALANCES AND FOREIGN RESERVES. THESE ARE SET OUT IN THE PUBLICATION CURRENCY BOARDS BY PROFESSOR STEVE HANKE.

JAMAICA ENJOYED A CURRENCY BOARD UNTIL THE CREATION OF THE BANK OF JAMAICA IN 1959.

IN THE CARIBBEAN, CENTRAL BANKS WITH PEGGED EXCHANGE RATES, A HYBRID REGIME, ARE POPULAR. CERTAINLY, THE MEMBER COUNTRIES OF THE ORGANISATION OF EASTERN CARIBBEAN STATES (OECs) HAVE OPERATED A CENTRAL BANK WITH A PEGGED EXCHANGE RATE SINCE 1983 WITH GREAT SUCCESS. THE RECORD OF THE OECs COUNTRIES AND OTHER CARIBBEAN STATES WHICH HAVE CREATED ECONOMIES WITH UPPER MIDDLE TO HIGH PER CAPITA INCOMES, UNDER A PEGGED EXCHANGE RATE REGIME, (AS QUOTED EARLIER, SEE TABLE 8B) SHOULD BE PROOF ENOUGH OF THE INVESTMENT AND GROWTH GENERATED BY THE MACRO-STABILITY OF THE FIXED EXCHANGE RATE.

THIS RESPONSE IS FURTHER ILLUSTRATED BY THE CASE OF JAMAICA. IN JANUARY 1987, A LANDMARK DECISION WAS TAKEN. THROUGHOUT 1986, THE IMF WAS INSISTING ON A FURTHER DEVALUATION OF THE JAMAICAN DOLLAR, ALBEIT NOT A SUBSTANTIAL ONE. I MADE THE POINT REPEATEDLY TO THE IMF THAT SINCE THE ADJUSTMENT IN THE RATE WAS NOT SUBSTANTIAL THE ADJUSTMENT TO THE PRICING OF EXPORTS COULD BE ACHIEVED BY AN EXPORT DRAW BACK SCHEME. THIS WOULD AVOID INVOLVEMENT OF A DEVALUATION WHICH WAS UNSETTLING TO JAMAICAN PRODUCERS IN THAT IT INDICATED THAT STILL FURTHER DEVALUATIONS COULD BE IMPOSED. THE SPECTRE OF DEVALUATION WAS DEMOTIVATING TO PRODUCERS.

THE IMF WAS NOT IMPRESSED. THEY WANTED THE DEVALUATION WHICH WAS THEIR STANDARD PROCEDURE. I WAS EQUALLY ADAMANT THAT THERE WOULD BE NO DEVALUATION. A STAND-OFF FOLLOWED.

DURING THE STAND-OFF I INSTRUCTED THE BOJ NOT TO PAY ANY MORE FEES TO THE IMF. THE FUNDS SHOULD BE PUT IN ESCROW. THE SENIOR OFFICERS OF THE BOJ WERE TERRIFIED THAT THIS COULD RUIN JAMAICA'S REPUTATION WITH THE FUND. I HELD MY GROUND. IN 1986, THE CANADIAN REPRESENTATIVE WHO WAS JAMAICA'S DIRECTOR ON THE BOARD OF THE FUND VISITED ME. HE EXPLAINED THAT THE FUND WAS CONCERNED THAT I WAS SETTING A PATTERN WHICH OTHERS MIGHT FOLLOW. I SHOULD RELENT, IT WAS STRONGLY ADVISED, BUT I HELD MY GROUND.

IN JANUARY 1987, JUST BEFORE THE MANAGING DIRECTOR DE LA ROSIERRE DEMITTED OFFICE, HE AGREED WITH ME THAT JAMAICA COULD PEG ITS RATE OF EXCHANGE AT \$5.50.

WHEN THIS WAS ANNOUNCED THE RESULT WAS BEYOND EXPECTATION. IN THE FIRST QUARTER AFTER THE ANNOUNCEMENT, THE GDP SHOWED AN ESTIMATED 5.5% ECONOMIC GROWTH. IN THE PREVIOUS YEAR GROWTH WAS 0.5%. THE SPECTRE OF RUNAWAY GROWTH WITHOUT SUFFICIENT FOREIGN EXCHANGE TO FINANCE IT WAS A REAL THREAT THAT CARRIED OVER TO 1988. AS A RESULT, I HAD TO ANNOUNCE ON FRIDAY, SEPTEMBER 10, 1988, THAT WE WOULD HAVE TO COOL DOWN THE ECONOMY. TWO DAYS LATER, HURRICANE GILBERT HIT JAMAICA AND COOLED DOWN THE ECONOMY ALMOST BRINGING IT TO A HALT.

