EXECUTIVE SUMMARY

For over two decades, Jamaica has suffered from low growth and high public debt, despite high investment. It has one of the highest public debt in the Caribbean region and in the world. The high debt poses a significant threat to macroeconomic stability as well as to growth. Jamaica is receiving loans under an Extended Fund Facility (EFF) Agreement from the International Monetary Fund (IMF) to help resolve fiscal and debt issues. While the agreement has helped with fiscal consolidation, it is questionable whether the austerity measures would promote growth.

Jamaica’s low growth fundamentally results from low productivity. Jamaica has adequate capital accumulation/investment. However, they fail to translate it into higher output and growth due to low total factor productivity, which originates from conditions like infrastructure and technological backwardness. In addition, labor productivity is low due to lack of skilled and educated labor force. The productivity problem can be illustrated by the country’s low competitiveness in the world market. Weak institutions and government inefficiency are a third set of factors of Jamaican’s growth problem. Promoting Jamaica’s growth therefore should consider all three sets of factors, as illustrated by Table 1.

| Table 1 Jamaica’s Growth Factors |
|---------------------------------|---------------------------------|---------------------------------|
| Factors                        | Constraints                      | Growth Strategies               |
| Debt                           | • High debt contributes to macroeconomic instability | • Fiscal consolidation (increase revenue and decrease expenditure) |
|                                | • High debt crowds out public investment | • Buy back PetroCaribe debt at discounted rates |
|                                | • IMF’s austerity programs may not necessarily improve growth | • Pay-the-debt-down strategy may not be feasible. More policy space and less stringent fiscal targets; seek debt relief from multilateral lenders |
| Productivity                   | • Relatively low total factor productivity (TFP) and labor productivity (both in terms of level and growth) | • Upgrade infrastructure, modernize technologies, improve education and human capital; increase investment in these areas |
|                                | • Low competitiveness in the world economy | • Increase capital utilization efficiency and productive capacity |
|                                |                                   | • Careful and strategic diversification of sectors and industries |
|                                |                                   | • Public-private partnership |
| Politics and Governance        | • Governance and institutional inefficiency contribute to expenditure inefficiency | • Streamline regulatory processes |
|                                | • Partisan politics slows down the progress of debt resolution | • Publicize government information to ensure accountability |
|                                |                                   | • Bipartisan support for solving high debt |
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THE ECONOMICS OF GROWTH

In this part of the report, Jamaica’s economic growth issues and prospects are examined in depth. Section 1 provides an overview of Jamaica’s growth problems and establishes a framework to examine them. The next section discusses in detail Jamaica’s fiscal and debt problems, which threaten macroeconomic stability and growth. Following that will be a critical analysis of the government’s reform activities under the agreements with IMF. Section 4 focuses on productivity and competitiveness at the national, sectorial, and firm levels. The next section connects the discussions of debt and productivity. The analyses suggest debt and productivity are among the most important factors of Jamaica’s growth and development. While it is important to resolve high debt in the near term, it is equally and perhaps more important to improve Jamaica’s productivity as the fundamental development strategy.

SECTION 1—JAMAICA’S GROWTH PUZZLE

Low growth, high debt, and high investment characterize Jamaica’s economy in recent three decades\(^2\). Jamaica’s economic growth has been low and at times negative since the mid-1990s, as shown by Figure 1. In contrast, capital gross formation, which measures investment, remains high and at times on an upward trend since 1990 (see Figure 2). Jamaica’s investment is in fact higher than other Caribbean countries during the same period\(^3\). Yet whether the investment translates into higher economic output in Jamaica is questionable. Meanwhile, the Jamaican government is also plagued by very high debt. As illustrated by Figure 3, since 2001, Jamaica has a debt stock consistently over 100% of GDP, making it one of the most indebted countries in the world\(^4\).

![Jamaica's GDP Growth](source: World Development Indicators (WDI) and World Economic Outlook (WEO))
The puzzling economic trajectory of Jamaica raises the need to examine the underlying factors of its growth, namely productivity and debt. A conventional way to understand factors underlying growth is through growth accounting. Under this framework, economic output is a function of capital, labor, and technology\(^5\). This function reveals how economic output changes in relation to these factors. A particularly important measurement derived from this function is the total factor productivity (TFP) growth rate, or Solow residual, which captures technological progress that is not related to quantity of factors. TFP is an important indicator of productivity and helps explain economic growth. This report does not conduct growth accounting exercise itself, but borrows this theoretical lens to examine Jamaica’s growth issues, in which TFP is a main measurement of productivity and key variable of growth. It is important to note that labor productivity and TFP are both important measurements of productivity\(^6\). But they are different concepts and thus distinguished from each other in this report.

A study conducted by Thomas and Serju focuses on productivity while decomposing Jamaica’s growth over the period of 1990-2005\(^7\). The main finding is that overall gross capital formation is the exclusive factor that contributes to Jamaica’s growth, and total factor productivity and labor have made negative impact\(^8\). This result suggests that despite high investment, technological inefficiency constraints economic growth\(^9\). In addition, labor skills are low and further decreased by emigration of educated workers during the 1990s\(^10\). Besides these economic factors, political and institutional factors (e.g., bureaucracy and corruption) also limit Jamaica’s growth potential compared to the rest of Caribbean, as the study points out\(^11\).

In addition to productivity, debt is a pressing issue and affects growth in the short and medium terms. Jamaica continues to service the highest interest burden on its public debt, as a share of GDP, in the world.\(^12\) The unsustainably high level of debt raises the risk of the government unable to pay back. In addition, the high debt contributes to macroeconomic instability, which could depress investor sentiment. Further, it could also crowd out public investment needed to facilitate long-term growth\(^13\).
Reducing debt and improving productivity are thus the main means to promote Jamaica’s growth. These are multifaceted issues underpinned a complex set of factors. This report thus examines these constraints in detail, discussing their underlying factors, while proposing strategies to improve the country’s economic conditions and boost growth.

SECTION 2—DEBT, MACROECONOMIC INSTABILITY, AND GROWTH

Overall, Jamaica’s macroeconomic environment is unstable and poses threats to long-term growth and development. As shown by Figure 1, in longer terms, the country’s growth trajectory is rather volatile. For example, between late 1960s and early 1970s, Jamaica exhibited high double-digit growth. But the rate soon dips into negative through much of the 1970s.

Jamaica has worse macroeconomic conditions than its counterparts in the rest of the world. As shown by Figures 4 and 5, the macroeconomic instability of Jamaica may be examined in comparison to similar tourism-oriented small economies (ROSE-T) through five indicators in 2010: government budget balance, country credit rating, government debt, inflation, and gross national savings. All the countries being examined have negative budget balance. Compared to ROSE-T, Jamaica has higher absolute value of government budget balance (meaning that Jamaica in fact has higher budget deficit). Jamaica also has lower country credit rating and gross national saving. The government debt and inflation of Jamaica are substantially higher than those of ROSE-T. The inflation level of Jamaica is nearly six times the average level of ROSE-T.

