
Chazen Society Fellow Interest Paper

Jamaica's Emerging Economy and Its Increasing International Competitiveness

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Although far overshadowed by the sheer size of the emerging economies of India, China and beyond, the Caribbean basin offers increasingly attractive economic opportunities to foreign investors. The island of Jamaica is renowned worldwide for its pristine beaches, beautiful coral reefs and the Blue Mountains and has been voted one of the world's top five tourist destinations, yet the country offers much more to investors than its tourism sector.

For the past 20 years, Jamaica has become less agricultural- and manufacturing-centric and more service-oriented as the country rightly recognized the growing importance of its citizens' intellectual capital, among other factors, in increasing its international competitiveness. Jamaica has also extensively courted foreign direct investment, an important element in several industries on the island, including the information technology and telecommunications sectors. While the country must tackle ongoing economic challenges, including inflation and its current-account deficit levels, its economic prospects are nonetheless becoming increasingly attractive.

General Assessment of Jamaica's Economic Well-Being

The country's service sector now makes up 70 percent of GDP, far surpassing the agricultural sector in size. Jamaica's GDP (PPP) for 2006 stood at U.S.\$10.5 billion, a figure that has risen steadily since the mid 1970s.¹ Although economic growth and development most commonly are measured by GDP, the measure is not an entirely accurate measure of economic growth because it does not take into account factors such as infrastructure, general business conditions and numerous "soft" factors that combine to produce economic growth and stability.

¹ World Bank, World Development Indicators Database, 2007.

To gain a holistic picture of the macrocompetitiveness of Jamaica, the global competitiveness report—composed of the gross competitiveness index (GCI) and the business competitiveness index (BCI)—offers useful metrics. The GCI measures a country's potential economic growth in the medium-to-long run, an especially useful indicator in emerging-market economies whose markets are not as mature as those in established-market economies. Component factors for these indices include the general macroeconomic environment, the quality of public institutions and technology. A higher ranking denotes higher competitiveness. In 2006, Jamaica ranked a spot ahead of Turkey at 60th on the GCI and 54th on the BCI. Jamaica's unemployment rate, which has dropped from 16 percent in 2006 to 11.3 percent in 2006, stands as another encouraging economic indicator.²

However, Jamaica's indebtedness and inflation remain two areas of general economic concern, the latter of which has been a major source of economic dampening. With an indexed inflation figure of 100 in 1990, the number has since risen to more than 1,000.

Additionally, the country still struggles with its current account deficit, which was a sizable 10.1 percent of GDP in 2003.³ The size of the current account deficit is partly attributable to the external shock of 9/11, which adversely affected the flow of tourism revenues to the country, making it all the more incumbent on Jamaica to find new ways of generating revenues at home beyond tourism and to keep expenditures under control.

Foreign Direct Investment

As an emerging economy, Jamaica relies extensively on foreign direct investment (FDI) to help spur economic growth and increase international competitiveness. Several factors encourage FDI in the Jamaican economy: geographical proximity to North America, an increase in incentive programs and governmental efforts to increase FDI, a boom in the information technology and telecommunications sectors and an English-speaking labor force. Jamaica is now one of the top three recipients of FDI inflows in the Caribbean basin. Many foreign investors are capitalizing on the near-shore investment opportunities, such as the outsourcing of call centers, Jamaica presents as a Caribbean island in relative proximity to the United States. Given the island's location in a major shipping path for the Panama Canal and the fact that the country possesses two of the largest harbors in the Caribbean, the country has attracted FDI from no fewer than 30 international shipping companies.

² CIA, *World Factbook*, as of January 2007.

³ World Bank, *Atlas*, 2003; most recent current account number available.

The Jamaican government is keenly aware of the need to increase FDI and over the last seven has implemented years a number of incentive programs to encourage inflow. For example, in the IT sector the government offers e-government loans that provide Jamaicans with partial funding for advanced IT training. After all, the better trained its workforce is, the more likely the country will attract FDI to this sector.

The FDI inflow trend is directed primarily at three sectors: telecommunications, services (financial, hospitality, etc.), and infrastructure, a trend directly correlated with the government's initiatives aimed at increasing foreign investment in these areas. Given, in part, the privatization of electricity providers and the liberalization of the telecommunications sector in conjunction with a variety of government-sponsored incentive programs, FDI on the island has risen considerably in recent years. For example, from 1998 through 2001 FDI rose an average of 21 percent per year. The calamity of 9/11 abruptly slowed this growth, given that 39 percent of Jamaican FDI at the turn of the century originated from the United States. However, FDI soon rebounded and continued its steady growth. The UN Conference on Trade and Development recently ranked Jamaica 23rd, ahead of the United Kingdom at 28th, on the inward FDI performance index, which provides a ratio of the country's share of global FDI flows versus its share of global GDP.

