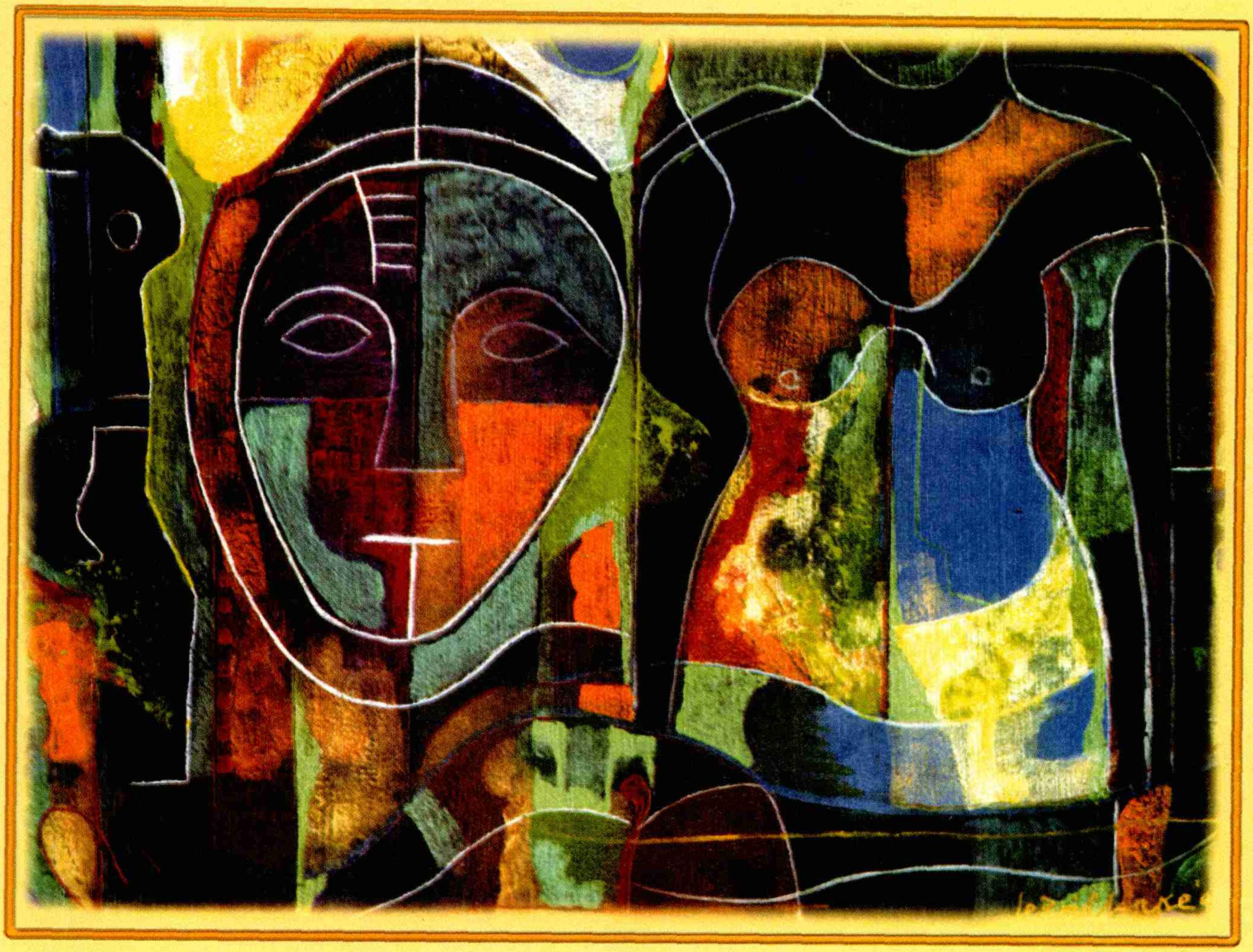
Caribbean Dialogue



Updates on the Economies of Jamaica, Trinidad & Tobago and The Bahamas

lo. 2

April - June 2004

CARIBBEAN DIALOGUE

UPDATES ON THE ECONOMIES OF JAMAICA, TRINIDAD AND TOBAGO AND THE BAHAMAS

CARIBBEAN DIALOGUE

A Journal of Contemporary Caribbean Policy Issues

April-June 2004 **Vol. 9 No. 2**

Caribbean Dialogue is devoted to commentary, analysis and information on contemporary Caribbean policy issues. It welcomes contributions on policy issues from scholars and the policy-making community in the Caribbean, the Caribbean Diaspora and Latin America.