The country has been running an external imbalance since 1990, indicated by a consistent current account deficit (see Figure 6). Initially, foreign direct investment (FDI) was able to fund much of the deficit. However, starting in 2000, the current account deficit became so large that FDI can no longer suffice.
Jamaica also experiences great internal imbalances. In addition to low growth, unemployment has remained stubbornly high, as shown by Figure 7. The unemployment rate is currently at 13.4 percent (March 2014), improving from a peak of 16.3 percent in 2013. The inflation rate is also consistently high and often at double digits. In contrast to the figures of unemployment and inflation, GDP is growth is extremely low during the same periods.

High government debt is likely the most significant threat to Jamaica’s macroeconomic stability. The revenue of the government as a percentage of GDP has remained constant over the years (see Figure 8). However, expenditure constantly exceeds revenue since the mid 1990s. As a result, borrowing heavily has been the main way to sustain the government’s operation. As early as 1990, Jamaica’s public debt financing slowly shifted from external to domestic sources. While this may have positive impact on developing domestic financial institutions, Jamaica’s shift has contributed to higher interest rate of the public debt. Consequently, as expenditure increases, the interest payments incurred from government debt have also increased, particularly in 2009 at the height of the global recession. Under the Extended Fund Facility (EFF) with IMF, Jamaica has been undertaking fiscal and tax reforms. In 2013, government expenses and revenue finally converged and achieved relative budget balance. However, as the IMF points out, Jamaica’s financial sector is heavily exposed to government bonds, and may be negatively impacted by the decrease of their values.

The main driver for Jamaica’s revenue is tax, while the main component of expenditure is wage. Since 2011, the government has strived to achieve primary budget surplus through the reduction of wage and increase of tax. However, Jamaica’s government revenue as a share of GDP will likely decline by 0.3% in 2015-16, as projected by IMF. This possible decline is due to reduced wages and declining imports, which contribute to tax revenue. Tax overhaul through legislations such as Charities Bill has not taken full effect. The current erosion of tax base will make it challenging for the government to fulfill their target of primary balance of 7.5%.
Compared to other Caribbean countries, Jamaica’s high debt may have exerted negative impact on growth. In general, 56% debt-to-GDP ratio is the benchmark indicating that debt is exerting negative impact (average and marginal) on economic growth (see Figure 9). To be sure, debt and growth are not necessarily negatively correlated. A moderate amount of debt provides necessary financing for the government for service provision and public investment, therefore contributing to economic growth. However, Jamaica has far exceeded the benchmark of 56% with a debt over 140% of GDP in 2013.

The connection between Jamaica’s debt and growth is examined in an empirical study conducted by Blavy (2006).\textsuperscript{17} According to the study, Jamaica’s high government debt has crowded out public investment. In addition, the debt issue has contributed to macroeconomic uncertainty and an economic structure that relies too heavily on a few key sectors. More specifically, high debt affects growth by increasing the costs of financing for the private sector. In addition, bank lending concentrates only in a few sectors and industries, particularly tourism.\textsuperscript{18} These factors have severely constrained the country’s growth prospect.
SECTION 3—JAMAICA DEBT CRISIS AND IMF

As seen from the previous section, Jamaica has been suffering from macroeconomic instability for over 20 years, which mainly originates from the fiscal side, specifically budget deficit and public debt. The country is stuck in a continuous cycle of stagnation, characterized by high debt and low growth. Because of this, Jamaica has turned to the IMF for assistance over the years. Currently, Jamaica is under the auspices of an Extended Fund Facility arrangement set to last until 2017. In this section, Jamaica’s recent history with the IMF will be discussed, including the current EFF and the struggles with the arrangement going forward.

Stand-by Arrangement 2010

Because Jamaica’s tourist-based economy is highly dependent on other economies, especially that of the United States, the global recession hit the country hard. Already under a precarious situation before the crisis, Jamaican officials were caught unprepared to deal with the global recession and its aftermath. Thus, Jamaica looked to the IMF and entered into a Stand-by Arrangement on February 4, 2010. As a precondition for assistance, Jamaica pledged to freeze public sector wages for three years as well as undergo a debt restructuring. The Jamaican Debt Exchange (JDX) reduced interest payments by lengthening the maturity of the debt but did not reduce the original principal.

The Stand-by Arrangement consisted of US$1.27 billion over a 27-month period. The key objectives were to “address deep-seated structural weaknesses, increase [Jamaica’s] growth potential, and making it less vulnerable to external shocks.” 19 Specifically, the arrangement focused on three pillars: 1) reducing public financing through public sector reform; 2) lowering debt and its high servicing costs; and 3) reforming the financial sector to reduce systemic risks.

The arrangement went through three successful reviews in its first year. However, the fourth review expected February 2011 failed and no further payout was received by Jamaica. The breakdown of the agreement also closed other multilateral financing channels such as the Inter-American Development Bank and the European Union and generally depressed investor and business confidence.

The breakdown of the Stand-by Arrangement was due to the slow pace of reforms and most importantly the unfreezing of public sector wage increase. The IMF’s resident representative in Jamaica pointed to slow and delayed reforms in the areas of taxes, pensions, and privatization of nonperforming government enterprises, all of which had been previously agreed upon. 20 The freezing of public wags was one of the central components needed to reduce Jamaica’s fiscal spending. The country therefore imposed a wage freeze in 2009, which was scheduled to last for three financial years until March 31, 2012. 21 However, the Jamaican government reneged on this amid pressures from public sector workers. Thus, in August 2011
the Government ended its wage freeze with a 7 percent pay increase to public sector employees.\textsuperscript{22}

This effectively put an end to Jamaica’s program with the IMF until May 2013 when the Government returned to the IMF for assistance.

\textit{Extended Fund Facility 2013}

Unable to overcome the exact conditions that necessitated the original Stand-by Arrangement, Jamaica once again turned to the IMF in 2013. As soon as a new government was elected in December 2011, under Prime Minister Portia Simpson-Miller, Jamaica began to take the necessary steps to receive assistance from the IMF. This included similar actions taken before the previous agreement, namely freezing public sector wages and another round of debt restructuring, this time coined the National Debt Exchange.

