

**Address by the Jamaican Ambassador to the United States,
On Behalf of the Government of Jamaica, at the Houston Festival 2006 Luncheon,
April 2006
Gordon Shirley**

1. Introduction

Mr. Chairman, I have the distinct honor today to address this very august body on behalf of the Government and People of Jamaica. I am pleased to convey my Government's appreciation to the City Officials of Houston and to the Board members of the Houston Festival Foundation here present, for inviting us to be the featured nation in this the 35th annual International Festival hosted in your fair city. We are particularly pleased to be the first Caribbean country to have the opportunity to be featured as an individual nation in this festival which has become a favorite event of Houstonians as well as people throughout Texas and the Southwest.

The City Administrators and the Members of the Board deserve special recognition for their work in building the event into Houston's official celebration of the visual and performing arts and into one of the largest arts festivals in the United States. I understand that over 250,000 persons are expected to attend the 10 day event and that the money raised by the 501(c) (3) nonprofit cooperation will be used to support an impressive number of arts and education programs.

The invitation to be the featured country in this year's festival has provided Jamaica, through its Tourist Board, with an ideal platform for increasing the awareness and knowledge of Jamaica to Houstonians. By allowing us to participate in all three facets of the festival – the business to business interactions, the visual and performing arts events and the educational dimension - you have given us a chance to create an all-encompassing Jamaican atmosphere in downtown Houston. In seizing the opportunity to create compelling images of our island nation in your city, we hope to evoke the desire in

Houstonians to make Jamaica a part of your next vacation and a destination for your business investments.

Mr. Chairman, I have been asked to speak this afternoon on the topic of Globalization, Free Trade Arrangements and their meaning to emerging economies. I wish to proceed by first discussing the impact of globalization on an emerging country, using Jamaica as the case in point to illustrate the cost and time involved in accommodating to the trend and to underline some important characteristics of the current Jamaican situation that may be of interest to investors here in Houston. Then, I will briefly look at the issue of Free Trade Agreements that are relevant to the countries of this hemisphere, discuss their importance to the smaller nations and identify where we in the implementation of these agreements before sharing some concluding comments.

2. Jamaica' Economic Progress in a Globalizing World

Mr. Chairman, the concept of globalization is in fact not a new one for Jamaica. The modern history of Jamaica begins with the conquest of the island by Europeans and its subsequent use as a major production center for sugar which was at the time an important, globally traded commodity. Emancipation and subsequently independence was integrally related to the decline, over time, in the importance of the sugar trade.

When we obtained independence from the United Kingdom in 1962, the Jamaican economy was centered on the export of bananas which had joined sugar as an important export commodity. Tourism had begun to emerge as an important industry taking advantage of our warm climates year round and a geography boasting some of the most spectacular beaches in the globe. At that time too, bauxite had been discovered and the mining of the ore and its export to a variety of locations, including Texas, had commenced with some companies investing in the facilities to processing the ore to alumina in the island.

During the first decade of independence, the country grew rapidly. Like many other non oil producing nations however, we were jolted by the oil shocks in 1974 and 1978. Faced with the rapid escalation in oil prices, coupled with the relative inelasticity in the prices of our major exports, a balance of payment problem soon emerged. Government borrowing to cushion the impact of the shock on local consumers and firms proved unsustainable however, and our first major post independence debt crisis ensued.

In response, the government embarked on a programmed to make the country more self-sufficient by pursuing a model of import substitution, coupled with currency controls and the imposition of increased tariffs to protect local firms and local employment.

With the expansion of global trade in goods, underpinned by developments in information technology and more efficient modes of transportation, this model of import substitution prove increasingly untenable.

Beginning in the early 1990's, therefore, Jamaica abandoned the model and embarked instead on a programme to liberalize its markets, opening them to global competition. This new model called for a reduction in tariffs, for making the currency freely tradable and for the privatization of government assets.

One almost immediate consequence of the shift to this free market model was that several local firms found it impossible to compete effectively in openly competitive global markets. A high level of market failure ensued. In time it was also necessary to restructure the financial markets. At the end of this round of liberalization, the country had a debt level of approximately 140% of GDP and an unemployment rate of about 20%. I think you will agree, Mr. Chairman, that the cost of implementing the programme to bring the country into the global economy was very high.