EDITORIAL AND CIRCULATION OFFICES:

Sir Arthur Lewis Institute of Social and Economic Studies
The University of the West Indies
St. Augustine, Trinidad
Trinidad and Tobago, W.I.
Fax No: 1-868-645-6329
Email: isersta@trinidad.net

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Foreword

The articles in this publication were produced as background papers in the project, "An Empirical Examination of Competition Issues in Selected CARICOM Countries: Towards Policy Formulation." Six countries were studied: Belize, The Bahamas, Jamaica, St. Lucia, St.Vincent and the Grenadines, and Trinidad and Tobago. These economic profiles were produced by the country counterpart researchers in the project, and were intended to provide a basis upon which to determine how open and contestable the markets were, and to identify the non-tradable sector, and those industries that should be targeted for in-depth investigation. The full report of the project findings was published by SALISES in March 2004, "Competition Issues in Selected CARICOM Countries: An Empirical Examination."

The country profiles proved to be so rich in information, some of which is not readily available to the public, that it was decided to publish these as stand-alone updates on the economies. Since the papers were produced as background papers to a larger study, there was no attempt to provide analysis. The papers are being published in separate issues of the Caribbean Dialogue because of the size but they are intended to be a single publication. The first issue which appeared in January-April 2004 examined the economies of St. Lucia, St. Vincent and the Grenadines and Belize, while this second issue examines the economies of The Bahamas, Jamaica and Trinidad and Tobago.

Rosalea Hamilton is CEO of the Institute of Law and Economics, Jamaica; Ann-Marie Grant is an Economics Officer at the Jamaican Fair Trading Commission; Alisha Abraham is Senior Research Analyst, Divestment Secretariat, Trinidad and Tobago; Taimoon Stewart is Fellow at SALISES and Coordinator and Lead Researcher of the research project.

I wish to thank the Country Counterpart Researchers for the excellent work which they did in this project. I also wish to thank the Department for International Development (DFID) and the International Development and Research Centre (IDRC) for their financial support which made this project possible.

Taimoon Stewart
Project Coordinator and Lead Researcher
Fellow
SALISES

July 2004

UPDATE ON THE ECONOMY OF JAMAICA

Rosalea Hamilton
in collaboration with
Ann-Marie Grant

INTRODUCTION

The general objective of this study is to provide information and analysis that would allow policy makers and the broader audiences in CARICOM countries to make informed choices on national competition policy regimes suited to their conditions, and on competition policy aspects of international trade agreements currently being negotiated. This paper provides an overview for Jamaica and comprises three parts:

(1) an Overview of the Macroeconomy of Jamaica
(2) a Description of the Policy Environment and
(3) a Sectoral Outline of the Economy

1. MACROECONOMIC OVERVIEW

The following provides a summary of some key economic data on the Jamaican economy in the year 2000:[1]

Some Important Data on Local Economy

Item	Details
GDP	US$6.895 billion
Real Growth Rate	0.7%.
Per Capita GDP	US$2,926.00
Natural Resources	Bauxite, gypsum, and limestone.
Agriculture	Products - sugar, bananas, coffee, citrus fruits, allspice.
Key Industry	Tourism, bauxite and alumina, garment assembly, processed foods, sugar, rum, cement, metal, chemical products.
Key Exports	US$1.30 billion: alumina, bauxite, sugar, bananas, garments, citrus fruits and products, rum, coffee.
Key Imports	$3.191 billion: machinery, transportation and electrical equipment, food, fuels, fertilizer.
Major markets	US 39.1%, UK 11.2%, Canada 10.2%, Netherlands 22.0%, CARICOM 3.8%, Japan 2.3%.
Major suppliers	US 44%, Trinidad and Tobago 10.0%, Japan 6.0%, UK 3.1%, Mexico 4.8%, Venezuela 3.9%.

