CHAPTER - V

SECTORAL POLICIES AND ADJUSTMENT

The overall strategy of the government was based on the growth of exports and relied on the private sector as the main engine of development. The strategy was designed and adopted in two partly overlapping stages. The first contained priority actions that be started within two or three months and was supported by an IMF Agreement reached in March 1981 with the IMF which forced on the need to reserve the economy's decline and to restore financial viability. The second and longer term programme related to the structural adjustment programme (SAP) carried out with support from the IMF, which emphasized actions to overcome the deficiencies in the country's economic structure.

AGRICULTURE

In agricultural sector, the government attempted to promote the growth of exports either through development of non-traditional crops or rehabilitation of traditional


2. Ibid.
incomes and employment, reduce the magnitude of the rural to urban migration flaws and to reduce the direct involvement of the public sector in the agricultural sector.

Agriculture is based upon a large number of crops and a few classes of livestock. Around 1.5 million hectares is farmed, but much of the land area is mountainous and there has been considerable soil erosion. Nearly, one-quarter of the total land area is under forest. Climate conditions favour crops such as sugar, bananas, citrus, cocoa, coffee, coconut, spices and tobacco; the first two commodities were for a long time the mainstay of the economy and provide the most important source of employment.

Agriculture, hunting, forestry and fishing together contributed around 8 per cent to the total gross domestic product (GDP), but employed about one-third of the total labour force in 1990. Development of the sector has been considered as one of the main priorities of the government. In 1983, the government launched an ambitious four years programme of general agricultural development. Termed AUGU-21, the scheme was intended to industrialize agriculture by imparting to it a completely commercial orientation, including production of both traditional and non-traditional

3. Ibid.

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crops. The scheme also aimed to increase the area of land under cultivation to around 4 million acres by 1988. It was intended under the scheme, with foreign assistance to create an entrepreneurial agricultural sector based on non-traditional crops grown for both export and domestic consumption. About 30,000 acres was leased and 40,000 acres sold to small holders. Under another programme, initiated in 1987, formal property titles were given to 36,000 small farmers who did not possess legal rights to the land they titled. The principal agricultural export is sugar, slightly under half of which is grown on estates. Production in 1980 amounted to 270,000 tons; in 1981 it declined to 202,000 tons. Export earnings have been fluctuating from US $ 63.1 million in 1983 to US $ 46 million in 1985. The decline in sugar earnings is largely attributable to falling world sugar prices and the reduction of Jamaica's quota for sugar exports to the United States. In an attempt to rationalize the industry, the government contracted Tata and Lyle, a multi national firms based in United Kingdom, to manage the state owned National Sugar Company's (NSC) planting and milling operations. It was intended to turn some 21,000 acres of sugar cane land over to vegetable production. The NSC which operated eight state sugar mills was estimated to have had an accumulated deficit of J $ 89 million, equiva-
lent to US $50 million at the then ruling exchange rate, while the debt of the sugar cooperatives was J $ $ 39.1 million or US $21 million. By 1985, the government had dissolved the cooperatives and the lands were brought under private management. With assistance from the government of Canada, 1886, the State owned estates were replanted. Despite the reforms, output in the 1980s, fluctuated between 185,000 and 205,000 tons, while in the 1970s, exports fluctuated between 68,000 tons and 80,000 tons a year. In most years it was imperative to import sugar to meet the ECC and US sugar quotas, as well as its domestic demand. Attempts were also made to increase the output of bananas and improve quality by sponsoring modern, privately managed, joint-venture plantations and by abandoning marginal farms. The initial goal of enhancing volume of exports from 33,000 tons in 1980 to 120,000 by 1983-84 did not materialize. Output declined 11,000 tons in 1984 and the share of the UK market fell from 11 per cent in 1980 to 4


5. Ibid.

6. Ibid., n.4, p. 200.
per cent by 1984.

The state-owned Jamaica Banana Company was liquidated in 1985; about 100,000 acres of land was either sold or leased and 2,300 workers discharged. In the same year a producer-controlled Banana Export Company was constituted replacing the farmer Banana Marketing Company, which raised producer prices on high quality fruit by 50 per cent. By 1987 exports had surpassed 34,000 tons. Similarly, strategies were evolved to revitalize the other traditional export crops such as tobacco, citrus fruit, coconuts, cocoa and coffee.