The Extended Fund Facility (EFF) agreement officially began May 2013. The IMF committed $932.3 million over four years, with additional funding unlocked from the World Bank and the Inter-American Development Bank. Again, similar to the Stand-by Arrangement, the EFF “aims to reduce public debt, stem balance of payments risks, and create the conditions for sustained economic growth through a significant improvement in fiscal management and growth-enhancing structural reforms.”\textsuperscript{23}

As of March 2015, IMF has conducted seven reviews to examine whether the Jamaican government is implementing the structural reform according to the agreement. These reviews are generally conducted on a quarterly basis and evaluate the government’s performance in the previous quarter. In most cases, the Jamaican government has met the criteria targets. For example, the primary balance of the government is consistently positive. However, during the fourth review (June 2014) and the seventh review (March 2015)\textsuperscript{24}, the target of tax revenue collection was missed. In other words, in the first quarter and fourth quarter of 2014, the Jamaican government failed to collect adequate tax revenue as stipulated by the agreement.

\textit{Main Hurdle: Public-Wage Bill}

Jamaica and the IMF find themselves once again at a very similar crossroad with the issue of public sector wages rearing its head. In order to reduce fiscal spending as well as secure the Extended Fund Facility Arrangement with the IMF, Jamaica once again imposed a public sector wage freeze in 2012. This freeze is set to expire March 2015. Ongoing negotiations between the government and labor unions have resumed but a final decision has not been announced.

Originally, Jamaica committed itself to reducing the size of public sector wages to 9 percent of GDP by 2015/2016. Currently, wages account for 10 percent of GDP, down from
10.6 percent in 2013/2014. However, as of March 2015, Jamaica is seeking a year extension from the IMF for this reduction. The Government now seeks to reduce public wages to 9 percent of GDP by 2016/2017, according to the Finance Minister Peter Phillips.

The IMF’s executive board must approve this extension. As of March 2015, the IMF completed the seventh successful review for Jamaica’s Extended Fund Facility and approved the disbursement of US$39 million. However, the IMF’s press release made no mention of the approval of this deadline extension.

The IMF has repeatedly identified the wage bill as a high-risk issue. The request for the delay of the wage target by the Jamaican government does not reveal other pertinent information, such as the percentage it seeks to increase wages or what reforms it intends to enact to offset these increases.

Without a plan, the unfreezing of public wages has the potential to undermine the government’s future fiscal position and all of the progress it has been able to achieve thus far. Any future public sector wage negotiations must include efficiency improvements, through the elimination of duplications and red tape. Further, the Government needs to strengthen its control systems for proper remuneration according to skills and positions as well as the accountability of wage disbursement.

Going Forward

Although Jamaica has received praise from the IMF for hitting its fiscal targets and undergoing reform under the Extended Fund Facility, Jamaica has not escaped its cycle of stagnation. Debt continues to plague Jamaica with no real end in sight. The current debt payback plan under the IMF does not appear to be sustainable. First, the debt restructuring of 2010 and 2013 did not have any effect on debt held by multilateral institutions, which hold a little less than half of Jamaica’s external debt. This has contributed to Jamaica paying one of the highest interest payments in the world. Currently, Jamaica pays more than 8% of GDP on interest, almost twice the amount highly indebted European countries pay. Further, under the Extended Fund Facility, the IMF essentially loaned money to Jamaica in order to receive payment for past loans. The IMF currently receives more money from Jamaica than it is lending. Thus, perhaps alternative approaches should be considered. Although Jamaica does not qualify under the Highly Indebted Poor Countries Debt Initiative for debt relief, some type of debt cancelation program could be mutually beneficial for the country and its multilateral lenders. This would place Jamaica on a more sustainable path as well as possibly prevent future payouts from multilateral institutions.

Beyond the debt issue, the EFF has not placed enough emphasis on growth-enhancing mechanisms, essential for economic growth to take off. Indeed, as noted earlier, the end purpose of the IMF program was to increase real GDP and GDP per capita. In this regards, Jamaica’s arrangement with the IMF has not been successful.
Not only has economic growth not taken off, the Extended Fund Facility has required Jamaica to undergo firm austerity measures that could inevitably inhibit future growth. For example, one of the key targets for the EFF is a primary balance surplus of 7.5% of GDP. Other debt-stricken countries like Greece, which has a 175% debt to GDP, are required to run a primary surplus of only 3% of GDP. This strict fiscal consolation comes at a cost. One key area that has taken a hit in order to meet this primary surplus is capital expenditure. The five years prior to the IMF agreement, capital expenditure averaged about 4% of GDP. In 2014/2015, this decreased to 1.6% of GDP. The lack of infrastructure investment cannot bode well for a country reliant on tourism and hoping to position itself as future logistics hub. Thus, excessive austerity under the EFF could undermine any potential benefits it has had so far.

Without improved and sustained economic growth, Jamaica’s debt burden in the long-run is not sustainable. Economic growth would help lower the debt as a percentage of GDP and put it on a more manageable path by improving sources of revenue for the government. Because of this, examining sources for Jamaica’s future potential growth is critical. In the next sections, Jamaica’s productivity will be addressed with a special focus on areas that can help re-launch the country’s growth.
SECTION 4—PRODUCTIVITY AND COMPETITIVENESS

While it is important to solve the high debt problem, it is equally and perhaps more significant for Jamaica to boost productivity and competitiveness for higher growth. As low growth has been persistent in Jamaica for decades, the Inter-American Development Bank (IDB) in 2003 conducted a comprehensive analysis of the country’s productivity and competitiveness. This study argues that productivity underpins a country's competitiveness—Jamaica’s low productivity thus contributes to low competitiveness. In addition, competitiveness can be measured by a number of economic indicators: unit cost of production, real effective exchange rate, ratio of prices of tradable goods of those of non-tradable goods.

World Economic Forum expands the notion of competitiveness by incorporating other factors such as health, education, and infrastructure. According the 2014-2015 competitiveness index, Jamaica ranks 86 out of 144 countries, which is a very low position. As shown by Figure 10, compared to its Caribbean counterparts, Jamaica performs below average in terms of technological readiness, institutions, infrastructure, education, and particularly in macroeconomic environment. The country does better only in terms of financial market development and market size.

Jamaica thus has low competitiveness in the world with many critical areas to improve. Productivity and competitiveness can be examined in three levels: enterprise-level, industry and sectorial level, and national level. The remainder of the report thus examines Jamaica’s competitiveness and the underlying productivity factor from not only the national level, but also sectorial level and firm level. A key finding is that Jamaica’s low economic growth is mainly attributed to low productivity growth and as a result, lack of competitiveness in economic activities other than tourism and other traditional ones. However, Jamaica may unleash growth potential by capitalizing on the strengths and overcoming weaknesses.
Productivity and Competiveness: National Level

Prior to the 2000s, Jamaica was ahead of other Caribbean and ROSE countries in terms of total factor productivity growth. Since then, however, Jamaica has fallen behind and seems to be on a downward trajectory (see Figure 11). In terms of the level of TFP, Jamaica is also lagging behind. As illustrated by Figure 12, during the 1970s and the mid-1990s, Jamaica’s TFP level relative to the U.S. drastically decreased. While this can be explained by high TFP growth in the U.S., it is also highly likely that Jamaica’s TFP is simply growing too slowly, as shown by Figure 11. Consequently, TFP is the main reason (followed by capital) why Jamaica’s GDP growth is behind ROSE countries (see Figure 13).