1 *Economic and Social Survey Jamaica 2001,* Planning Institute of Jamaica (PIOJ).

Real GDP Growth

Over the ten-year period 1992-2001, the Jamaican economy has grown at an average rate of 0.35%, moving from 1.7% in 1992 to a low of -0.3% in 1998 (Table 1). From 1992 to 1995, real GDP grew from J$19.4 million to J$20.0 million, then fell steady to J$19.5 million in 1999 (Table 2). There has been a corresponding decline of GDP per capita from PPP US$3,801 in 1995 to PPP US$3,561 in 1999. Since 2000, the economy has shown signs of growth: it grew by 0.7% in 2000 and by 1.7% in 2001. In 2001, real GDP grew from J$19.6 million in 2000 to J$19.94 million.

Leading Sectors

The leading sector of the economy is the services sector, contributing on average 64% to GDP over the decade 1992-2001. Table 3 shows the continuous growth of the services sector's contribution to GDP since 1992, growing from 59.6% to 68.1% in 2001. The main sub-sectors are distribution (16.3%) and transport, storage and communications (14%), the latter being one of the strongest growth areas in the economy. Growth in this area was largely due to the increased activity in the telecommunications industry: two companies entered the mobile services market in 2001. Although falling in significance, manufacturing represents the third largest contribution to GDP (12.5% in 2001). Financial institutions contributed 11.8% to GDP. Mining and Quarrying, comprising mainly bauxite production, contributed 7.4% to GDP in 2001. This sector showed some growth in 2001 due to the resumption of production at the Gramercy Refinery in Louisiana. Tourism (captured in the measure of hotels, restaurants & clubs) contributed 7.8% to GDP falling from 8.1% in 2000, largely due to the economic recession in the USA and the fall out from the terrorist attacks on September 11, 2001. After 10 consecutive years of growth, stop-over visitors from the USA fell by 3% in 2001.[2] Cruise passenger arrivals also fell by 7% and total visitor arrivals fell by 5% in 2001.[3]

The Bank of Jamaica, in its quarterly press briefing, indicated that for the quarter ending September 2002, growth was estimated in both the goods producing and the services sectors.[4] There was expansion in manufacturing and construction, while agriculture and mining declined. Continued expansion in basic services was mainly due to communications, electricity, water and transport.

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2 PIOJ (2001) *Economic and Social Survey Jamaica:* 15.1-2.

3 *Ibid.*

4 See *Bank of Jamaica Quarterly Press Briefing,* Remarks by Governor Derick Latibeaudiere, November 19, 2002, www.boj.org.jm.

Table 1. Growth of Real GDP by Sector (constant prices, Ja$million), 1992-2001

Sector	Year									
	1992	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Agriculture Forestry & Fishing	11.4	9.6	6.5	2.5	3.6	-13.7	-1.5	1.3	-10.9	5.2
Mining & Quarrying	-2.5	0.3	6.9	-6.8	7.5	3.3	3.3	-1.2	-1.7	3.7
Manufacture	1.2	-1	0	-0.9	-4	-2.5	-4.4	-0.7	0.9	0.6
Electricity and Water	3.8	3.3	-0.5	3.6	4.9	5.5	6.4	4.8	3.3	1.1
Construction & Installation	0.4	-0.5	-6.3	7.2	-5.4	-4	-5.8	-1.5	0.2	2
Distributive Trade	6	3	0.6	4.2	1.4	0.9	-1.6	-0.5	1.3	0.2
Transport, Storage & Communication	5.4	9.3	5	9.8	9.1	5.7	5.6	8.6	8	6.3
Financing & Insurance Services	7.9	-5.8	47.4	-1.5	-4.9	-18.7	-1.7	18.1	11	0.6
Real Estate & Business Services	6.1	4.1	6.4	4.5	1.8	-4.3	-1.2	-0.8	0.2	1.1
Producers of Government Services	-0.5	-0.3	-2	0.8	-0.2	1.1	0.5	0.2	-0.2	0.7
Miscellaneous Services	1.9	5.7	0	2.9	2.1	2.5	1.9	2.2	4.8	-1.8
Household & Private Non-Profit Institutions	-12.7	-9.7	9	5.2	-4.5	-10.3	-6.3	-2.1	-1.6	0.3
Total	**1.7**	**2**	**0.9**	**1**	**-1.1**	**-1.7**	**-0.3**	**-0.4**	**0.7**	**1.7**

