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Jeremy Taylor examines the likely effects of the new Government's return to free enterprise Waiting for the economic miracle

It was not his pro-western ideology but his reputation as a financial wizard that swept Mr Edward Seaga, the Prime Minister, into power in Jamaica last October.

During the 1950s and 1960s the economy had become heavily dependent on foreign capital inflows for its growth. The programme of social reform and wealth distribution begun by Mr Michael Manley in 1972 dried up the flow of capital and destroyed confidence in and out of cent decline. Jamaica.

By 1980 Jamaicans had been tive growth, falling living standards, rising prices and unemployment and commodity shortages. Two agreements with the International Monetary Fund (IMF) collapsed within four years and the island was riven by political violence and the anticommunist campaign of Mr Seaga's Jamaica Labour Party (ILP). "The poor can't take no more" said graffiti all over Kingston while the JLP promised "deliverance is near".

Thus, after voting overwhelmingly in 1972 and 1976 against the JLP model of dependent capitalist development with its emphasis on foreign investment and transnational corporations. Jamaicans wanted deliverance in 1980 from economic pressure and social upheaval. Mr Seaga inherited an almost bankrupt economy and now seeks to return to unfettered free enterprise, to recapture the capital inflows and investment, and to establish Jamaica as an attractive offshore manufacturing centre for the American market, on the Puerto Rico model. "The resource base of the English speaking Caribbean is too narrow," he argues: "capital has to flow from outside." The foundation for this strategy, a new IMF agreement was laid in April with a three year extended fund facility of \$650m plus \$48m in compensatory financing. Mr Seaga managed to get conspicuously better terms than Mr Manley, with no further devaluation (Mr Manley was forced into total devaluations of 49 per cent), no compulsory wage limits (though Mr Seaga is holding firm on a 9 per cent public sector maxinum against union resentment) and no programme cancellations. Price and import controls and government subsidies are being gradually removed, sparking painful increases in rents and imported food prices and howls of pain from a private sector facing new competition. Mr Seaga's 1981-82 budget concessions on deregulation, insisting that prices must find money-losing state enterprises must be pruned or sold off. The IMF seal of approval has opened the way to capital inflows of nearly \$1bn this year: \$308m from the IMF. \$450m from multilateral institutions including the World Bank and the Caribbean constraints. Group for Cooperation in Economic Development, \$50m from the United States and commercial banks. In June Mr Seaga nego-Mr Seaga has thus won Jamaica a breathing space in largest

return of international confi- major expansion of the indusdence. The first solid claims try was planned for the 1980s. of recovery came from the National Planning Agency 6.3 per cent rise in shipments (NPA) in September, which declared that negative growth had been halted and the base laid for "substantially improved economic performhave now announced production cutbacks in the face ance". Gross domestic growth this year would be over 1 per of a soft world market and the cent less than Mr Seaga's Jamaica Bauxite Institute is hoped for 3 per cent but much predicting 1981 production at only 11.75 to 11.95m tonnes, better than last year's 5.4 per

The NPA claims that prices through eight years of nega- are rising more slowly - 0.6 Mr Seaga had hoped to per cent in the first six persuade the companies to months of 1980 compared return to earlier levels of 15m with 12.4 per cent last year. tonnes, and to earn US\$45m Inflation last year was 28.6 per cent, after a 1979 peak of bauxite levy which earned 49.4 per cent. The NPA also claims that the investment climate has improved and that unemployment is falling. By September their had been nearly 500 new investment proposals worth over J\$1.5bn, about three quarters from overseas, and over a dozen had been implemented.