The causes of Jamaica’s low TFP include “lack of efficiency in the use of capital, low labor force quality, insufficient technological advancement, under-developed markets, lack of competition and weak institutional and policy arrangements.”35 Technological backwardness and lack of human capital seem to be the most critical factors36. In other words, Jamaica may simply lack the modern technology and qualified labor to improve TFP. More specifically, pertaining to labor productivity, deficiency in the education system37 and emigration of educated workers weaken the base of skilled labor. Pertaining to TFP, a system of production and technology upgrading is absent in the manufacturing sector and to some extent the services sector38.

Figure 11 Relative Total Factor Productivity Cumulative Growth, 1982-2010
Source: IDB Staff estimates

Figure 12 Jamaica Relative TFP to the U.S. (PPP-adjusted)
Source: Federal Reserve Bank of St. Louis

Figure 13 Decomposition of GDP Growth Gap with Respect to ROSE (percentage points), 1983-2010
Source: IDB Staff estimates
The high costs of energy, which are critical production input, may be another impediment to Jamaica's productivity growth. Jamaica is a net importer of fossil fuels. Its high expenditure on oil directly correlates with its current account deficit. As oil prices go up, so does Jamaica's current account deficit (see Figure 14). This strong correlation is largely due to the country’s energy structure that heavily relies on oil. As shown in Table 2, in 2012, 80.60% of Jamaica energy source comes from oil, almost all of which had to be imported. The energy demand mainly comes from industries and transportation (Table 3). It is questionable that these energy inputs have been efficiently used. Although world oil prices dipped dramatically in 2014, it is imperative for Jamaica to improve efficiency and diversify its energy structure. Doing so would ensure that production activities would not be too vulnerable to external shocks of energy price fluctuation.

Table 2. Primary Energy Sources in Jamaica by Type (2012)

<table>
<thead>
<tr>
<th>Energy Source</th>
<th>Share of Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>80.60%</td>
</tr>
<tr>
<td>Biofuels/waste</td>
<td>17.00%</td>
</tr>
<tr>
<td>Coal</td>
<td>1.60%</td>
</tr>
<tr>
<td>Hydro</td>
<td>0.50%</td>
</tr>
<tr>
<td>Geothermal/solar/wind</td>
<td>0.30%</td>
</tr>
</tbody>
</table>

Source: International Energy Agency (IEA)

Table 3. Primary Energy Use in Jamaica by Sector (2012)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share of Demand</th>
<th>Amount of Demand (ktoe)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>43%</td>
<td>828</td>
</tr>
<tr>
<td>Transport</td>
<td>30%</td>
<td>575</td>
</tr>
<tr>
<td>Residential</td>
<td>17%</td>
<td>323</td>
</tr>
<tr>
<td>Commercial and public services</td>
<td>8%</td>
<td>148</td>
</tr>
<tr>
<td>Agriculture/forestry</td>
<td>3%</td>
<td>64</td>
</tr>
</tbody>
</table>

Source: IEA

Figure 14 Oil Prices and Current Account
Source: WEO
**Productivity and Competiveness: Sector and Industry Level**

Examined at a national and macro level, there are many obstacles to Jamaica’s productivity improvement. A closer examination of the sectorial and firm level evidence, however, suggests that it is possible to capitalize on strengths and overcome weakness to promote productivity.

Jamaica’s economy has advantages in two industries: tourism and bauxite and alumina. Tourism makes up the largest portion of Jamaica’s economy, both directly by tourist spending as well as indirectly with foreign direct investment for the construction of facilities like hotels. Second, Jamaica’s mining sector, once the world leader in bauxite and alumina, is slowly recovering from its collapse in 2008.

Further, Jamaica’s agricultural sector, albeit a small percentage of GDP, could be a potential growth engine. It employs a sizable portion of the labor force. Figure 15 shows Jamaican economy’s trajectory in 2008-2009. As shown in the graph, bauxite production collapsed by over half and remittances took a big hit, yet tourist arrivals remained strong. This section will explore these different sectors of the Jamaican economy and describe how to improve productivity and competitiveness at a sectorial level.

![Figure 15 Jamaica's Economic Sectors](source: Johnson and Montecino, 2011)
Tourism comprises the largest share of Jamaica's exports (Figure 16). The market share of tourism took a hit during the world financial crisis but has since recovered. In comparison, its world share of trade in goods and services is much smaller and slightly declining.

As a competitive sector for Jamaica, tourism accounts for 30% of GDP, is the top source of foreign exchange earnings, and directly employs 25% of the labor force. During the 2008 global recession, Jamaica’s tourism sector remained relatively resilient compared to the rest of the economy. Tourist stopovers actually increased in 2008-2009 but growth was slower than previous years. Importantly though, tourist spending decreased from $2.2 billion to $2 billion, resulting in lower total tourism revenue for 2009. Tourism has since bounced back and recently recorded $2.2 billion in earnings for 2014 but has yet to surpass 2008 levels.

In order to maximize growth potential, Jamaica can utilize tourism to help the rest of the economy grow. The tourist sector is already very interconnected with other industries. The World Travel and Tourism Council estimates that with every $1 million spent on tourism, $120,000 is generated in the wholesale and retail sector as well as $54,000 generated in the agricultural sector. Other sectors with strong linkages to tourism include transport, communications, and financial services. By promoting the sharing of clientele and resources, it is possible for other sectors and industries to grow through tourism.

Meanwhile, the tourism sector can further increase its productivity by, for example, improving infrastructure. Jamaica’s quality of overall infrastructure currently underperforms compared to ROSE-T, as illustrated by Figure 17. Jamaica's roads and communication connectivity particularly fall short. This puts Jamaica’s tourism sector at a comparative disadvantage today and potential future loss. Government investment in infrastructure is
critical for the promotion of tourism and other related industries. Under high debt and the austerity requirements of the EFF program, however, it is difficult for the Jamaican government to allocate funds for this critical area. This further demonstrates high debt prohibits growth and may need relief from multilateral lenders.

![Figure 17 Infrastructure in Smaller versus Larger Economies](image)


**Finally, Jamaica needs to strategically diversify sectors and gradually reduce heavy reliance on tourism.** This does not mean disregarding Jamaica’s traditional strength in this sector. Rather, it is important to develop other sectors while maintaining an advantage in tourism. Revenues from tourism are seasonal and can become volatile depending on tourist-sending countries’ economic conditions. In order for Jamaica to have sustainable incomes for its balance of payments, the country should focus on upgrading its position in the international trade of goods and non-tourism services.