Source: *National Income & Product, STATIN (various years).*

Table 2. Value of Real GDP by Sector (constant prices, Ja$million), 1992-2001

Sector	Year									
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Agriculture Forestry & Fishing	1,451.2	1,590.2	1,693.9	1,736.1	1,798.3	1,551.4	1,528.7	1,549.4	1,379.9	1,451.0
Mining & Quarrying	1,565.9	1,571.3	1,679.9	1,565.2	1,682.8	1,738.3	1,795.4	1,774.3	1,744.0	1,811.0
Manufacture	3,506.3	3,470.5	3,469.8	3,438.5	3,299.6	3,218.1	3,076.9	3,055.0	3,083.3	3,100.5
Electricity and Water	775.8	801.7	798.0	826.5	867.2	915.2	973.3	1,020.2	1,054.0	1,065.5
Construction & Installation	1,725.5	1,716.9	1,608.7	1,724.9	1,631.6	1,567.2	1,476.1	1,454.6	1,457.9	1,486.9
Distributive Trade	3,665.6	3,775.8	3,799.2	3,959.0	4,015.5	4,053.4	3,990.3	3,970.6	4,023.7	4,030.4
Transport, Storage & Communication	1,801.0	1,968.9	2,067.9	2,270.6	2,476.6	2,618.0	2,765.1	3,002.7	3,242.2	3,444.9
Financing & Insurance Services	2,121.6	1,998.5	2,945.4	2,901.1	2,759.9	2,243.8	2,206.7	2,605.7	2,891.5	2,910.1
Real Estate & Business Services	1,586.4	1,651.1	1,756.1	1,834.4	1,866.7	1,786.5	1,764.6	1,751.2	1,755.1	1,774.4
Producers of Government Services	1,231.2	1,227.5	1,202.7	1,212.5	1,209.5	1,223.2	1,228.8	1,231.0	1,228.5	1,237.4
Miscellaneous Services	1,843.1	1,947.5	1,947.6	2,004.4	2,047.2	2,097.5	2,137.8	2,184.2	2,288.5	2,246.9
Household & Private Non-Profit Institutions	108.3	97.7	106.6	112.1	107.0	96.1	90.0	88.1	86.7	86.9
Total	**19,416.7**	**19,798.7**	**19,975.3**	**20,180.9**	**19,967.6**	**19,624.4**	**19,558.5**	**19,471.8**	**19,599.6**	**19,940.2**

Source: *National Income and Product, STATIN (various years).*

Table 3. Percentage Contribution to GDP (Constant Prices), 1992-2001

Sector	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GOODS	*40.4*	*40.0*	*37.9*	*36.3*	*35.4*	*34.9*	*34.2*	*33.1*	*31.6*	*31.9*
Agriculture, Forestry & Fishing	6.2	6.7	6.7	7.4	7.6	6.7	6.6	6.6	5.7	5.9
Mining & Quarrying	7.9	7.8	7.8	6.7	7.1	7.6	7.8	7.5	7.2	7.4
Manufacturing	17.9	16.9	15.9	14.8	13.9	13.9	13.3	12.9	12.7	12.5
Construction and Installation	8.7	8.5	7.5	7.4	6.9	6.8	6.4	6.2	6.0	6.1
SERVICES	*59.6*	*60.0*	*62.1*	*63.7*	*64.6*	*65.1*	*65.8*	*66.9*	*68.4*	*68.1*
Transport, Storage & Communication	9.2	9.9	9.6	10.5	10.4	11.3	12.0	12.7	13.3	14.0
Distribution	18.5	18.9	17.9	18.3	16.9	17.6	17.3	16.8	16.6	16.3
Financial Institutions	10.5	9.7	13.3	12.5	11.6	9.7	9.6	11.0	12.0	11.8
Hotels, restaurants, clubs	1.9	2.0	1.8	6.5	7.1	7.6	7.8	7.8	8.1	7.8
TOTAL GDP	100	100	100	100	100	100	100	100	100	100

Note: Some industries are not shown in the table so the sum of the shares of the industries will not add up to 100.