But

while Mr David

that the new inflows show a illegal marijuana trade, and a But the rise in demand has not materialized and the companies are anxious for a This year began well with a reduction in the levy which Mr Seaga criticized in oppoand refining in six months. sition but dare not cut now But all five companies in because of the impact on the Jamaica — Kaiser, Renoylds, economy. Alcoa, Alcan and Anaconda ----

Agriculture has been badly hit by storm and flood damage in recent years. Last year wiped out the banana industry, and shipments to the protected British market only below last year's 11.99m, which was the highest since resumed in mid-1981 and will planning to increase supplies from 70,000 to 150,000 tons by the mid-eighties, worth £50m. But in the lull, rival Central more this year from the and Latin American producers have seduced British Jamaica US\$209m last year. housewives with fruit that is but are unlikely to be accepted.

better looking but, the Jamaicans say, worse tasting. "Britain is being very kind and helpful in getting us back in business," says Mr John Pringle, Deputy High Commissioner in London, "But we have to modernize our indus-

try and improve the appearance of our fruit, and that is costing a fortune." United Hurricane Allen virtually Brands are helping to upgrade the industry. This year's sugar harvest of 201,000 tonnes was the smallest in 40 years and the

ing and new investment. Tate the industry for seven years

both on and offshore in November, offering long-term this year — and giving some although Mr Seaga's deliver-

ance is some way off. Early signs of recovery are there and Jamaica is coming to terms with the demands of modern marketing. But the Left is deeply unhappy over Mr Seags's return to what it | of sees as economic clienthood. reach less than half their industry is losing money fast. Dr D. K. Duncan, general normal level. Jamaica is There are ambitious plans for secretary of the opposition by ECGD since early 1979. raising production to 330,000 PNP, says the recovery protonnes by 1984; but that gramme will fail because of depends on radical restructur- the "reckless and outdated monetarist policies of the and Lyle have offered to run government." The debate over economic philosophy is postponed but not settled.

Credit seals the trade links

Exploration for oil begins With the announcement in five years ago. Though both July that the Export Credit Guarantees Department hopes of saving on energy (ECGD) was backing a \$11m imports - costing US\$300m line of credit by Grindlay's Bank to the Bank of Jamaica, stablity to economic planning, both Jamaican manufacturers and British exporters to the island collectively breathed a sigh of relief. For tucked away at the end of the official notice was the first indication that ECGD were prepared to offer "a very limited amount" cover for periods not exceeding five years. Something considered unthinkable How limited this mediumterm credit is, remains unclear, but it is understood that cover has already been considered for at least one quite sizable shipment to Jamaica.

The decision to back Grindlay's line of credit and to medium-term cover offer came after a concerted lobby, principally organized by the influential London-based West India Committee, had emphasized and ultimately convinced British politicians and officials of the economic and political importance of The new government has Jamaica's recovery, both for set up a Ministry of Tourism the Caribbean and in terms of and ran a personal message Western strategy. But in spite from the Prime Minister in of this it is clear that ECGD the American press headlined remain wary and will be closely monitoring the administration and repayment of the credits by the Jamaica Export Credit Insurance Corporation. Officials indicate that it will "Advertising blitz" moving be on this basis that fresh, possibly larger-term and cover will be provided in the future. The Grindlay's credit now runs in parallel to the two loan agreements reached between the British and American conventions held Jamaican Governments earlier this year, which provide deductible, a move the balance of payments assist-Government hopes will revive ance for the purchase of British goods. The agreefor £6m and £5m, ments, however, expire in 1982 and it is unclear whether Britain will renew them, as it is known that certain British Conservative politicians feel that there should be a time limit to Britain's support for the island.

Tate and Lyle and the Fyffes Group have indicated their interest in investing heavily in programmes that will develop sugar cane and banana production, it remains to be seen whether the companies' proposals can be inplemented by government in the face of the challenge such plans offer to the economic and political manner in which both industries are currently organized. As far as Britian is concerned it is questionable

whether trade with Jamaica will ever reach pre-1979 levels. For the exceptional emphasis placed on assisting through lamaica private investment, aid and trade preferences President by Reagan himself, seems likely to push the island still further towards stronger linkages with the United States.

