

B. IMPACT OF GLOBALIZATION – JAMAICA

Jamaica is another example illustrating that the right policies in response to globalization lead to social progress. The share of people affected by income poverty is very small compared to other Latin American countries and continues to decrease. Above all middle income class is increasing. Furthermore Jamaica is a highly attractive country for investors. The island attracts about twice as much FDI than may be expected by its relative economic size. These and other developments will be discussed in the following pages.

J. 1 Effects on Income Levels and Living Standards

Regarding the income level over the last decade a break-in can be recorded. Except of a period of about three years (1996–1999), average annual GDP growth rates during the last twenty years were positive.

REAL GDP GROWTH IN JAMAICA

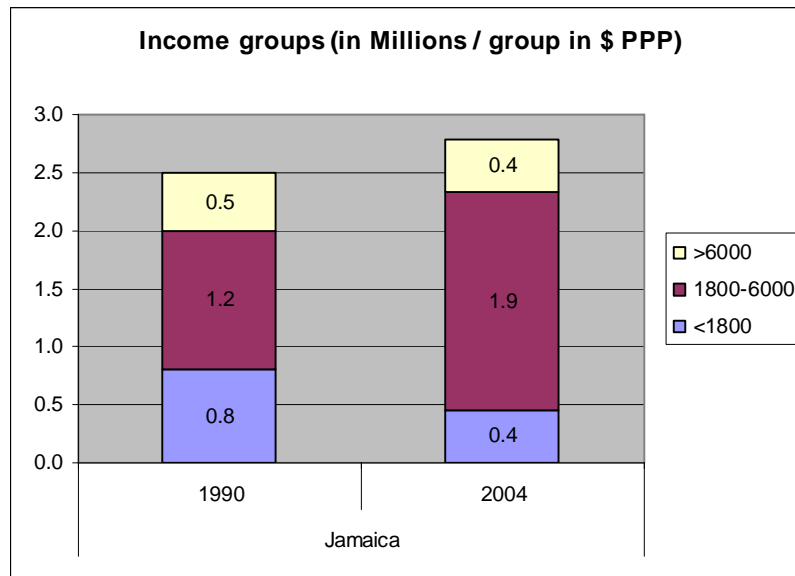
	1981–91	1991–2001	2000	2001	2002	2004	2005	2006
GDP	+2.7	+1.1	+0.9	+1.1	+2.5	+2.5	+1.8	+2.7
GDP p.c.	+1.6	+0.5	+0.5	+0.5	--	--	+1.3	--

Source: World Bank; IMF.

With growing GDP, the number of people with incomes below PPPUS\$ 1,800 decreased by 50% between 1990 and 2004. The number of people living above this threshold increased significantly.

PERCENTAGE SHARE OF INCOME IN JAMAICA

	1996	Δ 1996– 2000	2000	Δ 2000– 2004	2004
Lowest 20%	7.0	-0.3	6.7	-1.4	5.3
II	11.5	-0.8	10.7	-1.5	9.2
III	15.8	-0.8	15.0	-1.8	13.2
IV	21.8	0	21.8	-1.2	20.6
Highest 20%	43.9	-2.4	46.0	+5.6	51.6
Highest 10%	28.9	-2.3	30.3	+5.5	35.8



Source: World Bank

To understand poverty development it is necessary to involve social progress. The Human Development Index (HDI) is a common index to measure social progress and well-being of countries¹.

HUMAN DEVELOPMENT IN JAMAICA, 1985 – 2004

	1985	1990	1995	2000	2003	2004
World	--	--	0.772	--	--	0.741
DC*	--	--	0.586	--	--	0.679
Jamaica (98/173 ⁺)	0.699	0.719	0.725	0.73 7	0.738	0.724
LAC**	--	--	--	--	--	0.795

Source: HDR 2006.

* Developing countries, ** Latin America and the Caribbean, ⁺ HDI Rank 2003

With an HDI value growing from 0.7 to 0.738 in 2003, Jamaica was ranked in the midfield of the listed countries.

Looking at three basic dimensions of human development, it is evident that Jamaica improved its performance continually in each dimension.

SOCIAL STATISTICS FOR JAMAICA, 1970 – 2000

	Literacy rate (percent)				Life expectancy (years)				Infant mortality (per 1000 live births)			
	1970	1980	1990	2000	1970	1980	1990	2000	1970	1980	1990	2000
Jamaica	68	76	82	87	68	71	73	75	48	33	25	20
LAC*	74	80	85	88	61	65	68	70	84	61	41	29
DC**	53	62	69	75	55	60	63	64	108	88	67	59

Source: World Bank.

* Latin America and the Caribbean, ** Developing countries

¹ The HDI is a composite index measuring average achievement in three basic dimensions of human development: a long and healthy life, knowledge and a decent standard of living. Performance in each dimension is expressed as a value between 0 and 1.