Source: *ESSJ, 1997, 1999, 2001.*

Inflation and Consumption

In 1991, inflation peaked at 80.2% largely due to the foreign exchange liberalization in 1990 (Figure 1). Since then, inflation has stabilized from an average annual double-digit rate of 36.5% during the period 1991 to 1996 to an average annual single-digit rate of 7.7% during the period 1997 to 2001 (Table 4). The inflationary decline ended in 2000 when the point-to-point[5] inflation showed an increase from 6.1% to 8.7% in 2001. This increase was due to increases in the price of food & drinks, miscellaneous, and transportation expenses.

5 Point-to-point inflation refers to the change in the Consumer Price Index (CPI) between two periods, December 2000 and December 2001.

Figure 1: Inflation Rate, 1990 – 2001

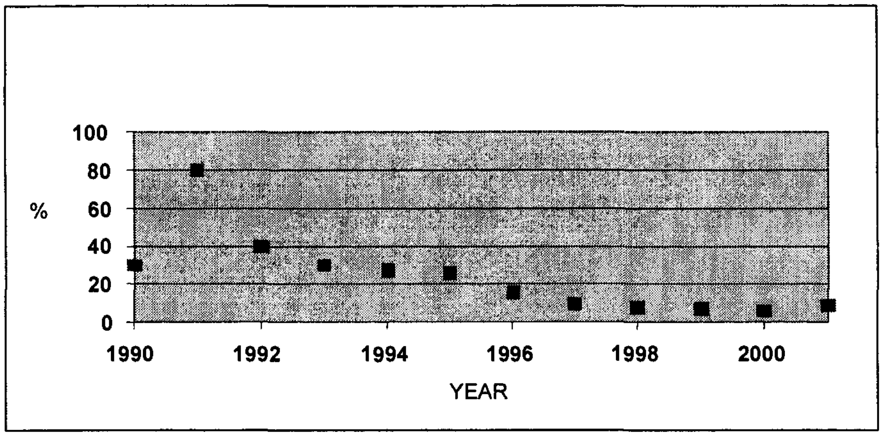


Table 4. Inflation Rate, Mean Per Capita Annual Consumption Expenditure, 1990-2001

Year	Inflation Rate (%)	Consumption (Current J$)	Consumption (Constant J$)
1990	29.8	7,616	7,616
1991	80.2	10,384	6,080
1992	40.2	16,998	6,586
1993	30.1	23,408	6,805
1994	26.8	32,712	7,652
1995	25.6	35,522	7,793
1996	15.8	43,050	7,230
1997	9.2	58,598	9,076
1998	7.9	66,930	9,440
1999	6.8	69,740	9,396
2000	6.1	71,225	8,797
2001	8.8	82,248	9,550

Source: *BOJ Statistical Digest, Jan. 2001; Survey of Living Conditions (various years).*

Over the past decade, real consumption has grown consistently since 1991, falling slightly since 1998 (Table 4). However, this consumption rate has been uneven across income groups. The wealthiest 10% of Jamaicans generally spent more than 12½ times as much as the poorest 10%.[6]

Employment and Unemployment

The data in Table 5 shows a fairly stable unemployment/employment rate since 1990 with a brief rise in unemployment in 1993 and again in 1995 to 1997.