Further, subsidies were granted to promote non-traditional agriculture. Several farms were established with government support to grow winter vegetables for export to the US. By the late 1980s most of them had closed down owing to a myriad of problems.

The overall performance of the agricultural sector in response to the variety of policy adjustments introduced has been very modest. The strong growth exhibited in 1983 and

7. Ibid., p. 201.
8. Ibid.
9. Ibid.
10. The Winter exports encountered production, transport and marketing difficulties.
1984 has been attributed to improved domestic crop production and increase in livestock subsector, which has not been sustained in later years. Growth performance has been highly variable and growth of exports has not materialized as expected. Added to this was the destruction caused by hurricane Gilbert in 1988 when domestic crop production fell by 10 per cent for the year as a whole.

The expansion of the sector in the early 1990s has also been attributed to the growth in crops for domestic consumption. Though there has been an increase in the volume of exports, this has not been matched by a corresponding rise in export earnings. Such a mismatch was due to lower international prices. For instance, though there was an increase in the volume of banana exports in 1992, earnings had fallen by 28 per cent. No different was the case with sugar.

Government tried to influence agricultural production


14. Ibid.
through such methods as incentive structures. Out of the island's total 2.7 million acres, some 800,000 acres were owned by the economy in the year 1980. Apart from this, government had its control over financial institutions, marketing enterprises and professional staff. First they promulgated the rationalization of land use. The policy framed in respect of government owned land was to first complete an appraisal of the extent of Crown lands, assess their agricultural capability by soil type, contour, elevation, irrigation and micro climate. After that, AGMU-21, a government-owned entity was set up to administer the lease of land suitable for large-scale development of non-traditional crops. Smaller plots owned by small farmers were to be sold to these tenants permitting them to have loan financing obtained by titles and the investment in expanded production. In 1988, about 3,000 acres were leased to large-scale operators and 441,000 acres were sold to small cultivators. The land-use policy also consisted of the monitoring of leased government-owned land to see that they achieve production targets, upgraded irrigation system and supervised soil conservation and went for re-afforestation—programme.

An attempt was made to restructure major export crops production since a peak output of 506,000 tones in 1965,
there underwent decline in sugar production. And its production went below 200,000 tones by 1982. Some of the important reasons for the decline were the fall in world price, deteriorating quality and yields, inefficiency of the main estates by workers' cooperatives by deteriorating efficiency in the management of the factory system. The industry became increasingly non-viable and major private sugar companies withdrew from sugar production. The policy followed in the 1980s was to increase to output at 240,000 tones, a level which was sufficient enough to meet domestic demand and export quotas, abolish the sugar cooperatives and close non-viable government factories. In upgraded factories the system of processing was centralized and enough measures were taken to improve the techniques of management. Banana exports were hard hit Hurricane Allen in 1980. The recovery programme went for the utilization of modern technology in planting material and managing large-scale plantations. Market related pricing formulae for sugar and bananas and partial deregulation of the marketing of export crops were some of the other policy methods adopted by the government to improve the agrarian sector. The setting up of a competitive exchange rate and later on mechanism for the preservation were expected to encourage the exports. It was estimated that privatization would bring more capital
and would enable to improve the management techniques. The agricultural credit bank was set up as a part of the measure of restructuring the provision of credit.

**MINING**

In the mining sector, the government sought to maximize the long term economic contribution of bauxite and alumina to the Jamaican economy. The main objectives were to increase bauxite production and find suitable markets for it; to expand alumina production capacity and exports; and to develop new markets. It was intended to expand existing facilities so as to reduce the time lag involved in the setting up of new plants and to minimize investment costs. A rebate on the production levy on a case by case basis was to be granted to the companies involved in mining operations. Further, with regard to the development of new markets, the government considered the construction of an alumina smelter in Trinidad and Tobago, besides entering into a seven-years contract with the erstwhile Soviet Union for the supply of 250,000 metric tones from 1984 through 1990.