THE LESSON TO BE LEARNED IS THE MAGICALLY MOTIVATING DYNAMIC FORCE WHICH A FIXED EXCHANGE RATE HOLDS IN THE MARKET.

A STRONG CASE EXISTS TO EXAMINE THE OPTION OF EITHER A CURRENCY BOARD WITH A FIXED RATE OF EXCHANGE OR AN INDEPENDENT CENTRAL BANK WITH A SPECIAL REGIME TO MAINTAIN A PEGGED RATE, AS THE MEANS OF ENDING THE FRUSTRATIONS OF A STAGNANT, DEBT RIDDEN ECONOMY.

THESE OPTIONS HAVE FAR GREATER POTENTIAL FOR THE JAMAICAN ECONOMY THAN BEING SHACKLED TO A CARIBBEAN SINGLE MARKET AND ECONOMY IN WHICH THE MARKET SIZE IS INSIGNIFICANT; OR TO BE FURTHER SHACKLED WITH A CARIBBEAN MONETARY UNION WHICH IS LIKELY TO BE STILL-BORN; OR IF SURVIVING BIRTH, WOULD BE POINTLESS AND FUTILE IN PROMOTING THE ADOPTION OF A WHOLE NEW CURRENCY REGIME TO SATISFY A TINY FRAGMENT OF JAMAICA'S TRADE.

IN JAMAICA'S CASE, THE BENEFIT OF A FIXED RATE OF EXCHANGE WOULD BE THE CAPABILITY TO DRIVE INTEREST RATES DOWN WITHOUT IMPACT ON THE RATE OF EXCHANGE. WITH A FIXED EXCHANGE RATE LIQUIDITY COULD ACCUMULATE IN THE BANKING SYSTEM WITHOUT THE NEED FOR CENTRAL BANK INTERVENTION TO SOP UP THE LIQUIDITY IN ORDER TO ENSURE THAT THE EXTRA FUNDS ARE NOT USED TO DEPRECIATE THE EXCHANGE RATE. AS LIQUIDITY ACCUMULATES, BANKS WOULD HAVE TO REDUCE RATES, AS IN THE CASE OF ANY COMMODITY IN SURPLUS WHERE PRICES ARE LOWERED TO MOVE THE GOODS.

A REGRESSION ANALYSIS OF THE CORRELATION OF INTEREST RATES AND COMMERCIAL BANK LIQUIDITY, DONE BY DR. OMRI EVANS, CONSULTANT ECONOMIST, SHOWS THAT EVERY 1%, INCREASE OR DECREASE, IN BANK LIQUIDITY, WOULD INDUCE, AN INCREASE OR DECREASE, OF A:

- (i) 3% CHANGE, IN 6-12 MONTHS DEPOSIT RATES;

(ii) 5% CHANGE IN AVERAGE LENDING RATES;

IT FOLLOWS THAT A 2% INCREASE IN LIQUIDITY IN THE BANKING SYSTEM COULD INDUCE A 10% REDUCTION IN THE CURRENT COMMERCIAL BANK LENDING RATE, FROM 25% TO 15%, SUBJECT TO PREVAILING MARKET CONDITIONS.

A DECREASE OF 10% IN THE COMMERCIAL BANK LENDING RATE WOULD NOT ONLY BE A GIANT STIMULUS TO CONSUMER DEMAND AND BUSINESS DYNAMICS, BUT A CORRESPONDING SUBSTANTIAL REDUCTION OF 5% IN THE TRANSACTION RATES OF BANK INVESTMENTS IN PUBLIC BOND ISSUES WOULD HAVE A DRAMATIC IMPACT ON REDUCING THE COST OF GOVERNMENT BORROWING AND DEBT SERVICE. EVERY 1% DECREASE IN THE TRANSACTION RATE OF GOVERNMENT DOMESTIC BOND OFFERS AND OTHER DEBT INSTRUMENTS, WOULD RESULT IN \$4.5 BILLION DOLLARS IN REDUCED BORROWINGS OR DEBT SERVICE PAYMENTS. A REDUCTION OF 5% IN GOVERNMENT BORROWING COULD REALISE SAVINGS TO THE BUDGET OF \$22.5 BILLION. NEEDLESS TO SAY THIS COULD TRANSFORM THE FISCAL BUDGET DRAMATICALLY, REDUCING THE DEFICIT FROM THE PROPOSED \$22 BILLION TO ZERO, IF ACCOMPLISHED IN ONE YEAR.