Table 5. Employed and Unemployed Labour Force, 1990-2001

Year	Employed	Unemployed	Total
1990	84.4	15.6	100.0
1991	84.4	15.6	100.0
1992	84.3	15.7	100.0
1993	83.7	16.3	100.0
1994	84.6	15.4	100.0
1995	83.8	16.2	100.0
1996	84.0	16.0	100.0
1997	83.5	16.5	100.0
1998	84.5	15.5	100.0
1999	84.3	15.7	100.0
2000	84.5	15.5	100.0
2001	85.0	15.0	100.0

Source: *The Labour Force, STATIN.*

The agriculture, forestry and fishing, mining, manufacturing and electricity, gas and water sectors have all experienced sustained decline in employment since 1995 (Table 6). The largest rate of decline was in the manufacturing sector (36%), which experienced reduction in the number of employees from 104,650 in 1995 to 66,800 in 2001. While experiencing fluctuations during the period, the service sectors all experienced growth. The fastest growing service sector was transport, storage and communications, which grew from 44,525 in 1995 to 59,900 in 2001.

6 PIOJ (2001) *Economic and Social Survey Jamaica:* 25.5.

Table 6. Employed Labour Force by Industry Group, Jamaica, 1995-2001

Industry	1995	1996	1997	1998	1999	2000	2001
Agriculture, Forestry & Fishing	223,175	217,325	206,025	203,775	200,050	195,650	195,600
Mining	6,975	6,250	5,725	5,575	5,000	4,625	5,350
Manufacturing	104,650	100,400	88,900	84,100	79,025	69,600	66,800
Electricity, Gas and Water	6,775	6,925	6,325	6,575	6,475	6,275	6,550
Construction and Installation	76,025	81,225	79,550	79,700	77,900	81,450	80,150
Wholesale & Retail, Hotels & Restaurant Services	201,400	199,000	197,225	205,375	205,375	206,325	214,000
Transport, Storage and Communication	44,525	48,325	53,350	54,925	56,325	59,400	59,900
Financial Institutions, Real Estate & Business Services	51,575	54,500	59,600	56,750	52,475	53,125	47,300
Community, Social and Personal Services	247,075	245,025	249,225	255,525	259,650	254,800	261,800
Industry Not Specified	1,125	800	925	1,325	1,575	2,275	1,950
TOTAL	**963,300**	**959,775**	**946,850**	**953,625**	**943,850**	**933,525**	**939,400**

Source: *The Labour Force, STATIN.*

Informal Sector

A significant and growing component of the Jamaican economy that is not reflected in the official statistics is the so-called "informal sector."[7] Defined as "market based production of goods and services, whether legal or illegal, that escapes detection in the official estimates of GDP," a recent study has revealed that the ratio of informal sector activities to registered GDP fluctuated around 43% in 2001.[8] The study revealed that the share of informal sector to GDP has shown an upward and fluctuating trend since the 1960s. Since 1978, the relative importance of informal sector activities grew to its highest level in 1989, with a share of 51.6% of GDP, followed by a sharp decline to 14.9% in 1991 and then rising to 43% in 2001.

The study further revealed that the majority of these activities take place in micro enterprises in distributive trades, personal services and agricultural activities. An earlier 1996 study revealed that there were 93,110 non-agricultural micro enterprises employing

7 The Statistical Institute of Jamaica (STATIN) only collects data from enterprises employing more than 10 employees. In 2002 a *Survey of Small and Micro Enterprises* was developed.

8 See *Informal Sector Study for Jamaica*, prepared by Group of Analysis for Development (GRADE) for the Inter-American Development Bank, November 2002.

less that ten (10) paid employees in Jamaica.[9] This represented a growth of 153% over the 1983 figure of 36,780 businesses. However, there has been an atomization of these enterprises over the period as the number of enterprises employing between 5 and 9 employees have been significantly reduced. These enterprises, nonetheless, accounted for 97.3% of all businesses in the micro and small business (MSE) sector and employed 174,430 persons representing 18.1% of the labour force in Jamaica. Table 7 describes the structure of the micro enterprises in Jamaica in 1996.

Table 7. Structure of Micro Enterprises in Jamaica, 1996

	Percentage
Legal Structure	
Sole Proprietorship	88.5
Incorporated Companies	0.7
Primary Business Activity	
Wholesale/Retail	63
Personal Services	11
Restaurant/hotels	9.6
Location of MSEs	
KMA	22
Other Urban	35
Rural	43
Age Composition	
<30	17.4
30-49	60
Education	
Secondary	71

Source: MICT, 2000.