### Bauxite and Alumina

**Back in 2003, Jamaica stood as the third largest producer of bauxite ore in the world and fourth in the production of alumina.** During this peak production, bauxite and alumina comprised 75% of Jamaica’s exports, mainly to the U.S., and contributed 60% of the country’s foreign exchange earnings.

**However, this situation deteriorated rapidly in 2008 due to a confluence of factors.** First, the global recession dampened demand from the U.S., Jamaica’s primary export market. Second, little investment into Jamaica’s mining infrastructure reduced its ability to compete with emerging players in the sector such as China, Brazil, and Guinea. Further, the world price for bauxite and alumina in 2008 collapsed by over 50%. As a result, Jamaica’s share of world bauxite output fell from 18.1% in the 1970s to about 7.1 % in 2008. In 2013, with over half of the Jamaica’s mining capacity still closed, Jamaica’s production of bauxite and alumina stood at 3.6% of world production.
But it is likely for Jamaica to restart its mining of bauxite in 2015 as well as reopen alumina refineries in 2016. This is all contingent on investments from Russian conglomerate UC Rusal, which own the prospective plants. Besides securing necessary investment, these mining plants should modernize their technologies and improve production efficiency, as they have not been successfully competing in the world market for long.

**Agriculture**

Agriculture in Jamaica currently contributes to 7% of GDP and employs a sizable portion of the labor force (17%), second after tourism. Jamaica’s agricultural sector primarily serves the domestic market but has strong linkages to the tourism industry, mainly through hotels and restaurants. Agriculture also contributes to Jamaica’s exports, primarily rum and sugar to the U.S. and Canada.

In 2011, the agricultural sector aided Jamaica’s exit from recession by contributing the most in real value added growth (0.6 percentage points). However, in 2014, Jamaica suffered a widespread drought, estimating to have cost $1 billion and displacing over 18,000 thousands small farmers.

Developing agricultural insurance may be a way to strengthen the resilience of the sector. Yet such insurance market is fairly underdeveloped in the country and lacks financial and policy support from the government. After the devastation brought by Hurricane Sandy in 2012, the Jamaican government started discussion with the World Bank about developing agricultural insurance. However, no tangible outcome has yet been achieved. Protecting the agricultural sector from natural disasters is fundamental for this sector to maximize its contribution to the country’s net export and economic growth. Further improving agricultural technology and productivity would also help improving the sector’s competitiveness in the world market.

**Other Sectors and Industries to Improve**

There are possible ways to diversify Jamaica’s economic composition, one of which being the establishment of a shipping and logistics hub. In April 2014, the Jamaican government signed an agreement with China Harbor Engineering Co to develop a new port, industrial park, and causeway. An estimated $1.5 billion in foreign direct investment is predicted by Jamaican authorities. The five-year project aims to connect the country to a global logistics chain, joining Rotterdam, Dubai, and Singapore. Jamaica’s government has repeatedly confirmed its commitment to the project and expects construction to begin as soon as a series of reviews are undertaken.
Besides, Jamaica should strive to revitalize its export-processing industries. Between the 1980s and mid 1990s, in an effort to encourage investment and export, the Jamaican government established several free zones\textsuperscript{51}, where manufacturing operation (\textit{maquil\'a}) primarily of apparel occurred. Catering to the U.S. market, these export-processing zones achieved moderate success. However, since mid-1990s, due to competition from Mexico through the formation of the North America Free Trade Zone (NAFTA), these zones in Jamaica experienced decline in terms of competitiveness and revenues. The specialization of export-processing of these zones can be utilized for additional goods and services (e.g., assembly of electronic devices) to reintegrate the firms there into the market. In addition, Jamaican government may try to connect the logistics hub and the free zones into a value chain that demands both services and export-processing.

Finally, Jamaica could also harness its financial services sector’s potentials. As shown by Figure 10, Jamaican has an advantage over its Caribbean counterparts in terms of financial development. The government high debt still exerts significant risk on the financial sector—for example, a debt default could lead to capital flight and collapse of the sector. However, assuming the macroeconomic environment remains stable, Jamaica could develop a range of financial products tailored for its potential status as a global logistics hub. As the country will develop strong ties with markets like China, Jamaican financial institutions could start the offshore trading of renminbi and associated services, as the currency is becoming increasingly internationalized and widely used.

\textit{Productivity and Competitiveness: Firm Level}

![Figure 18 Private Sector Growths](Source: IDB Staff Calculation)

![Figure 19 Private Sector Profile](Source: World Bank, Enterprise Surveys)
A robust private sector is key to an economy’s productivity and competitiveness. Unfortunately, Jamaica falls behind ROSE countries in terms of the growths of productivity, sales, and employment (Figure 18). Compared to firms in ROSE and ROSE-T countries, the Jamaican private sector consists mainly of small, medium enterprises and lacks large companies (Figure 19). Jamaican firms seem much more oriented in retail and tourism, but not in manufacturing. Unlike their counterparts, Jamaican firms are much less internationally integrated. They do not have as much foreign ownership. More importantly, there are not as many Jamaican firms engaged in international trade. Whether this low degree of internationalization causes Jamaica’s lack of competitiveness or the other way around needs further examination. Nevertheless, it is arguably true that Jamaican firms should become more involved in international trade in order to improve their productivity and competitiveness. The fact that most Jamaican firms are small and medium makes them more agile and adaptable to market demand. For example, these firms may develop specialized services (e.g., financial services) needed for the aforementioned logistics hub as part of the global value chain.

Jamaica overall has a business-friendly environment, which should be harnessed to encourage investment and technology transfer. Whether a country’s regulatory environment is business-friendly is tremendously important to private sector development. Compared to other small economies based on tourism, it takes less time to start a business in Jamaica (Figure 20). However, Jamaica stands out in the amount of time it takes to pay taxes, suggesting a highly laborious and bureaucratic process of tax collection for both the government and taxpayers. This negatively affects Jamaica’s ability to properly collect taxes and generate revenues. It also takes more time to export across borders in Jamaica (Figure 21), which may discourage domestic firms to engage in international trade. However, according to World Bank’s Doing Business Report, Jamaica overall is business-friendly. It has a score of 76.1 out of 100, where 100 represents the best practices in doing business, which is ahead of other Caribbean countries. The Jamaican should further promulgate this advantage to foreign investors and firms, particularly those in technology-intensive industry. The investment and production of such firms could benefit Jamaican firms in learning international business standards and upgrading technology.

![Figure 20 Time-Costs of Doing Business](Source: World Bank, Doing Business 2014 Report.)