THIS SCENARIO CAN BE EASILY SKETCHED, BUT IS NOT AS EASILY IMPLEMENTED. GREAT CARE WOULD HAVE TO BE TAKEN TO ENSURE THAT THE PROGRAMME OF REDUCTION WAS TIMELY AND SYNCHRONISED WITH THE EXISTING DEBT MATURITIES TO AVOID THE DISLOCATIONS WHICH PLAYED A CENTRAL ROLE IN THE NEAR DEMISE OF THE FINANCIAL SYSTEM WHEN MONEY SUPPLY WAS PRECIPITOUSLY REDUCED IN 1996.

THIS PRESENTATION CANNOT PROVIDE ALL THE ANSWERS. IT PROVIDES ONLY A FRAMEWORK OF LOGICAL INTERACTION BETWEEN MONETARY INSTITUTIONS OPERATING A FIXED EXCHANGE RATE, AND THE DYNAMICS OF THE MONEY MARKET IN DETERMINING INTEREST RATES IN THESE CIRCUMSTANCES. IT CAN BE CONTENDED THAT A CASE HAS BEEN MADE FOR DETAILED STUDY TO DESIGN AND IMPLEMENT STRATEGY.

CONCLUSION

MUCH IS AT STAKE ! A NEW STRATEGY FOR FUTURE DEVELOPMENT NEEDS TO BE DEvised. BEGINNING WITH THE PRE-OCCUPATION OF JAMAICA WITH CARICOM ORGANISATIONS TO ENHANCE REGIONAL TRADE, THIS PRESENTATION CONCLUDES:

- (1) EXISTING INTRA-REGIONAL TRADE, GENERALLY LESS THAN 10% OF GDP, IS TOO SMALL TO BE A DEFINING STRATEGY FOR CARICOM DEVELOPMENT. WITH STAGNANT EXPORTS TO THE CARICOM REGION

(4% OF TOTAL TRADE) AND SMALL BUT GROWING IMPORTS (12%), THE PROSPECTS OF THE CARICOM MARKET ARE OF EVEN LESS VALUE TO JAMAICA'S FUTURE DEVELOPMENT;