Fiscal Balance

Fiscal year 2001/02 (April 1, 2001 – March 31, 2002) saw a record fiscal deficit of $20.7 billion compared to a deficit of $4.4 billion for the previous fiscal year.[10] Expenditures grew by 81% to J$96.1 billion in 2001. This was largely due to the debt from the intervention

9 See *The 1996 Micro and Small Enterprise Survey of Jamaica*, by C. McFarlane, Government of Jamaica/ Government of Netherlands Micro Enterprise Project and USAID, 1997.

10 *Ibid.*

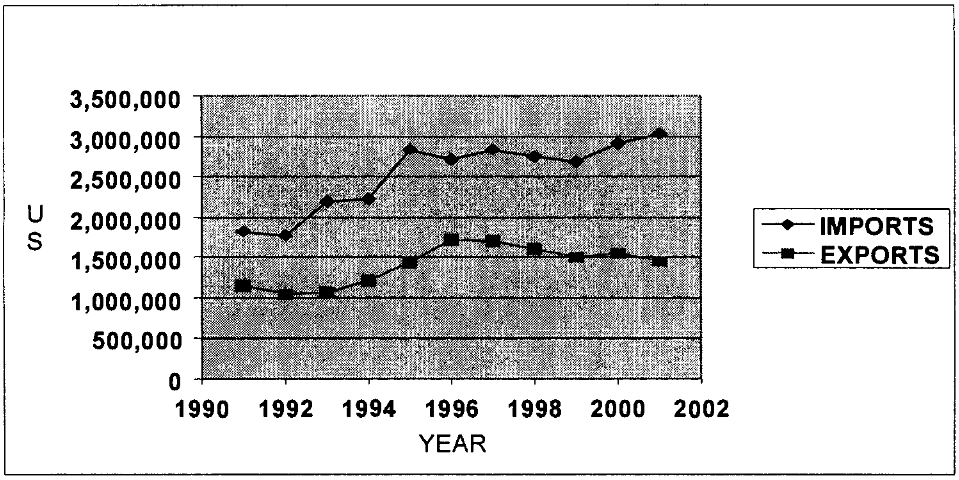
by the Financial Sector Adjustment Company (FINSAC)[11] into the financial sector which was brought into the books of the Central Government during this fiscal year. Revenues grew by J$1.9 billion to J$75.4 billion largely due to the tax and capital revenue from the sale of the light and power company.

External Performance

Balance of Payments

The current account of the Balance of Payments continues to show a deficit due to the trade in goods and income accounts (Table 8). The inability to expand exports relative to imports was worsened by the 4.2% rise in the value of imports in 2001. During the period 1991 to 2001, imports grew by 40%, rising from less than US$2 billion in 1991 to over US$3 billion in 2001 (Figure 2). During that same period exports grew by only 20% from US$1.2 billion in 1991 to US$1.5 billion in 2001, falling consistently (except in 2000) during the period from 1996 to 2001.

Figure 2. Imports and Exports, 1990 - 2001
(US$ million)



The worsening income account reflected the increased investment income outflows from FDI as well as higher foreign interest payments by Central Government.[12] Although services showed record surplus of US$655 million in 1999, it declined to US$546.4 million in 2001. On the other hand, Current Transfers Accounts continue to improve, showing a

11 FINSAC is a government agency that was established in January 1997 to provide funding and to reorganize illiquid financial institutions.

12 PIOJ (2001) *Economic and Social Survey Jamaica:* 4.3.

record surplus of US$809 million in 2001. The persistent growth in the Current Transfers transactions is due to the continued expansion of remittances, as well as fees associated with the sale of cellular licenses in 1999 and 2000.