To show how widespread human poverty is in a country, you can use the Human Poverty Index (HPI). The HPI-1 measures *deprivations* in the same three basic dimensions of human development captured in the HDI². The HPI-1 value indicates the proportion of the population affected by the three key deprivations in their lives. Jamaica achieved an improvement regarding the HPI-1. Already in 1995 Jamaica's HPI-1 value of 11.8 percent was better than the average of neighbour countries³. In 2003 Jamaica was ranked 14 with an HPI-1 value of 9.3 percent⁴. So, still more than 250'000 persons live in human poverty. Contemporaneously compared to 1998 this means about 46'500 persons less affected by human poverty. In this context we should note that progress in human poverty (social dimension) needn't correspond to the development in income poverty (US\$1/day standard).

² HPI-1 measures deprivations for *developing* countries, whereas HPI-2 captures also social exclusion and measures deprivations for selected OECD countries.

³ UNDP (1998), p. 170.

⁴ UNDP (2003).

J. 2 Effects on Employment

TOTAL EMPLOYMENT IN JAMAICA (IN THOUSANDS / PERCENT)

		1990	1996	1998	2000	2002	2004	2006
Employment	Total*	896.3	959.8	954.3	935.6	1025.9	1058.7	1129.5
Population	Total	2403.5	2.538.0	--	2584	2616	2641	2662
Activity Rate	Total*	44.5%	--	43.9%	-	-	45.1%	-
	Men*	48.6%	--	48.7%	-	-	51.2%	-
	Women*	40.6%	--	39.2%	-	-	39.2%	-
Employment-to-Population Ratio	Total	58.7%	--	55.2%		56.2%	57.1%	56.8%
	Men	69.6%	--	66.4%		67.6%	68.7%	69%
	Women	48.5%	--	44.8%		45.5%	46.3%	45.4%
Employment for Manufacturing	Total	--	100.4	84.8	65.8	69.4	72.3	73.6

Sources: LABORSTA and ILO. Data for Population from: World Bank.

* persons aged 14 years and over.

In several Latin American countries the employment rate has fallen since 1998. In the case of Jamaica total employment increased by 63'500 jobs in six years.

The employment-to-population ratio⁵ provides information on the ability of an economy to create jobs. Jamaica's ability to create jobs tended to deteriorate in the 1990s. Despite this fact, more than 63'000 jobs were created.

⁵ ILO (2001a), KILM.

J. 3 The Costs of Institutional Constraints and the Benefit of Opening

The *Inward FDI Performance Index* is the ratio of a country's share in global FDI flows to its share in global GDP and benchmarks success in attracting FDI.

FDI INFLOWS AND FDI OUTFLOWS IN JAMAICA

	FDI inflows (US\$ mio)	FDI inflows (% of GDP)	FDI outflows (US\$ mio)	FDI outflows (% of GDP)	GDP (US\$ bn)
1990–1995 (annual avg.)	159	--	51	--	--
1996–2001 (annual avg.)	409.7	--	81.7	--	--
2000	456	6.2%	74	1.0%	7.4
2001	722	9.3%	89	1.1%	7.8
2002	481	--	74	--	--
2003	721	8.9%	116	1.4%	8.1
2004	602	--	91	--	--
2005	601	6.2%	94	1%	9.6

Sources: UNCTAD, World Bank.

Countries with an index value of one receive FDI exactly in line with their relative economic size. Countries with an index value > 1 attract more FDI than may be expected on the basis of relative GDP. Countries with index values < 1 may suffer from instability, poor policy design and implementation or competitive weaknesses in their economies.⁶ In 1990 Jamaica was ranked 33 (of a total of 140 countries) with an index value of 1.9. Looking at the data of 2000 we can state a deterioration in the index value, but still an improvement regarding the ranking. With an index value of 1.7 Jamaica still attracts more FDI than may be expected on the basis of relative GDP. Despite this smaller value Jamaica ranks 26 in the year 2000.

⁶ UNCTAD (2002a), p. 23.

Inflows into and outflows from Latin America and the Caribbean rose in 2005 for the second consecutive year, thus recovering from a steady decline in FDI inflows between 1999 and 2003. This development does not apply to Jamaica, which records a steady increase in receiving FDI from 1997 to 2003 with the exception of 2002. FDI inflows remained at a relatively high level during 2004 and 2005. With an FDI outflow of 89 bn US\$ in 2001, Jamaica was the seventh largest investor in Latin America. Chile continued to be the largest investor, followed by Mexico.⁷

TRADE IN JAMAICA 1980 – 2000

	1980	1985	1990	1995	2000	2005
Exports of goods and services (% of GDP)	51%	56%	52%	52%	44%	41%
Imports of goods and services (% of GDP)	51%	66%	56%	63%	55%	60.7%

Source: World Bank.