- (2) IN THESE CIRCUMSTANCES, JAMAICA'S PARTICIPATION IN THE PROPOSED EXTENSION OF CARICOM TO CREATE A CARIBBEAN SINGLE MARKET AND ECONOMY (CSME) WOULD EXPOSE THE VULNERABILITY OF THE ECONOMY TO EVEN GREATER IMPORTATION AND DISLOCATION OF LOCAL PRODUCTION WITHOUT COMPENSATING EXPORTS. IN THIS SCENARIO, THE CSME WOULD BE DETRIMENTAL, RATHER THAN BENEFICIAL TO JAMAICA;
- (3) THE MOST SIGNIFICANT REASON FOR WEAKNESS IN THE JAMAICAN PERFORMANCE IS THE LOW PRODUCTIVITY RATE OF THE JAMAICAN ECONOMY IN THE PRODUCTION OF GOODS AND THE PROVISION OF SERVICES. JAMAICA'S PRODUCTIVITY RATE IS THE SIXTH LOWEST OF 24 COUNTRIES IN THE REGION. THE PRINCIPAL FACTORS GOVERNING LOW PRODUCTIVITY IN JAMAICA ARE THE EMBARRASSINGLY WEAK EDUCATION SYSTEM AND UNSTABLE MACRO-ECONOMY;
- (4) TO BOOST PRODUCTIVITY IN ORDER TO MAKE JAMAICAN PRODUCTION OF GOODS AND PROVISION OF SERVICES MORE COMPETITIVE, NEW POLICIES MUST CORRECT THE DISFUNCTIONAL EDUCATION SYSTEM (MEDIUM TO LONG TERM) AND STABILISE THE MACRO-ECONOMY (SHORT TO MEDIUM TERM);
- (5) THE LYNCH PIN OF THE INSTABILITY WHICH HAS DEVASTATED THE JAMAICAN ECONOMY OVER THE PAST DOZEN OR SO YEARS, HAS BEEN DAMAGING MONETARY AND FISCAL POLICIES BOTH OF WHICH CREATED AN ENVIRONMENT OF UNSTABLE RATES OF EXCHANGE AND EXTRA-ORDINARILY HIGH INTEREST RATES, OVER-BURDENING THE ECONOMY WITH EXCEPTIONAL COSTS;
- (6) COMPARITIVE ANALYSIS SHOWS THAT THESE BURDENSOME COSTS ARE LARGELY DRIVEN BY EXCHANGE RATE INSTABILITY AND, BY EXTENSION, EXTRAORDINARILY HIGH INTEREST RATES (SEE TABLES 8 AND 8A). COUNTRIES WITH FIXED OR PEGGED EXCHANGE RATES IN CARICOM FEATURE REGIMES OF LOW INTEREST AND INFLATION RATES; AS A CONSEQUENCE, THEIR POPULATIONS GENERALLY ENJOY UPPER MIDDLE TO HIGHER PER CAPITA INCOMES, MUCH HIGHER THAN JAMAICA (SEE TABLE 8B);
- (7) FIXED EXCHANGE RATES ARE BEST ADMINISTERED BY CURRENCY BOARDS, BUT CAN BE, UNDER SPECIAL RULE-BOUND REGIMES, IMPLEMENTED BY CENTRAL BANKS;
- (8) FIXING THE EXCHANGE RATE ALLOWS MARKET FORCES TO REDUCE INTEREST RATES WITHOUT CONSEQUENTIAL MOVEMENTS OF THE EXCHANGE RATE. THIS ALLOWS COST REDUCTIONS FOR PRIVATE BUSINESS, PERSONAL CONSUMPTION AND PUBLIC FINANCING. THE

REDUCED COSTS WOULD LOWER PRODUCTIVITY RATES AND IMPROVE THE COMPETITIVENESS OF JAMAICAN GOODS AND SERVICES:

- (i) PRODUCTION COSTS WOULD DECREASE SUBSTANTIALLY;
 - (ii) CONSUMER SPENDING WOULD INCREASE AS GOODS AND SERVICES BECOME MORE COMPETITIVELY PRICED;
 - (iii) BUSINESS WOULD EXPAND AND NEW INVESTMENTS WOULD FLOW.
- (9) LOWERING THE BORROWING RATE ON GOVERNMENT DEBT STOCK BY 3% - 5%, ON A TIMELY BASIS, IS ENTIRELY REALISTIC WITH A FIXED EXCHANGE RATE. THIS COULD REALISE SAVINGS OF SOME \$20 BILLION, SUBSTANTIALLY REDUCING OR EVEN WIPING OUT THE FISCAL DEFICIT. THE NATIONAL DEBT WOULD BE QUICKLY REDUCED TO REASONABLE PROPORTIONS, AND GREATER REVENUES FREED FROM DEBT SERVICE TO DEVELOPMENT;
- (10) THE IMPACT OF THIS NEW POLICY DIRECTION TO REDUCE THE COSTS TO BUSINESS, HOUSEHOLDS AND GOVERNMENT, WOULD PROVIDE A NEW STRATEGY FOR DEVELOPMENT WHICH COULD QUICKLY REVIVE THE DECADE OLD, DEBT-RIDDEN, STAGNANT JAMAICAN ECONOMY, RESTORE MACRO-STABILITY AND RELEASE NEW ENERGIES FOR INVESTMENT AND GROWTH. JOB CREATION AND HIGHER NATIONAL INCOMES FOR JAMAICANS WOULD FOLLOW.

IN ORDER NOT TO DISRUPT THE EXISTING REGIONAL RELATIONSHIP, JAMAICA SHOULD CONTINUE TO PARTICIPATE IN CARICOM WHERE EXISTING REGIONAL COOPERATION AND TRADE PROVIDE REGIONAL BENEFITS. JAMAICA, HOWEVER, SHOULD REGARD THE PROPOSED CARIBBEAN SINGLE MARKET AND ECONOMY AS A WAYWARD JOURNEY AND SET OUR COURSE TO FIND A FRESH WIND IN OUR SAILS.