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16. Ibid., p.40.
Initially, the government, instead of making any changes in the production levy, opted for a strategy to expand production. The government decided to enter into joint ventures with foreign business enterprises or foreign governments to modernize existing facilities or start new ones. A second marketing organization, the Jamaican Overseas Marketing Company, was set up in 1985 to find markets outside those dominated by integrated multinational producers.

It was expected that with the implementation of the above mentioned measures, production would be as high as 18 million tons by 1983-84. Despite the decision by the US government to replenish its strategic stockpile, production remained stagnant in 1983 and 1984. The levy was reduced to 6 per cent with incentives to modernize and to produce at more than 70 per cent of plant capacity. But the level of output declined in 1986. An upsurge in international demand buoyed output to 7.9 million tons in 1987, followed by a decline in 1988. The government, further, negotiated new

17. Stone and Wellisz, n.4, p. 199.
18. Ibid.
19. Ibid.
20. Ibid and Wellisz, p. 188.
agreements with Alcoa and Alcan under which the production levy was brought down to 3 per cent of the average realized ingot price and a 33\(\frac{1}{3}\) per cent tax was imposed on realized gross profits.

**TOURISM**

The government's strategy in the tourists sector was directed at rapidly decreasing the state's involvement in the direct operation of hotel properties and creating an atmosphere conducive to the private development of the sector. This was to be done in two stages: in the first stage, the hotels were to be returned to private operation through a lease or management contract; in the second stage, after a few years the hotels would be sold. The government also launched a major promotional effect through increased funding. It was further envisaged that the establishment of the National Development Bank would help meet the sector's requirement for medium-term credit.

The role of the government in the sector focused on the provision of adequate levels of supporting infrastructure and ensuring an effective promotion campaign abroad. In furtherance of this policy, several public-owned hotels were put up for sale. The government was to take an active

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21. Ibid.
interest in price and profitability and trends within the sector. This required a careful monitoring of the real exchange rate, as well as a focus on the cost structure of inputs into the sector. Besides, ensuring the infrastructural facilities, need for an improved public sector coordination in the context of a broad inland wide development plan was called for.

The government's policy in tourism was to develop Jamaica as a premier tourism destination, to improve the local tourism product by upgrading accommodation and recreational facilities and evolving and improving training programmes for the purpose of upgrading the skills of industry workers. It was also thought to improve the infrastructure facilities of the industry, to increase the air and ground transportation capability and privatize government hotels and to bring about thereby a confidence for investors in the tourism industry.

The execution of this policy could be easily seen in the policy of financing the Jamaica Tourist Board by government capital budget. The tourism sector got lot of benefits from the devaluation and divestment policy of the government.

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because the country became cost-attractive for visitors as well as investors. Many other facilities were brought into action like repairing of roads, increase in water facilities, introducing sewage facility and building hammer for wooden in the tourism sector. It may be remembered here that in 1985 tourism surpassed universal exports as the largest gross earner of foreign exchange earner in the country.

**Manufacturing**

Jamaica has a varied and highly diversified manufacturing sector, which produces a wide variety of manufactured items from garments and processed foods to machinery and electrical equipment. The sector had its origin in the import substitution industrialization policy of the 1950s. An important factor in the initiation of industrial activity had been the variety of incentives granted to firms in the form of income tax exemptions for a specified number of years, generous depreciation allowances and duty free imports of raw materials and machinery. The importance of these incentives however were less significant from the mid-1960s, with increasing emphasis being placed on trade policies, in the form of quantitative import restrictions and

tariff policies designed to protect the domestic producers from external competition. Consequently, the core of industrial policy for nearly two decades revolved around an increasing use of import restrictions.

The intent of the structural adjustment programme launched in 1981 called for a reversal of the import substitution policy, to one focused on export-led growth and overall deregulation in the manufacturing sector. The basic goal of the policy has been to reduce the anti-export bias, gradually reducing the extent of ad hoc interventions in the sector.

An important reform has been the elimination of the import licensing system. An initial start was made on the elimination of quantitative restrictions in 1982 when 64 items were removed and a simplification of the import licensing procedures. Import licensing requirements were abolished in April 1984 for most raw materials and capital goods, and in April 1985, for most consumer goods.