With no identifiable alternative, the government instituted a programme to redress the situation. A key feature of this program was the maintenance of tight fiscal discipline. This was necessary to achieve a stable macroeconomic environment, to reduce inflation and interest rates, and to stabilize the foreign exchange markets. These in turn were necessary conditions if the country were to generate positive economic growth through the attraction of foreign direct investment and through the expansion of the local private sector.

3. Competing in Liberalized, Global Markets: The Impact of the Current Model

What has been our record?

Today, Mr. Chairman, the fiscal program is on track and all of the indicators are moving in the right direction. The fiscal deficit has been substantially reduced and a balanced budget is in sight.

The government has curbed public expenditures while improving revenue collection via income and consumption taxes and by better customs administration. By increasing revenues and reducing expenditures, the country has been able to achieve and sustain high primary surpluses over several years, exceeding the expectation of the international financial institutions.

Inflation has been substantially brought under control in spite of having to cope with hurricanes and associated weather conditions which were among the worst in our islands history. The devastating impact of these extreme natural events on an economy is something that has been brought into sharp focus here in Houston with the passage of Katrina.

Our capacity to bring inflation in check has been aided by the negotiation of a memorandum of understanding with the major unions operating in the island, effectively capping wage increases for fixed durations and enhancing the capacity of businesses to plan effectively.

Interest rates have continued to trend downwards, even as the government has shifted its source of borrowing away from the multilateral financial institutions to the private capital markets in the world's financial centers. With an improved Standard and Poor rating, it has been possible to issue notes of longer tenure and lower rates. By sustaining budget surpluses and by achieving lower interest rates, the country has been able to reduce the debt burden and decrease the cost of debt simultaneously.

Foreign Exchange Markets have been kept liquid and stable. The government has been able to build the Net International Reserves to over \$2 billion or the equivalent of 20 weeks of imports. Private Sector foreign currency deposits, which also stand at close to \$2 billion, continue to grow, fostering confidence and providing cushion to the system.

At the same time that these developments have been occurring, Remittances from Jamaican Nationals residing overseas has grown substantially. Remittances now represent the third largest flow into the economy after the earnings from Bauxite/alumina and tourism. These flows serve as an important safety net for the most vulnerable in the economy.

Economic growth has been positive, tempered only by the impact of external shocks resulting for natural disasters, the recent oil shocks (which have seen the price of a barrel of oil exceed \$70), and the loss of preferential markets for sugar and banana, the traditional export crops. That the economy has grown in spite of the severity of these shocks is a testament to the resilience of the people and firms of the country and to the appropriateness of the current economic model for our circumstances. All of important sectors of the economy have reflected encouraging growth – export agriculture, manufacturing, construction, financial services, alumina production and tourism.

Equally significant are the high and sustained levels of foreign direct investment which have begun to flow into all of the major sectors of the economy. The country is currently enjoying the highest ever levels of foreign direct investment and significantly, the investments are flowing from firms operating in a diverse range of countries.

In the case of tourism, Spanish chains are scheduled to invest over \$1.5 billion, constructing over 7,500 in the next three years. The Riu Group, Iberostar, Grupo Pinero, AM Resorts and the Fiesta Group are all investing in multiple large hotels on the island. In addition, the construction of the \$300 million Cinnamon Hill luxury development, led by US investors, has commenced and proposals are being considered for a multi-billion Harmony Cove Development involving the construction of a convention hotel, boutique hotels, luxury villas, spas and a marina.

In the case of the Bauxite and Alumina industry, a new phase of expansion has been triggered by growing demand in China, and more recently in India. Jamalcoa, a firm partly owned and managed by the American metals Giant, Alcoa, has embarked on a \$1 billion expansion which will double existing capacity, employ over 3,000 workers during construction and generate over \$300 million per year in gross foreign exchange earnings on completion. The project will also involve the construction of a co-generation plant which will supply over 50 MW of power to the national grid.

A programme of infrastructure development, much of which is private sector driven, is transforming the face of the country:

- the second phase of Highway 2000, which runs through the center of the island connecting the major towns and commercial centers is close to completion. The first stage of this French led investment project has been very successful, exceeding revenue generation targets almost from the outset.