GROWTH IN EXPORTS OF GOODS AND SERVICES

	1981–91	1991–01	2000	2001	2001–05
Exports (average annual growth)	+6.0%	+0.3%	+3.6%	-4.3%	3.0% *

Source: World Bank; *estimates

Data for trade activities are helpful to evaluate a country's development in economic performance. Jamaica's performance is characterized by an unsteady development during the last twenty years. There was a break-in in 1993, when exports receded by 11 percent, from 61 to 50 percent. At the same time imports augmented by 2 percent. At the end of the 1990s a slight positive tendency can be observed. Despite positive growth of exports in recent years, the levels of the early 90's have not yet been reached.

⁷ UNCTAD (2002c), p. 68.

J. 4 Current and potential growth

Economic performance of most Latin American countries is worse under current conditions than it would be with stability and additional reforms. In this regard Jamaica is no exception. One possibility to measure how efficient a country taps its potential is the Index of Economic Freedom (IEF). Economic freedom as "the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself"⁸ is one key to prosperity. One of the major findings of the index is a strong, positive correlation between economic freedom and income per capita. Property rights, regulations, and black market factors were found to have the highest significance in explaining the variation in per capita income across countries. Without the rule of law, societies have no mechanism to stop private abuses and public mismanagement⁹.

The IEF measures a total of ten different factors. For each factor, a country receives a score from 1 to 100 – where 100 is freest and 0 most repressed. Since 1996 Jamaica is categorized mostly free. The country improved its score continually at the end of the 1990s. This progress did not apply to the ranking, but the zigzag course is related to other countries' performance. The rank states whether Jamaica improved or deteriorated relatively to other countries. Due to a deterioration of performance in trade policy, FDI and regulations Jamaica's score broke in 2001 for the first time within five years.

The Freedom index recovered in 2003 and remained stable until 2007 ranking 46 as "moderately free". A significant improvement has taken place in "Business and Monetary Freedom", while "Freedom from Corruption" and "Financial freedom" worsened dramatically. Jamaica scored slightly below

⁸ The Heritage Foundation (2000), p. 71.

⁹ Roll/Talbott (2002), in: Eiras (2003), p. 3.

the world average in “Trade Freedom” (mainly due to restrictive import and export licensing rules, import fees, import/export bans and export subsidies) “freedom from government”, „monetary freedom“ (Inflation in Jamaica is high, averaging 14.4 percent between 2003 and 2005) and “freedom from corruption” (Corruption is perceived as significant. Jamaica ranks 64th out of 158 countries in Transparency International's Corruption Perceptions Index for 2005.). However, the country’s index for „Business freedom“, „investment freedom“ and “labour freedom” were significantly higher than the world’s average.

According to the latest data available it is not yet foreseeable, whether Jamaica will improve its performance in the near future or not.

It is evident that Jamaica has potential for development regarding the key areas to long-term economic growth and prosperity. Inadequate police force weakens the security of property rights and judiciary lacks adequate resources, and this creates delays. Moreover a cumbersome bureaucracy has been identified as a major disincentive to investment. Pirating and drug trafficking are further problems in Jamaica.¹⁰

¹⁰ Compare to The Heritage Foundation (2003), p. 247–248.

THE 10 FACTORS MEASURED BY THE INDEX OF ECONOMIC FREEDOM FOR JAMAICA

Year	1997	1999	2001	2003	2005	2007
IEF Rank	44	48	56	56	--	46
IEF average Scores	67.6	64.3	62.9	66.7	66.5	66.1
Business Freedom	67.6	64.3	62.9	66.7	50	78.3
Trade Freedom	50	50	50	50	64.4	60.4
Fiscal Freedom	82	82	71.4	60.8	84.2	83.4
Freedom from Government	84.2	84.9	84.4	83.7	68.1	67.4
Monetary Freedom	72.8	55.9	82.3	67.3	75.8	70.9
Investment Freedom	59.1	65.7	78.3	78	90	80
Financial freedom	70	70	70	90	70	60
Property Rights	70	50	30	70	50	50
Freedom from corruption	70	70	50	50	38	36
Labour Freedom	50	50	50	50	74.3	74.1

Source: The Heritage Foundation.

Score from 1 to 5 – where 1 is freest and 5 most repressed.

To sum up it can be supposed that Jamaica could benefit more from liberalization and globalization with additional reforms, above all in trade policy, regulations, property rights and the black market factors.

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ACRONYMS AND ABBREVIATIONS

bn	billion (1 bn = 1000 millions)
ECLAC	UN Economic Commission for Latin America
EIU	Economists Intelligence Unit
et sqq	and the following
Δ	change
DC	Developing Country
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HDI	Human Development Index
HPI-1	Human Poverty Index for Developing Countries
ICSE	International Classification of Status in Employment
IEF	Index of Economic Freedom
ILO	International Labor Organization
LAC	Latin America and the Caribbean
KILM	Key Indicators of the Labour Market (of ILO)
mio	million(s)
p.c.	per capita
PPP	Purchasing Power Parity
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US\$	US Dollar
WBG	World Bank Group
WDR	World Development Report (of World Bank)
WIR	World Investment Report (of UNCTAD)