Foreign companies have capitalized on Jamaica's willingness to promote FDI within its borders. Companies such as the UK-owned Cable & Wireless and Ireland's Digicel have been able to benefit from the deprivatization of telecommunications industry on the island. In the tourism sector, the Spanish company Riu International Hotels recently added another massive five-star luxury hotel in the town of Negril to its preexisting portfolio of real estate assets on the island. Riu and other foreign investors have derived benefits from the government-sponsored Hotel Incentives Act, which provides tax breaks for up to 15 years for convention-sized hotels—more than 350 rooms—or 10 years for hotels with fewer rooms.

The information technology and telecommunications boom on the island has been economically beneficial. Jamaica has a full digital telecommunications network with the highest capacity in the Caribbean basin. This sound telecommunications infrastructure has produced two telecommunications licenses, one to U.S.-based Centennial Digital Jamaica and the other to Ireland-based Digicel. These two firms employ a large portion of the telecommunications sector on the island. UK-based Cable & Wireless Jamaica is the second-largest company in Jamaica. According to the Caribbean Rim Investment Initiative report of 2003, "Information technology is now perceived as being one of Jamaica's most lucrative industries . . . and has earned an

international reputation for service and efficiency.” Employers in the data-entry, multimedia and software-development fields have increased FDI, as have an abundance of companies relocating call centers to the island. Perhaps most illustrative of the importance of FDI to Jamaica is the fact that at the beginning of the millennium 8 of the 15 largest companies in Jamaica were foreign-owned.

Deterrents to FDI

Some costs of business in Jamaica are a deterrent to foreign investment inflows. Utility costs remain high because the country must import the fuel oil used to generate electricity.

Jamaica has tried to counter this by partnering with Venezuela for oil and diminishing the amount of oil that it imports from more distant locations. Multiple layers of bureaucracy tend to drive transaction costs higher. Labor strife, including strikes, has been a recurring problem, especially in the manufacturing sector.

In addition to these factors, the perceived level of corruption in any country remains another factor that foreign investors weigh when making investment decisions, particularly in emerging-market economies like Jamaica. Many observers refer to the Corruption Perceptions Index (CPI) to measure the relative levels of perceived corruption among public officials and politicians, with a higher score meaning less perceived corruption. In 2007, Jamaica ranked 61st out of 180 countries on the CPI, sharing the ranking with Poland, a slight slip from 1999 when it ranked 50th.

Interestingly, Jamaica has been working on initiatives to reduce corruption during this time. For example, in 2003 the country initiated the Corruption Prevention Commission with the mandate to investigate and eliminate acts of corruption among public servants. In addition, members of Parliament are required to submit annual statements of their conduct as part of the Parliament Act. Although the level of perceived corruption is not extremely high, Jamaica has room for improvement and should work to improve this perception, given that the perception of corruption has a considerable impact on investor sentiment in deciding where to invest.

Beyond perceived corruption, Jamaica should do more to tackle the increase in criminal activity on the island, a trend that has now lasted over five years. Although such crime very rarely directly affects foreign investments, it may deter expatriates from moving to Jamaica to work for foreign companies, and by extension, it may reduce the inclination of investors to invest in Jamaica as a result.

In recent years, Jamaica's has wisely acknowledged the importance of improving its infrastructure, including its roads and rail- and air-transport systems, in order to help attract FDI

throughout the island and improve its international competitiveness. In 2001, the government initiated the Highway 2000 project, the first leg of which connected the capital city of Kingston to Portmore, 74 kilometers away, with a four-lane highway that the government subsequently extended to connect the north shore of the island to Kingston as well. This highway is now the principal road across the entire island and serves as an apt example of the considerable expense the Jamaican government has undertaken to increase the country's palatability to outside investors.

Although there are a number of public and private universities in the country, like many emerging economies Jamaica continues to suffer brain drain. Upon completion of their secondary education, young adults often journey to the United Kingdom, the United States or Canada for tertiary education. In effect, this young talent is exported abroad; many delay their permanent return home until they retire, after having worked in more remunerative jobs overseas than those available at home. As it stands, an average of 11 years of schooling for a citizen of Jamaica exceeds that of many of their immediate neighbors and that of many Latin American countries, making the intellectual capital of the populace palatable for foreign investors. Nonetheless, Jamaica should do more to help reduce the brain drain in order to further improve its international competitiveness. Increased foreign investment should help mitigate this problem in the years ahead as Jamaica's developing economy offers more and more appealing job prospects to well-qualified citizens.

Conclusion

In conclusion, Jamaica has much potential in terms of economic growth. What remains to be seen is whether the country can control its inflation and rein in the current account deficit. The increased high-profile investment in infrastructure and the boom in the communications and information technology sectors speak well of Jamaica's efforts to increase its international competitiveness. Given the amount of FDI for a relatively small island, many outsiders clearly recognize Jamaica's value proposition. The transformation into a knowledge-based economy takes time, but the country is well on its way by focusing on FDI as a catalyst for increased global competitiveness. Hopefully, such progress will incline the investment community at large to take a closer look at Jamaica for future investment, rather than the much larger emerging economies that garner the lion's share of attention.