In 1979 the United States accounted for 45.98 per cent of all exports to Jamaica compared to Britain's 19.79 per cent while on the imports front the United States purchased 31.47 per cent of Jamaican goods compared with the meagre 10.2 per cent which came to Britain. But that is not to say that officials and senior businessmen in Britain are not conscious of the need to assist in the island's recovery. At the forefront of such moves is the British Jamaica Committee which like its American, Canadian and Venezuelan counterparts seeks to promote and assist the island. The Committee, which consists of 15 of Britain's most infuential corporate and institutional chairmen and managing directors involved in trade in the Caribbean basin, has five main objectives. First it aims to reinforce commercial relations existing between Jamaica and Britain. Second it is and to focus British business interests on investment opportunities in Jamaica. More specifically, it hopes to attract interest in the island's Export Free Zone and develop the further use of Kingston's transhipment port. Finally it is aiming to extend levels of British Jamaica trade and technology transfer as well as cooperation between financial institutions and in the area of transport. Already the committee has had its first meeting under the joint chairmanship of Mr John Pringle, the Chairman of Jamco, and Lord Pritchard, a director of Rothmans International. It expects to take an active role in encouraging British business to Jamaican" in the months ahead. an an suithead

But despite all this public

optimism many companies

involved in trading with or

admit to having serious reser-

vations as to whether Mr

Seaga and his Government

will be able to make the

identified, a number of major

British companies express

fears that political infighting

within the Jamaica Labour

Party, bureaucratic inactivity,

conflicting decisions and

increased trades unions pres-

sure are delaying the accept-

ance and implementation of

investment plans to an extent

that they are seriously con-

cerned about the longer-term

viability and security of their

whether Mr Seaga can mobi-

lize his considerable adminis-

trative skills to, as he puts it,

revive the Jamaican economy

from the dead in a manner

It now remains to be seen

proposed investments.

Though they decline to be

island's economy work.



"We're gonna win you over, port, Mr Manley called elec- the figures showed a recov- 1983, earning perhaps \$400

Rockefeller, who heads the US business committee on Jamaica (others are lobbying in Canada, Britain, Venezuela and Puerto Rico) has reported "an overwhelmingly enthusiresponse" from American corporations, big investors seem to be holding back to see if Mr Seaga and the IMF can produce recovery without social chaos. In May Mr Seaga predicted new

investment worth US\$4.6bn. The Jamaican private sector is not too happy with the speed of recovery since new foreign exchange for raw

material and equipment supplies is only slowly becoming available. At the Bank of Jamaica long lines of foreign exchange applicants are grilled beneath posters urging

them to "get that citizen's smile". The lifting of import controls has provoked some lay-offs and closures and loss of sales. The island's largest unions oppose the IMF programme, designed to raise growth to 5 per cent in three years, though Mr Seaga has so far avoided serious indusaction over wage trial restraint and his freeze on public sector recruitment.

A lot of faith is being placed in manufactured, especially non traditional, exports ranging from furniture to processed foods. "We are very well placed now with incentives and exporter services", says Mr Peter King, director of the Jamaica National Export Corporation and (JNEC). "We're waiting for violence that exploded before May, worth Jamaican the action, we have a beautithe 1976 elections. Though it \$2.5bn (US\$1.2bn), made no ful sausage machine but we're was mostly confined to the still short of meat." capital, Kingston, well away Overall exports have grown from North Coast resort their own levels and that by 11 per cent this year and areas, scare stories of attacks the JNEC has produced a on visitors gained international export plan — widely national currency. As a reaccepted through still unofsult, tourist arrivals slumped ficial — which calls for 30 per cent between 1975 and priority for highest growth 1977, biting deep into Jamaiproducts potential and ca's already desperately short streamlining of foreign exforeign exchange and causing change and import licence layoffs and closures right Highnowered through an industry that trade missions, including one employs more than 20,000 in to West Germany this month, the peak winter season from are seeking new markets in December to April. \$71m from a consortium of Europe, Britain and North During the Manley govern-America. So far, Jamaica has had bad ment's second term from tiated the refinancing of luck with its major com- 1976, arrivals began to creep \$103m in public sector debts. modity exports. Bauxite, of | up again, but the slump was which it is the world's second | repeated last year when, faced producer, is the with imminent bankruptcy which to produce deliverance. island's largest foreign ex- after the collapse of Inter-He exudes optimism, arguing change earner, barring the | national Monetary Fund sup-

we're gonna start you off with a smile", runs the Air Jamaica jingle. Jamaica has picture-book tropical beaches the colour of talcum powder and mountains soaring higher than 7,000 feet, plenty of hotels, and a list of tourist attractions ranging from scuba diving torchlit barbecues to and nude bathing and rafting down the Rio Grande. Once a winter retreat for

well-to-do Britishers — Noel Coward's house, Firefly, perches on the North Coast hills near Ocho Rios, not far from Ian Fleming's — Jamaica now caters mainly for the North American market which supplies two thirds of its business. Tourism earns Jamaica about \$200m a year from 500,000-600,000 visitors: it runs second only to bauxite (and marijuana) as an income earner.