- The North Coast Highway which will link all of the major tourism centers on the north of the island and substantially reduce transit times between the airports and the major properties is at an advanced stage of construction
- The 5th stage of expansion of the Kingston container Terminal, managed by one of the worlds top Port Operators, AP Moller Ltd., is approaching completion. The terminal is among the largest and most modern in the hemisphere, ideally equipping it to serve as the major transshipment point for goods traversing between Asia and the Americas.
- A project to double the capacity of the Montego Bay Cruise Port allowing it to accommodate three additional mega liners in currently under construction
- A \$200 million expansion of the Montego Bay international air-port by a consortium of Canadian and Israeli firms which includes the installation of 11 new loading bridges has recently been completed, and the expansion and modernization of the Norman Manley Airport in Kingston is currently in progress

Other important projects involving foreign direct investment include:

- a 20 MW wind power plant which has recently been commissioned
- new power facilities to meet the increased demand are currently in train
- a \$250 Million LNG facility including storage and piping to the major alumina and power plants in the island
- a \$270 M upgrade of the Petroleum Refinery to improve efficiency and expand output
- a \$150 million expansion of the Cement production facilities

- The installation of two new underwater fiber optic cables which will quadruple to data transmission bandwidth to the island
- The emergence of Jamaica as a major data processing center in the hemisphere, currently constrained only by physical space.

In summary, while the process of adjustment to globalization and liberalization has been long and difficult and the cost high, Jamaica has emerged as a country positioned to hold its own in Global Market competition.

4. Free Trade Arrangements and the emerging CARICOM Nations

Mr. Chairman, let me now shift to examine the issue of Free Trade Arrangements and their meaning to emerging economies. In an environment of increasingly intense global competition, market liberalization and rapid change, the emergence of various Free Trade Arrangements and economic trading blocs across the globe is not a mere coincidence, but a natural response of individual countries to strengthen their trading opportunities and to use their collectivity to face of the challenges of globalization.

As small open economies, the nations of the English speaking Caribbean or CARICOM Countries are highly dependent on trade as the primary driver of economic and social growth and by extension the stability and democracy of the region.

After years of painstaking effort CARICOM formally launched the Single Market just over a month and a half ago and hope to move towards the single Economy by 2008 as was originally envisaged in the Grand Anse Declaration of 1989 in Grenada.

The formation of the Single Market will serve to make it easier to do business across the countries of the region, reduce the bureaucratic burden associated with investing in multiple islands and make the region more attractive as a target for foreign direct investment.

Recognizing that smaller units operating on their own can no longer be viable counterweights in this rapidly changing world, the countries of the hemisphere, in 1994 launched the Summit of the Americas process, and Jamaica and the rest of CARICOM nations readily put our efforts and scarce human, financial and technical resources into ensuring that our collective vision of prosperity in the Americas would become a reality. Four years later, we formally launched the FTAA negotiations, fully cognizant of the contribution that economic integration and trade liberalization in the Americas could make to create jobs, fight poverty and strengthen democratic governance in our hemisphere.

When Heads of Government of the Hemisphere met during the 4th summit of the Americas in Mar del Plata, Argentina last November, they jointly committed to the task of creating jobs to fight poverty and strengthen Democratic Governance in the hemisphere. Critically, the declaration issued at the end of the meeting stressed the need to expand trade, as a means of boosting growth and our capacity to generate more, higher quality and better paying jobs.

CARICOM is fully committed to the goals and objectives of the Summit of the Americas generally. The Heads of the region have however signaled that if the FTAA has no future, then it is necessary that we be realistic and begin to explore new alternatives. Moreover, given the slow progress to date in the Doha Development Round of multilateral negotiations, there is a need to find a hemispheric impetus for advancing discussions on key issues in the WTO.

Within the last two months these issues have been the focus of intense discussions between CARICOM Foreign Ministers on one hand and the US Secretary of State and the United States Trade Representative on the other. Arising from these meetings, there has been an agreement to resuscitate and reconfigure the Trade and Investment Council to systematically examine and address these issues, charting a way forward. We remain steadfast in our view that the integration movement is our best response to the challenges we face and we are hopeful about what will emerge from the work of the Trade and Investment Council in the next several months.