![Figure 21 Distance to the Frontier of Doing Business](Source: World Bank, Doing Business 2014 Report.)
However, Jamaica’s goods market needs to first improve efficiency (Figure 22). In the goods market, Jamaica outperforms ROSE-T with higher intensity of competition. However, Jamaica’s anti-monopoly policies are not as effective. Jamaica’s tax system again stands out as a grave problem. It has a far lower effect on encouraging investment. In fact, the burdensome taxation process (e.g., long processing time) may be generating disincentives for investment. Additionally, Jamaica has higher trade barriers and less effective FDI rules. The measurement on FDI rules helps explain that despite steady investment inflows, Jamaica fails to translate the capital into productivity and production improvement. Expediting regulatory processes, particularly taxation, and reducing trade barriers would thus be critical to attract and retain quality investment.

Jamaica should also improve labor market efficiency as it underperforms compared to ROSE-T countries (Figure 23). But it does perform better in terms of flexibility of wage determination and hiring and firing practices. Most importantly, Jamaica’s capacity to attract and retain talent is extremely low. This may be due to low wage and productivity in the country. Jamaica is well-known for its high emigration, which by itself is an indication of scant opportunities in the labor market (Figure 24). Among those who emigrate, a vast majority of them are highly educated. This means that Jamaica does not have an adequately educated labor force to upgrade its labor productivity. The remaining workers in Jamaica can only engage in low-skill and medium-skill level activities that would not necessarily generate high value added to the economy. Promoting education quality and improving skill training, besides retaining talents, are thus critical to improve labor productivity.
SECTION 5—DEBT AND PRODUCTIVITY: THE NEXUS OF GROWTH

The aforementioned analyses reveal that debt and productivity are not separate issues in terms of Jamaica’s growth. The high debt itself crowds out public investment and limits the government’s provision of growth-promoting programs. Further, under the EFF program, the government is preoccupied with pursuing fiscal austerity and maintaining a high primary surplus of 7.5%. As of March 2015, the deadline to decreasing the public sector wage has been extended to fiscal year 2016/17\textsuperscript{52}. This means that at least for another year, the Jamaican will not cut expenditure by reducing wage, which is exactly the main expense item. Consequently, the government may have to freeze and/or withdraw support from other programs such as investment in infrastructure, technology, and education. In fact, as described in Section 3, Jamaica’s capital expenditure has already been significantly reduced since the EFF. This lack of government support may significant prohibit productivity.

Resolving high debt and moderating excessive austerity would give the government more policy space to improve the country’s productivity, the more fundamental factor of Jamaica’s growth. Many of the structural adjustment and fiscal consolidation policies required by the EFF are necessary to maintain macro stability. However, they may not be compatible with growth in the longer term. Making the quantitative requirements less stringent, by reducing the 7.5% primary surplus requirement for instance, would endow the Jamaican government more flexibility in their fiscal policies. In addition, debt relief or cancelation would greatly lift some burden off the Jamaican government, so that it could focus on pursing growth-enhancing strategies.

In addition, streamlining public investment system is consistent with the EFF program and may quickly yield more quality government and private investment. Related to the EFF, Jamaica has received Development Policy Loan (DPL) from the World Bank: it will support the government reducing energy costs, improving infrastructure, and facilitating private investment\textsuperscript{53}. More importantly, through DPL, the government will upgrade its Public Investment Management System (PIMS)\textsuperscript{54}. This improved system will better monitor and plan public investment, and facilitate government’s re-prioritization of expenditure plans\textsuperscript{55}.

Most importantly, high investment is necessary but not sufficient for growth—the improvement of investment efficiency and capacity utilization are also needed, which depends on productivity upgrade. During the 1990s, Jamaica’s mass capital accumulation could not salvage the declining productivity\textsuperscript{56}. This suggests that investment needs to be paired with high capital utilization efficiency to spur productivity growth. This could help restore the link between higher investment and higher economic output. The Planning Institute of Jamaica, the main government body implementing development policies, has indicated that the country’s productive capacity (measured by capacity utilization rate) is underutilized\textsuperscript{57}. In other words, Jamaica may have high output potential thanks to much investment, but it achieves much less actual output due to low capital efficiency and fundamentally low productivity. Upgrading investment efficiency and capacity thus should start with productivity, which as stressed previously cannot improve without better infrastructure, technology, and human capital.
There should be a public-private partnership in reducing debt, increasing productivity, and promoting growth. The private sector and bondholders were very supportive during the two debt exchange events. Perhaps the private sector and the government may discuss how to better share the debt burden, as it is a critical national issue that affects everyone. The government can also play a role in leading investment in infrastructure, education, and technology. Without some form of government initiative, the private sector could become risk-averse. Firms and investors may not venture into areas other than tourism and bauxite and alumina. This could result in investment concentrating in sectors with fast and secure returns, rather than those that could enhance productivity better and faster. Thus, besides public investment itself, the Jamaican government should devise more policy instruments such as investment insurance and public-private joint ventures to encourage more productive investment from the private sector.

**SECTION 6—CONCLUSION & RECOMMENDATIONS (ECONOMICS)**

<table>
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<th>Table 4 Economic Growth Factors</th>
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<td><strong>Factors</strong></td>
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In order for Jamaica to reignite economic growth as well as enjoy successful program completion under the IMF, there are several aspects Jamaica can focus on.

First, Jamaica must improve productivity and competitiveness across sectors and firms. Tourism has kept Jamaica afloat for the past couple decades and therefore investment in infrastructure should be ramped up. Public investment should focus on the maintenance and
improvement of roads, ports, airports, and telecommunications. This will help the tourist sector operate more effectively as well as increase the likelihood that Jamaica can position itself as a logistics hub in the future. Further, Jamaica can work to attract foreign direct investment for its mining sector. As Jamaica’s fiscal flexibility is constrained, the country should aggressively seek outside investment in order to restart existing facilities and reenter the world bauxite/alumina market. Finally, Jamaica also has growth prospects in its existing agricultural sector, export-processing, and financial services. Investing in technology to improve Jamaica’s current yields can help decrease the country’s reliance on outside food imports.

The main means of productivity improvement lie in infrastructure upgrade, technological advancement, human development, and capital efficiency. In addition to increasing public investment in modernizing technology, the government needs to be more committed to policies targeted at attracting quality investment that could transfer advanced technology to Jamaican firms. Jamaican firms across sectors should also devise ways to efficiently utilize capital. Perhaps the most important strategy is that the Jamaican economy needs to be backed by educated and skilled labor force, which cannot exist without more investment in education, training, and retaining talents.

With regards to debt, one possible solution for Jamaica is to buy back its PetroCaribe Debt, which currently amounts to $3.1 billion. Due to Venezuela’s recent economic struggles, the Venezuelan government has allowed countries under PetroCaribe to buy back their debts at a discount. The Dominican Republic recently purchased its debt at a 52% discount and Jamaica could work to negotiate a similar deal. If Jamaica were able to do this, it is estimated to take away 6% from the debt-GDP ratio.