IT IS TIME FOR A NEW VISION TO LIFT JAMAICA OUT OF THE QUAGMIRE OF A DEBT-RIDDEN, STAGNANT ECONOMY. THERE IS NO NEED FOR FURTHER YEARS OF SACRIFICE AND STRIFE WHEN THE WAY IS OPEN TO SUCCEED WHERE OTHER COUNTRIES HAVE SUCCEEDED IN CREATING SUBSTANTIALLY HIGHER LEVELS OF INCOME FOR THEIR PEOPLE. JAMAICANS TOO CAN TRAVEL THAT ROAD, IF ONE MAJOR CHANGE IS MADE.

UNDERLYING THE FUNDAMENTALS IN THIS PRESENTATION IS A MORE PROFOUND FACTOR: THE HUMAN ELEMENT IN THE USE AND ABUSE OF DISCRETIONARY POWERS. IT IS THE ABUSE OF THIS DISCRETIONARY POWER THAT CREATES CHOICES WHICH EVENTUALLY DETERMINE WHETHER INTEREST RATES ARE HIGH OR LOW. THIS NEED NOT BE THE CASE.

IN MANY AREAS OF ENDEAVOUR, HUMAN DISCRETION IS A BETTER JUDGE THAN THE MARKET, BUT NOT IN THIS CASE. MARKETS FOLLOW MARKET FORCES WITH BETTER PREDICTABILITY. THIS CREATES CONFIDENCE AND CREDIBILITY WHICH ARE VITAL TO ANY MARKET. IT IS MAN WHO IS UNPREDICTABLE. IT IS MAN WHO CREATES THE MISTRUST AND INSTABILITY. REMOVE MAN FROM THE CENTRE OF THE EQUATION AND LET MARKET FORCES OPERATE.

IN THE 1980s, THERE WERE TWO SPECIAL INSTANCES IN WHICH THE MARKET WAS FREED TO DETERMINE NEW MARKET EQUILIBRUMS WHICH COULD AFFECT MACRO-STABILITY: IMPORT REGULATIONS AND PRICE CONTROLS.

IMPORT REGULATIONS AND QUOTAS WERE PIVOTAL TO THE COMMAND AND CONTROL REGIME OF THE 1970s. IN 1986, WE DECIDED TO REMOVE THEM, DESPITE DIRE WARNINGS THAT IMPORTS WOULD FLOOD THE COUNTRY CREATING GREATER DEMAND FOR SCARCE FOREIGN EXCHANGE. THE BLACK MARKET WOULD FLOURISH, WE WERE WARNED. CONTROLS WERE LIFTED ON MORE THAN 1,300 ITEMS LEAVING 56 TO BE REGULATED. THE MARKET TOOK OVER. IMPORTS DID NOT INCREASE SPECTACULARLY. THEY SIMPLY RESUMED PREVIOUS LEVELS.

PRICE CONTROLS ON STAPLE FOODS WERE ANOTHER LEGACY OF THE 1970s. BY THE MID 1980s, IT WAS DECIDED TO LIFT MOST OF THE CONTROLS. AGAIN, THERE WAS THE FRIGHTENING SPECTRE OF BALLOONING PRICES ON STAPLE ITEMS CONSUMED BY THE POOR. CONTROLS WERE REMOVED; MARKET FORCES TOOK OVER. PRICES DID NOT INCREASE.

IN BOTH CASES, THE TIMING HAD TO BE RIGHT. APPROPRIATE MARKET CONDITIONS HAD TO BE IN PLACE. THAT WAS THE ELEMENT OF HUMAN JUDGEMENT. THE REST WAS LEFT TO THE MARKET.

THE TIME IS NOW RIGHT TO REMOVE THE HUMAN FACTOR FROM DETERMINING THE RATE OF EXCHANGE. HUMAN MISJUDGEMENT HAS SUCCEEDED IN VARYING THE PARITY OF THE JAMAICAN DOLLAR SINCE 1969, FROM J\$1: US\$1.10 TO J\$61:US\$1.00.