But tourism demands political stability, as much of the Caribbean is now acutely aware. Jamaica learned this in the mid-1970s as Mr Michael Manley's modest experiment in democratic socialism ran up against Western hostility. As American aid fell and bauxite production was cut back, so travel writers and agents in North America put the word around that Jamaica was not a safe destination for the sun, sand and sea tourist with little interest in the details of income inequality. The North American press

had a field day with Jamaica's growing economic difficulties above all with the

tions a year early. Again preelection violence flared and in Kingston reached frightening proportions.

This time the loss was less severe, about 60,000 visitors and \$20m, but the effects continued well into 1981. This January's figures were 16.8 per cent down on 1980's, and the first six months were poor enough to force some hotels into temporary closure. In some resorts occupancy rates were running 20 and 30 per cent below expectations by June. "Never in the history of amaica tourism have we found the industry in so depressed and dilapidated a condition," said Mr Anthony Abrahams, the tourism minister in January.

It was not until May that to increase that to 650,000 by

ery: July and August arrivals million." were about 18 per cent above last year and bookings for the

> coming winter season are promising, though the American air traffic controllers' strike and continuing international recession slowed recovery, as have the after effects of 1980's hurricane Allen which swept part of the North Coast. One hotel was engulfed, another had its two beaches piled neatly above its beach bar.

But Mr Edward Seaga, the leart on winning back the tourists and expanding the cials. industry over the next three years. "Tourist arrivals fell to

450,000 last year," says Mr John Gentles, Director of

"I extend a warm welcome to have the people of America" About J\$34.5m, twice last year's budget, is being spent on what Mr Gentles calls an from the Midwest to New York and the East Coast as

well as Britain, Europe and Venezuela. "come back to Prime Minister, has set his Jamaica, your new island home", croon the commer-

in Jamaica are now tax | Tourism, "But we are going lost convention traffic. T

Whether the restoration of cover will have the hoped-for effect of restoring British exporter confidence only time will tell. For according to official British Government figures, exports to Jamaica principally vehicles, metal manufacturers industrial machinery and equipment fell to a five-year low in 1980 £33.1m, a considerable decline over the £44.7m recorded in 1979 and substantially less than the £80.6m of 1976. However, exports predominately bauxite, sugar, bananas, beverages and coffee — remained relatively strong at £95.5m in 1980, registering investing in Jamaica privately an increase on 1979's figure of £82m. Though it seems likely that as the island's manufacturing sector begins to recover there will be new opportunities for British exporters of, in particular, machinery and semi price to be allied to the manufactures, growth will in all probability be slow, if the island's economic recovery continues at its present pace. tonnes of alumina a year to For while the ECGD's renewal cover goes some way towards satisfying Jamaica's concern about recreating favourable environment ir As a result, Mr Seaga has | which to develop trade with national Bauxite Association, concentrated on the Ameri- Britain, many Jamaican and cans as the major source of British businesses may not have forgotten their experiences of attempting to receive and payment during the last years





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The answer lies in the soil

While the popular tourist century at current extraction image of Jamaica is of bleached white beaches, vividly coloured flowers, rum punch and Rastafarian magic, the island's economic survival and future growth is based firmly in the soil.

For just below the surface are estimated reserves of more than 2,000m tonnes of metal grade bauxite, the raw material for aluminium. Apart from tourism, these huge ore deposits represent Jamaica's only major foreign currency earner.