Finally, an area that warrants serious examination is multilateral debt cancellation or partial relief. Jamaica’s current debt appears not to be sustainable. The country has repeatedly turned to the IMF in order to meet debt obligations but has not been able to escape the cycle. Currently, the IMF is receiving more money from Jamaica than it is lending. In essence, the Fund is lending money to Jamaica so that the country can pay them back. Due to these circumstances, perhaps multilateral organizations, including the IMF, World Bank and the IDB, would mutually benefit from cancelling a portion of Jamaica’s debt. As of now, Jamaica is not eligible for Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative. However, multilateral lenders could create alternative relief program for Jamaica. Debt cancellation could help prevent energy expended from these multilaterals in “rescuing” Jamaica from the next crisis.
THE POLITICS OF GROWTH

Understanding and promoting Jamaica’s growth requires examination of not only economic factors but also political issues. This portion of the report is devoted to Jamaica’s politics and governance, with particular emphasis on how they are related to efficiency, debt problems, and growth. Section 7 provides a brief overview of the political environment. The next section evaluates Jamaica’s governance and institutional efficiency. Section 9 establishes a link between the economics and politics of Jamaica’s government budget. The political analyses suggest that Jamaican institutions and the public sector still need to improve efficiency. Solving the current debt issue also needs bipartisan support instead of electoral politics.

SECTION 7—OVERVIEW OF POLITICS AND GOVERNANCE

Jamaica has a population of about 2.7 million. It has a parliamentray system inherited from previous British colonial rule. Jamaica gained independence in 1962. Since independence, Jamaica’s democratic governance has matured and grown stronger. The Economist Intelligence Unit’s Democracy Index gives Jamaica a score of 7.4 (10 indicates a full democracy). Jamaica’s political landscape consists of two main parties: the center-left People’s National Party (PNP) and the center-right Jamaica Labor Party (JLP).

Currently, the People’s National Party (PNP) hold power through Prime Minister Portia Simpson-Miller. The PNP also controls the Parliament through a majority in the House of Representatives in addition to a majority of local government bodies. At its inception, the PNP held democratic socialist principles. This was embodied through Michael Manley’s premiership between 1972-1980, who promoted democratic socialism and increased state participation in the economy. His efforts to redress social inequalities, however, led to mass emigration of Jamaica’s business class, decreased investment, and high inflation. Because of these failures, Manley was forced to turn to the IMF and sign Jamaica’s first agreement with the Fund. Since then, the PNP has grown away from its socialist ideas and have embraced neoliberal policies. In fact, when Michael Manley returned to power in 1989, he did not roll back the economic reforms enacted under the Jamaica Labor Party.

The Jamaica Labor Party (JLP) is currently the opposition party, having only 21 of 63 parliamentary seats. Since the JLP’s inception, it has promoted free-market policies. Under Edward Seaga rule (1980-1989), the JLP deviated away from the PNP’s socialist policies and moved to liberalize the economy. The JLP rapidly liberalized Jamaica’s financial sector as well as promoted the privatization of state-owned enterprises. Once the PNP regained power after Seaga, the gap of economic ideologies between the parties narrowed. Future governments did not roll back the neoliberal policies put in place under Seaga and have only furthered Jamaica’s integration in the world economy.
According to Freedom House, which compiles a yearly index to measure freedom around the world, Jamaica is classified as free with an average score of 3 (1 being the best, 7 the worst).\(^6\) Freedom House incorporates two categories into its final freedom score: political rights and civil liberties. Jamaica scores 3 in the political rights category again with the same scale. In civil liberties, Jamaica scores a 2. Some of Jamaica’s lowest performing areas in the Freedom Index include the functioning of government and the rule of law. Corruption remains a serious problem for the functioning of government, with elected officials having ties to organized crime as well as criminal gangs. Further, the rule of law is weakened by high instances of extrajudicial killings. Police account for 12% of murders each year but are not held accountable.\(^6\)

In terms of the Economic Freedom Index, Jamaica scores 67.7 (out of 100), making it the 48th freest economy. Jamaica has improved yearly under this index but continues to receive low marks in the areas of corruption and rule of law. The country receives only average scores for trade and financial freedom, due to higher than average tariffs as well as risky bond and securities market linked to high government debt.\(^6\) Finally, Jamaica ranks 9th in the world in the World Press Freedom Index, with a score of 11.18 (a smaller score corresponds to higher levels of press freedom).\(^6\) This indicates that journalists and news organizations in Jamaica enjoy a high level of freedom.

**Table 5 Governance Indices**

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<tr>
<th>Freedom Index</th>
<th>Economic Freedom Index</th>
<th>Press Freedom Index</th>
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<tbody>
<tr>
<td>3, Free</td>
<td>67.7</td>
<td>11.18</td>
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</table>

Source: Freedom House  
Source: Heritage Foundation and Wall Street Journal  
Source: Reporters Without Borders

In short, Jamaica is a stable and free democracy. Its government consistently pursues open and free economic policies. However, corruption, rule of law, and government functionality are pressing issues for the political system, which could jeopardize the country’s growth prospect. The following section examines these issues in more details.
SECTION 8—EFFICIENCY OF GOVERNANCE AND INSTITUTIONS

Jamaica overall underperforms in terms of quality of governance and institutions. As illustrated by Figure 25, pertaining to governance, Jamaica ranks lower than other Caribbean and ROSE countries in almost all indicators except judicial independence (not equivalent to strong rule of law). Some areas in which Jamaica have particular disadvantages include wastefulness of government spending, burden of government regulation, diversion of public funds, and public trust of politicians. These areas of deficiency are closely related to public financial issues.

This suggests that Jamaica’s debt problem is not only a matter of finance and economics, but also of governance. As a result, solutions should be found not only in those prescribed by IMF but also an examination of the political and policy processes. Pertaining to institutions, Jamaica only performs better in terms of voice and accountability compared to the ROSE countries (Figure 26). More specifically, Jamaica’s government spending seems more wasteful than the rest of the Caribbean and most other small economies. At the same time, Jamaica performs poorly in terms of diversion of public funds, meaning that it is more likely for the government to divert funds to groups and individuals due to corruption. Jamaica also has overall weak institutions: there is lack of control over corruption. Interestingly, in this index Jamaica’s government is considered more effective than other Caribbean countries, though it still ranks lower than other small economies.

![Figure 25 Governance](Source: World Economic Forum, Global Competitiveness Report 2013–14.)