24. Ibid.
26. Ibid.
27. Ibid.
28. Ibid.
sides, there has been a gradual elimination of price control with the result that by 1987 all manufactured items, except for a small number of basic food items, were free of such controls. This reform momentum was maintained in 1986 and 1987, with the implementation of a Tariff Reform Programme (TRP) that aimed to reduce tariff rates and tariff dispersion by 1991-92 to a range of 5 to 30 per cent. The maximum tariff plus stamp duty was reduced to 60 per cent by April 1988, and a range of items which carried no tariff had a positive tariff imposed. Further, the government discontinued the granting of import duty exemptions as part of its incentive package and intended instead to introduce an import duty rebate scheme or duty deferral system for exporters.

Also, action was taken to reform the corporate tax system, with a revised system introduced in January 1987 which lowered the rate to 33.3 per cent from 45 per cent and adjusted investment and depreciation allowances. To ensure governmental support to the sector on a more timely

29. Ibid.


31. Ibid.

32. Ibid.
and efficient manner, Jamaica Promotions (JAMPRO) was instituted.

Moreover, a Modernization of Industry Programme (MIP) was launched in mid-1987 to face the likelihood of increased foreign competition as the TKP programmes. The main objective of the MIP was to encourage manufacturing firms to adopt productivity oriented techniques through the use of specialist technical assistance.

The development of the manufacturing sector in the country was based on the strategy of import substitution. High tariff barriers and quantitative restrictions of imports of competing products were imposed as a government policy in order to guarantee these enterprises with a protected local market. It was thought that the implementation of this policy would lead to the development of the competitive efficiency of these industries so that, in the long run they would be in a better position to expand the markets outside their country. The producers in this sector except few exceptions, concentrated all their productive resources to meet the local and CARICOM demand without

33. The Jamaica Industrial Development Corporation, The Jamaica National Export Corporation and Jamaica National investment Promotions were merged into a single entity, JAMPRO, to provide support to new investors, exporters and technical trainees and assistance on factory operations.
evolving and developing the efficiency in order to enter into third country markets. As a result, the manufacturing sector remained a net over of foreign exchange. It may be remembered here that the theme of the reorientation strategy changed itself into export competitiveness.

The main thrust of government strategy for the whole economy was to attain and maintain competitiveness in the external world. It has been mentioned earlier that in 1985, Jamaican dollar underwent a devaluation of nearly 40 per cent real effective terms in comparison to 1980. The sharp fall in wages (in US dollar terms) and the availability of supporting infrastructure like the newly built factories for lease and modern shipment facilities attended the attention of the tenants in the free zones, 807-CHI law in the US encouraged free zone investment.

Reduction of corporate income taxes 45 per cent to 33.3 per cent, simplification of a tariff reform programme, reducing the duty structure on imports were some of the important changes which created great impact on the manufacturers. The producers who exported their production to Third World countries would receive a rebate of 7.5 per cent of the value of the shipment. This policy was later dropped in anticipation of the general consumption tax which gave exemption from all indirect taxes to all exports. The
sector wide incentives comprised of access to credit, preferential access to US and Canadian markets and administrative adjustments for reducing the involvement of government bureaucracy.

**EVALUATION**

As can be observed from Table, aggregate growth during 1981-1987 was luggish at best. While the share of the primary sector, which comprises agriculture and allied activities, remained more or less static, the manufacturing sector recorded large percentage share in the generation of the gross domestic product (GDP) during the period, 1970-1990. This is equally true of the tourism sector where earnings had trebled over the period. By 1987 the sector accounted for nearly 37 per cent of the total export of goods and services. By contrast, the primary sector displayed erratic rates of growth, with export agriculture declining, domestic agriculture marginally improved. Such a tendency could be attributed to the surge of imports in the early 1980s which had hurt the sector.