They also explain the presence on the island of the big North American aluminium companies and the importance attached by the United States to Jamaica's political scene. Aluminium is regarded in the United States, as elsewhere, as a strategic metal on a par with vanadium and cobalt.

The significance of bauxite to the Jamaican economy is further marked by the fact that the Prime Minister, Mr Edward Seaga, is also Mining Minister.

Since he ousted Mr Michael began Manley's government last year, the more moderate Mr Seaga has attempted to alleviate Jamaica's severe shortage ings. of foreign exchange by planning a big rise in bauxite output and in downstream operations. But the big corporations are reluctant to expand bauxite purchases at a time of world over-capacity caused by the world re-

United States ingot price. It was also planned that the refinery would supply 150,000 Algeria and Iraq, the latter of

hope of copying the success of the oil exporting nations, problems caused by the war bauxite producers banded with Iran. together to form the Intera cartel with the aim of forcing the metal producers increased revenue for his to pay a price for their raw country's material allied to the interalumina, but here too he is aluminium ingot. economic downturn which

Creation of the IBA, con- has left the metal producers trolling 75 per cent of the sitting on a 2.5m-tonne stocknon-communist world's baux- pile of unsold aluminium. ite output, was a further manifestation of the under- announced reductions developed countries' awakened desire to win what they considered a more just share largest aluminium producer, of the profits made from their cut its Jamaican refining by 20 per cent at its 550,000 resources by the rich and expanding corporations of the tonnes per year plant in the

industrialized nations. centre of the island and Unilaterally, Jamaica im- blamed slack demand and the posed massive increases on its growth of recycling. bauxite levy in 1974, and The Alcoa cutback was

under Mr Manley's guidance made worse for the Jamaicans when three Norwegian compato negotiate agreements for the partial state nies decided in July this year takeover of the aluminium to delay indefinitely their companies' huge land holdparticipation in a major

national selling price of being thwarted by the world of the Manley Government. Similarly Jamaican exports to Britian seem set to remain sluggish for at least another year. Bauxite production has been cut back because of Both Alcan and Alcoa have in falling world demand and bauxite refining operations in | sugar and banana production Jamaica. Alcoa, the world's remain at an abysmally low





continued from previous page The leading Marxist group in Jamaica, the Workers' Party of Jamaica (WPJ), has complained of harassment by police, who in September and Elkem would join with claimed to have found documents dealing with explosives in the car of WPJ leader Dr Trevor Munroe. Munroe said the police planted them there. Mr Seaga has thus established a tough anti-communist line for internal and external | reference. He spelt out his fears soon after being elected, claiming that Marxist groups in the Caribbean had been instructed in 1975 to infiltrate mass-based parties like the PNP in Jamaica. Although he has not broken relations with Cuba, Mr Seaga has refused to upgrade them from charge later that mining and refining | d'affaires level: the Cubans, | he argues, are "not serious" about detente with the United

are

influence in the region.

Grenada, exporting "ideo-

logy" to Nicaragua, and are

looking for other areas of

Out of this anxiety has

come a series of proposals for

a broad US Caribbean

tion. The idea has taken

several forms and is still hazy:

"Marshall Plan" through

which \$300m in aid would

grand fraternity of democratic

States.

influencing

The idea is still being discussed as a Caribbean Basin aid programme, though the US favours bilateral flows to individual private sectors, a structure which would isolate left leaning states like Grenada, and which may not gain much support in the Caribbean. Apart from acting as regional spokesman for the Caribbean Basin plan, Mr Seaga has made no new initiatives in the region itself except for an offer to mediate in the border dispute between Guyana — a fellow member of the Caribbean community and Venezuela, to which Jamaica is indebted for steady oil supplies and assistance. Jamaica represents half the Caribbean community market, has more or less overcome regional suspicion because of import restrictions briefly imposed by the Manley Government. Mr Seaga himself is not the most popular figure on the Caribbean scene, a suspicion dating back in part to the late sixties when as finance minister he was felt to be too quick to talk down to Caribbean colleagues. Dr Eric Williams, the Trinidad and Tobago Prime Minister who died in March, publicly rebuked the International Monetary Fund last year for holding discussions with Mr Seaga while he was still in opposition. Dr Williams's successor, Mr George Chambers now faces elections, and any new Jamaican initiative will probably wait till the political situation is clearer in Port of Spain.

rates but it is only in the last seven years that its politicians have been able to exploit the island's riches. In the mid-1970s, in the country being bedevilled by

Red Stripe lager beer was a Gold Medal winner at the prestigious 20th Monde Selection Awards held in Amsterdam in September, 1981.