![Figure 26 Institutions](Source: World Economic Forum, Global Competitiveness Report 2013–14.)
Jamaica has a relatively large government sector in relation to its population. This is similar to many small economies, as illustrated by the downward-sloping fitting line of Figure 27. Jamaica’s government-GDP ratio is slightly below average among small economies. However, this graph does not reflect the revenue collection ability of the government, therefore obscuring the deficit and debt problems of the country. Nevertheless, this figure does imply that high expenditure itself is not an issue, if there is adequate revenue and the expenditure is used in an efficient way.

Jamaica ranks low in Public Sector Performance (PSP) and Public Sector Efficiency (PSE), which both measure government efficiency. Figure 28 shows that compared to most other countries in Latin America and the Caribbean, Jamaica’s government is both inefficient and ineffective. Similarly, Figures 29 and 30 demonstrate that Jamaican government’s low performance (indicated by PSP) is obtained at a very high cost (namely spending as a percentage of GDP). This shows that high spending fails to boost government performance. Further, the inefficiency in which the fund is used may be the main contributor to the high spending yet low performance phenomenon. Other contributing factors to such inefficiency may include ineffective budgeting process and oversight of funds allocated to different government agencies. Section 9 explores some of these issues.
Jamaican government’s budget process and decision-making are strongly divided by partisan politics. In March 2015, the Jamaican Senate approved the Appropriation Act, which gave the government the authority to allocate expenditure estimated in the 2015/16 fiscal year budget. However, the approval process was very politically contested. The Finance Minister Peter Phillips publically pointed out that the opposition party in the Parliament distorted facts and accused IMF in order to stall this Act. He further added that untruthful political debate would jeopardize progress of solving the debt issue. This is an example of how Jamaican domestic politics are connected to the economic problem.

Parliamentary budget debate is a regular step in Jamaica’s budgeting process. But the one that Phillips referred to (occurred in March 2015 between PNP and JLP) was very politically charged. It centered on issues including legitimacy of the IMF program, public sector wage freeze, tax increase, and social spending austerity. Former Prime Minister and Leader of the Opposition Party, Andrew Holmes criticizes that the government only has a tax plan instead of a growth plan—PNP leaders only know raising taxes to comply with IMF EFF’s fiscal targets. He also expresses concerns that social sectors especially education and health have been neglected and could hurt Jamaica’s growth. Similarly, former Finance Minister Audley Shaw (JLP) contends that public sector workers have been forced into poverty due to wage freeze and depreciation of the Jamaican dollar. In addition, he critiques that the recent tax base broadening reform is not equitable and particularly hard on the poor. Finally, Shaw argues that the government leaders of PNP “have failed the test of maintaining adequate social services, … the test of economic growth, … the test of job creation and … the test of wealth
creation.” While Holmes and Shaw discuss substantive budget issues, they spend more time portraying the poor economic conditions under the PNP rule and contrasting them with JLP’s previous achievements. It is thus questionable how much of the budget debate is truly about fixing the budget instead of winning the upcoming election in 2016.

**Election is not the only important political and institutional factor, the efficiency and transparency of budgeting processes are also essential and need improvement.** According to a World Bank study, there are some issues in the Jamaican budgeting process: duplicates of functions and oversight authority between departments, complexity of budget format, and limited transparency of cash management. Since this study, some of these issues have been addressed through the EFF agreement, especially with regards to the establishment of a new Cash Management Unit in the Ministry of Finance. However, inefficiency and lack of transparency persist. A more recent study conducted by IDB and Organisation for Economic Co-operation and Development (OECD) suggest that the Jamaica Parliament may lack technical capacity on budget issues, as they do not have in-house budget office or specialized research unit. In addition, Jamaica does not make publically available the central government’s procurement activities. This lack of information makes it difficult for the public to monitor and scrutinize whether the government is spending in an efficient way. More efforts therefore need to be invested in increasing the efficiency and transparency of the budget processes.

**SECTION 10—CONCLUSION AND RECOMMENDATIONS (POLITICS)**

The previous analyses demonstrate that the economics and politics of Jamaica’s growth are confounded. This connection is especially salient when examining how government efficiency affects the rest of the economy and particularly the budget and debt issues. The results show that the public sector needs to improve efficiency and accountability. In addition, partisan politics should not overwhelm the debt resolution, which is a critical national issue that requires the cooperation of PNP and JLP.

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<th>Table 6 Political and Governance Growth Factors</th>
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<td>Politics and Governance</td>
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<td>• Governance and institutional inefficiency contribute to expenditure inefficiency</td>
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<tr>
<td>• Partisan politics slows down the progress of debt resolution</td>
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<td>• Streamline regulatory processes</td>
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<td>• Publicize government information to ensure accountability</td>
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<td>• Bipartisan support for solving high debt</td>
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CONCLUSION AND RECOMMENDATIONS

Examining both economic and political factors, this report illustrates Jamaica’s low growth problem mainly results from high debt, low productivity, and governance and institutional inefficiency. In the immediate term, the high debt is the largest risk factor and needs effective resolution. The Jamaican government has been effectively conducting fiscal consolidation and structural reform through its loan agreement with IMF.

Beyond reducing expenditures and increasing revenues, the Jamaican government needs to encourage the improvement of productivity, both in terms of total factor productivity (TFP) and labor productivity. These economic solutions also need support from a stronger, leaner, and more efficient public sector in order to provide the legal and administrative infrastructure for the private sector to grow.

Finally, improving education quality, upgrading infrastructure, and modernizing technology are the most important strategies for Jamaica to grow sustainably. With an educated labor force, efficient infrastructure, and strong technological capacity, Jamaica will be able to improve productivity, develop new and innovative industries, upgrade its competitive position in the global value chain, and unleash strong and sustainable growth potentials.

<table>
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<tr>
<th>Table 7 Jamaica’s Growth Factors</th>
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<tbody>
<tr>
<td><strong>Factors</strong></td>
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</table>
| Debt | • High debt contributes to macroeconomic instability  
• High debt crowds out public investment  
• IMF’s austerity programs may not necessarily improve growth | • Fiscal consolidation (increase revenue and decrease expenditure)  
• Buy back PetroCaribe debt at discounted rates  
• Pay-the-debt-down strategy may not be feasible. More policy space and less stringent fiscal targets; seek debt relief from multilateral lenders |
| Productivity | • Relatively low total factor productivity (TFP) and labor productivity (both in terms of level and growth)  
• Low competitiveness in the world economy | • Upgrade infrastructure, modernize technologies, improve education and human capital; increase investment in these areas  
• Increase capital utilization efficiency and productive capacity  
• Careful and strategic diversification of sectors and industries  
• Public-private partnership |
| Politics and Governance | • Governance and institutional inefficiency contribute to expenditure inefficiency  
• Partisan politics slows down the progress of debt resolution | • Streamline regulatory processes  
• Publicize government information to ensure accountability  
• Bipartisan support for solving high debt |
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