The mining sector which had been the largest foreign exchange earner in 1980, had declined by 1985. Depressed world market for the mineral and stiff competition from low cost foreign producers led to reduced levels of output. Aside from 1984, when production increased to 8.64 million
tons as a result of exceptional factors such as purchases by US for its strategic stockpile, bauxite output declined steadily. From 12 million tons in 1980 production fell to 8.38 million tons in 1982 and 6.24 million tons in 1985. Besides the decision of some of the multinational firms operating in Jamaica to close down, it has been reported that refining costs remain significantly higher in Jamaica than elsewhere. Also, the government's bauxite production levy had been considered by refiners an extra burden. The government's participation in the industry increased from 3.3 per cent in 1980 to 40 per cent in 1986. It was intended to cut production costs and reduce the industry's dependence on imported oil accounts for 40 per cent of production costs by encouraging the companies to switch to coal fired procuring.

However, higher prices and specific contracts in the late 1980s, led to a 14 per cent rise in production prior to the hurricane which hit Jamaica in September 1988. The prospects for the industry improved in 1988 when the Bauxite Production Act set the levy at $22.6 per ton and new agreements were reached with two of the three major multinationals, operating in the country. Both the Alcan and Alcoa agreed to operate their plants at full capacity in exchange for eligibility to benefit from a levy reduction programme.
The Alpart which closed in 1985, reopened at the end of 1988 and made its first export shipment in May 1990. Alpart’s reopening and investment in other refineries explain the estimated over 22 per cent rise in production in 1989.

As seen from Table, the net growth in manufacturing was somewhat better than in agriculture. Liberalization and deregulation, however, had a strong adverse affect on import substituting manufacturers, particularly the shoe and garment industry, but, along with the devaluations they were beneficial to the export-oriented manufacturers. The government’s close relationships with the US in the 1980s, especially in the initiation of the Caribbean Basin Initiative (CBI) and the 807/CMT programme, and the special deals such as the 1988 agreement increasing the textile quota to the US, were all contributory factors in enhancing the level of exports. The 807 programme permits overseas assembly of goods from US companies for reexport to the US at special concessionary duty rates. The "Super 807" or "907/CMT" (Cut, Make and Trim) programme which was announced in Feb. 86, increased the garment quota for Caribbean countries with the 807 provision that US made clothes be used in the production of the garments. However, given the small initial base, the dollar increase in total non-traditional exports hardly made up for the decline in traditional ex-
ports. Notable in this increase were apparel and sewn products covered by the 80-7 and CMT programmes. From 1982 to 1987, employment in this sector increased from 1600 to 23,740, about half of which was in the export-free zones. Foreign exchange earnings from the free zones alone reached US $31.6 million in 1987. Yet, not only did the increase in non-traditional exports fail to make up for the decline of traditional ones, but it was completely dwarfed by the maximum increase in imports as compared to 1980.

Despite the diversification which has taken place over the years, the investment of productivity within the economy remains especially high and typical of countries heavily dependent on mining enclaves, in the process intensifying to structural disparities, as seen in Table.

Less than 1 per cent of the labour force in mining is responsible for 5 per cent of the national output, while the 31 per cent of the labour force in agriculture produce less than 6 per cent of national output. The productivity attached to the makes associated with mining is six times the national average, compared to one-fifth the national level associated with a worker in agriculture.

Further, the structure of exports is not so different from what it used to be in the 1970s. Bauxite and Aumina earn half the nation's foreign exchange, while tourism
earnings have nearly tripled since 1980. The export processing zones export primarily garments of limited value added under the CHI, the benefit from which has only been marginal, and employ mainly young women workers.

In short, the economy levels similar in fundamental always to what it was one and a half decades ago. It relies on a few export earners, which have few linkages to the rest of the economy, which generate relatively few jobs and which have a high import content fuels for alumina production, cut textiles for clothing and food for tourism.
### Table

**Measures of Structural Disparities in Jamaica, 1980 and 1985**

(Percentage)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Share of G.D.P.</th>
<th>Share of Labour Force</th>
<th>Sector Output per Worker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>8</td>
<td>5.7</td>
<td>28.0</td>
</tr>
<tr>
<td>Mining</td>
<td>13.8</td>
<td>4.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>15.7</td>
<td>19.7</td>
<td>16.2</td>
</tr>
<tr>
<td>Others</td>
<td>62.5</td>
<td>69.7</td>
<td>53.8</td>
</tr>
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</table>