In Jamaica, Red Stripe has been the popular choice for over 50 years. Today it is also enjoyed in the Caribbean, United States and Great Britain.

Have a cold, refreshing Red Stripe, with the taste that's good as gold.



Aluminium is one of the world's most commonly found metals, accounting for about 10 per cent of the earth's crust, but the richest sources — bauxite — are located mainly in Third World countries. The metal can extracted from almost any type of clay, but the grades of bauxite as mined in Jamaica are the most highly prized.

cession.

reduction process The which ends with a silvery ingot of primary aluminium begins by refining raw, rust coloured bauxite into alumina, a dry white powder which contains two parts aluminium and three parts oxygen. At the smelter, using vast amounts of energy, the metal is "unlocked" from the alumina in a reduction process that was discovered less than 100 years ago.

the result of alu-As – minium's astonishing lightness, strength, non corrosiveness and ease of recycling, it hecame the "wonder metal" of the twentieth century.

Jamaica, after Australia one seven-year period, which of the world's leading ex- would come from the new

Looking for expansion The island has also encour-

aged the establishment of alumina plants as a method not only of creating jobs but also to add value to the bauxite. The government's latest venture is the building of a 600,000 tonnes per year

refinery on the south coast. Clearly, although the returns from bauxite are more immediate and involve subment, Mr Seaga is keen to expand alumina refining and has had discussions this year with the multinational companies with stakes in the island's bauxite — Alcan, Alcoa, Kaiser, Reynolds and Anaconda,

Output from Jamaica's alumina refineries in 1980 was an estimated 2.45m tonnes, with 12.15m tonnes of bauxite mined. And after the first three months of this year the cent would be possible. bauxite business was looking rose by almost 45 per cent. with the Soviet Union over a contract to supply vast quan-

tities of alumina, beginning in 1983 and extending over a

porters of bauxite and alumi-state refinery. The Jamaican na, has sufficient reserves to government wanted the deal last well into the twenty-first to last for 10 years and the

expansion of the refinery. The idea was that Norsk Hydro, Ardal of Sundal Verk the Jamaican government in owning 49 per cent of the \$360m expansion with the remaining 51 per cent going to Alcoa. But the deal ran into difficulties over who should provide the technology for the plant and the amount of levy that should apply to its output.

bauxite

The aluminium companies have, in fact, been surprised by Mr Seaga's attitude to the stantially lower capital invest- bauxite levy. Earlier this year, the Prime Minister hinted that the tax might be reduced substantially but suggested operations on the island should be expanded.

In 1980, the levy was cut from its original level of 7.5 per cent of the average US aluminium ingot price to 7 per cent and the American producers were hoping that a reduction to about 5.5 per

alliance. A democratic front In support of their pressure healthy. Bauxite output was for tax cuts, the producers against communist penetraup by 23 per cent on a year can point to the results of earlier and alumina exports surveys such as that recently published by Australian Min- it began as a Caribbean Earlier this year, the Jamai- eral Economics which concludcans reopened negotiations ed that world bauxite capacity flow into the Caribbean to will increase from 110.6m strengthen vulnerable econtonnes to 161.7m tonnes per year by 1985 of which up to omies. In May in a speech in Miami Mr Seaga advocated a 26m tonnes could be excess to requirements. parties to help stem the flow

of "alien ideologies", a pro-Edward Townsend American version of the Industrial Correspondent ^I Socialist international.

A Special Correspondent

J.T. "Winning back the tourists." Times, 17 Oct. 1981, p. 8. The Times Digital Archive, link.gale.com/apps/doc/CS134711633/ GDCS?u=nclivedc&sid=bookmark-GDCS. Accessed 1 May 2024.