Conclusions

I conclude Mr. Chairman, by underlining the importance of regional integration and the establishment of Free Trade Arrangements as mechanisms of response to the rapidly changing, globally competitive world in which we live. These responses are particularly important to smaller economies such as those of the Caribbean.

I wish to once again thank the City of Houston and the Members of the Board of the Houston Festival Foundation for inviting the island of Jamaica to be the featured nation this year's Festival. I hope that the images of the island nation which you will see on display in downtown Houston will entice you all to make Jamaica your next vacation spot.

Equally I hope that I have convinced you that Jamaica and by extension the CARICOM region are ideal locations for investment by the people of Houston.

Jamaica, Mr. Chairman, is a country with:

- well established legal and political systems rooted in a strong tradition of democracy
- political consensus on major economic policies
- an absolute commitment to honoring its debt obligations and debt service which is backed by law
- a sound financial system and a strong regulatory framework
- prudent fiscal management with consistently high primary surpluses
- solid and diverse sources of foreign currency inflows
- healthy external debt indicators and a strong Net International Reserves
- a recent rating upgrade by Standard and Poor

We are open for business.

To quote the current Jamaica tourist Board slogan "If you go, you know"!

So, Mr. Chairman, please go!

Houston is, Mr. Chairman, a city which is larger than life. There is a good match with Jamaica, which is a country that consistently “punches above its weight”. Mr. Chairman, among the reasons which led to Jamaica’s selection as the featured country this year is undoubtedly its impact on the field of the visual performing arts. For an island of only about 2.5 million residents, this impact belies our size. A Jamaican was named the artist of the last century and a Jamaican song was recognized as the song of the century. That tradition continues today. If we were to include sports as a form of performing arts, here again we have excelled. The current 100 meter record holder is a Jamaica and measured on a per capita basis, Jamaica typically ranks in the top two or three nations internationally at the conclusion of any major international track and field games. To use a sporting vernacular, we are an island that “punches above or weight”.

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- The Riu chain opened two new hotels with 1,300 total rooms in the past year and a half
- The Iberostar chain has commenced construction on 3 new hotels totaling about 1,000 rooms
- The Grupo Pinero chain has commenced construction of 3 hotels totaling 1,800 rooms
- The AM Resorts group has commenced construction of 4 hotels totaling 1,700 rooms,

The Fiesta Group has commenced construction on its first hotel of 1, 00 rooms

- an absolute commitment to honoring its debt obligations and debt service which is backed by law
- well established legal and political systems rooted in a strong tradition of democracy
- political consensus on major economic policies
- a sound financial system and a strong regulatory framework
- prudent fiscal management with consistently high primary surpluses
- solid and diverse sources of foreign currency inflows
- healthy external debt indicators and a strong Net International Reserves
- a recent rating upgrade by Standard and Poor and a favorable surveillance report from the IMF
- a reduction in poverty
- a declining unemployment rate
- Increased investor confidence as reflected in the highest ever flows of foreign direct investment.

.he lens from Jamaica to the CARICOM Region. Jamaica belongs to a grouping of thirteen countries, referred to as the Caribbean Community or CARICOM countries,

mostly small in land mass or having small populations (Guyana, Belize) and principally English speaking.

Among the group is one major energy producing country – Trinidad which is the largest exporter of liquefied natural gas to the USA. Given its energy resources, Trinidad has been able to attract major investments in its petroleum and natural gas industries as well as in down stream industries involved in the production of fertilizers and other chemicals. In addition, the country has been able to attract investments in steel production and plans are afoot for construction of an aluminum smelter which is expected to use alumina from Jamaica (and possibly Suriname) and to be globally competitive. Trinidad has also emerged as the major manufacturing center for the group by leveraging its low energy costs.

With an economy at close to full employment, Trinidad has demonstrated a high and sustained level of growth and with its demand for infrastructure and housing is likely to be able to absorb services and possibly labor from the other countries in the region.

Its immediate neighbor, Barbados, has been one of the most stable in the region, with a diversified economy boasting tourism, off-shore financial services and agriculture.

Another member, the Bahamas, has demonstrated steady growth over a prolonged period with a diversified economy based on tourism, financial services and shipping.