WHEN THE DECISION WAS TAKEN IN 1969 TO ESTABLISH A JAMAICAN DOLLAR WHICH WAS WORTH MORE THAN THE US DOLLAR, BASED ON RELATIVE STRENGTH, THAT SAME DECISION WAS IMPLEMENTED IN THE CAYMAN ISLANDS. TODAY, ONE CAYMAN DOLLAR IS STILL FIXED AT \$1.10 UNITED STATES DOLLARS; BUT IN JAMAICA'S CASE IT NOW REQUIRES \$61 JAMAICAN DOLLARS IN EXCHANGE FOR US\$1. MANY CARIBBEAN COUNTRIES ALSO HAVE MAINTAINED FIXED RATES OF EXCHANGE OVER MANY YEARS; JAMAICA HAS NOT. MANY HAVE BENEFITED FROM THE RESULTING CHEAP INTEREST RATES. JAMAICA HAS NOT.

TODAY, MANY CARIBBEAN COUNTRIES ENJOY HIGH NATIONAL INCOMES PER CAPITA, AS DO BARBADOS AND THE BAHAMAS, WITH FIXED RATES OF EXCHANGE AND CHEAP INTEREST RATES, WHILE JAMAICANS HAVE FAILED TO IMPROVE THEIR PER CAPITA INCOME MEANINGFULLY OVER THE PAST 40 YEARS (SEE TABLE 8B).

IT IS TIME NOW TO PUT HUMAN JUDGEMENT ASIDE AND CREATE A SYSTEM WHICH WILL WORK REGARDLESS OF WHICH MEN HOLD THE LEVERS OF POLITICAL POWER AND CONTROL. JAMAICANS MUST INSIST THAT NO MAN MUST HAVE CONTROL OVER THE VALUE OF THE CURRENCY WHICH AFFECTS THE LIVES OF EVERYONE: RICH OR POOR; EMPLOYED OR UNEMPLOYED; LITERATE OR ILLITERATE.

WE MUST DECIDE ON THE SYSTEM WE WANT TO REGULATE THE RATE OF EXCHANGE, THEN FIX IT AND LIVE WITH IT AS LONG AS WE CAN MAINTAIN ITS VALUE (IF POSSIBLE, TIL GOD COMES!); IF NOT, AT LEAST UNTIL TWO-THIRDS OF THE MEMBERS IN EACH HOUSE OF PARLIAMENT MAKE A CHANGE, A REGIME TO BE PROVIDED FOR BY A SYSTEM OF LAW REPLACING THE CHOICE OF MAN.

THEN WE WILL BE ABLE TO PREDICT THE STANDARD OF LIVING OF OUR LIVES AND THE LIVES OF OUR CHILDREN AND CHILDRENS' CHILDREN TO FOLLOW. THEN OUR LIVES AND LIFE STYLES WILL BE BASED ON REAL VALUE WHICH IS HERE TODAY AND HERE TOMORROW.

JAMAICANS MUST REMOVE CONTROL OF THE VALUE OF THE JAMAICAN DOLLAR FROM HUMAN JUDGEMENT AND REGULATE IT BY SYSTEM AND LAW SO THAT IT WILL NO LONGER DISSIPATE, DEPRECIATE AND DETERIORATE. LET THE WORTH OF THE JAMAICAN DOLLAR TODAY BE ITS WORTH TOMORROW. THAT IS HOW GOD PLANNED IT UNTIL HE MADE MAN.

AN APPROPRIATE QUOTE FROM PETER KENAN WILL POETICALLY DEFINE THE PATH TAKEN IN OUR WAYWARD JOURNEY AND WHERE THIS JOURNEY ENDS.

*"IN THE BEGINNING GOD CREATED STERLING AND THE FRANC.
ON THE SECOND DAY HE CREATED THE CURRENCY BOARD AND, LO, MONEY WAS WELL MANAGED.
ON THE THIRD DAY GOD DECIDED THAT MAN SHOULD HAVE FREE WILL AND SO HE CREATED THE BUDGET DEFICIT.
ON THE FOURTH DAY, HOWEVER, GOD LOOKED UPON HIS WORK AND WAS DISSATISFIED. IT WAS NOT ENOUGH.
SO, ON THE FIFTH DAY GOD CREATED THE CENTRAL BANK TO VALIDATE THE SINS OF MAN.
ON THE SIXTH DAY GOD COMPLETED HIS WORK BY CREATING MAN AND GIVING HIM DOMINION OVER ALL GOD'S CREATURES.
THEN, WHILE GOD RESTED ON THE SEVENTH DAY, MAN CREATED INFLATION AND BALANCE-OF-PAYMENTS PROBLEMS."*

TIME NOW TO CHANGE OUR COURSE TO CATCH A FRESH WIND IN OUR SAILS.
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