Table 8. Balance of Payment – Current Accounts, 1996-2001
(US$ million)

	1996	1997	1998	1999	2000	2001
GOODS BALANCE	-994.0	-1,132.3	-1,130.5	-1,186.5	-1,353.5	-1,580.0
Exports (fob)	1,721.0	1,700.3	1,613.4	1,499.1	1,554.6	1,451.6
Imports (fob)	2,715.2	2,832.6	2,743.9	2,685.6	2,908.1	3,031.6
SERVICES BALANCE	326.0	467.2	476.9	655.4	594.0	546.4
Transportation	-270.3	-273.4	-278.3	-233.6	-247.1	-260.4
Travel	935.1	949.5	998.9	1,052.4	1,123.9	1,073.2
Other Services	-338.9	-208.9	-243.7	-163.4	-282.8	-266.4
Balance on Goods & Service	-668.0	-665.1	-653.6	-531.1	-759.5	-1033.6
INCOME	-177.0	-291.9	-308.1	-332.5	-349.9	-488.7
Compensation of Employees	47.3	57.7	66.1	70.3	67.4	78.8
Investment Income	-204.7	-349.6	-374.2	-402.8	-417.3	-567.5
CURRENT TRANSFERS	608.0	624.8	628.0	647.3	820.8	872.3
Official	33.9	39.8	43.2	45.8	147.9	62.9
Private	573.9	585.0	584.8	601.5	672.9	809.4
TOTAL CURRENT ACCOUNT	**-238.0**	**-332.2**	**-333.7**	**-216.3**	**-288.6**	**-650.0**

Source: *ESSJ, 2000.*

The continuous growth of remittances is a significant feature of the Balance of Payment. It is now more than 25% of all exports and is more than twice the net factor incomes going abroad from the country. It not only contributes to reducing the deficit on the Current Account, but it can be seen as an indicator of the growth of foreign capital assets of overseas Jamaicans and the associated expanding market possibilities for Jamaican goods and services.

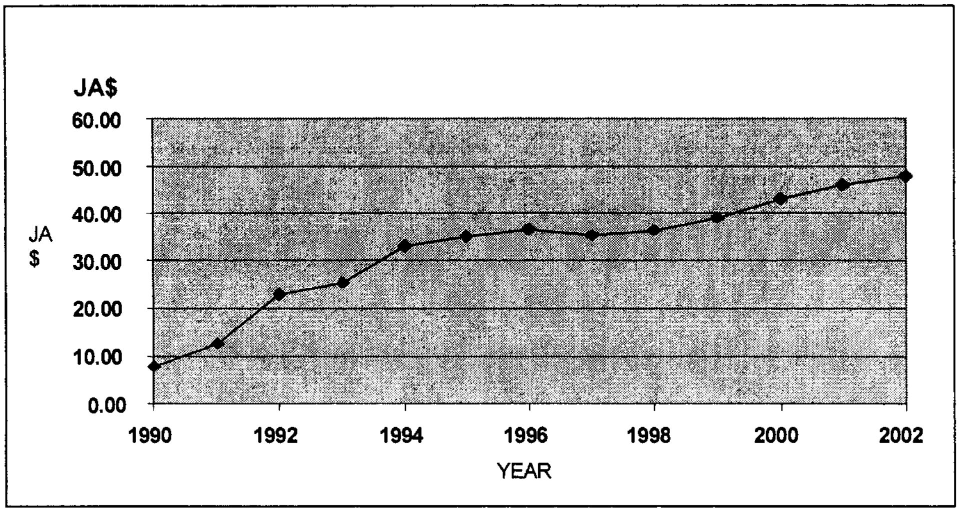
Net International Reserves and Foreign Exchange

The increasing inflow of foreign exchange has contributed to the continuous improvement of the Net International Reserves (NIR). After a 22.6% decline in 1999, the NIR recorded its highest value ever held by the Bank of Jamaica (BOJ) in 2001 at US$1,840.7 million (PIOJ 2001:4.3). This is the equivalent of about 33 weeks of imports.

The value of foreign exchange, however, continues to grow. Since the rapid devaluation of the Jamaican dollar in 1990, the foreign exchange rate has continued to increase at an average annual rate of 18% from J$7.95 to US$1 in 1990 to J$46.19 to US$1 in 2001 (Figure 3). During the period 1990 to 1994, there was a rapid decline in the value of the Jamaica dollar at an average annual rate of 45%. Since 1997, although continuously rising, the rate of devaluation declined at an average rate of 5% per annum.

One expected benefit from devaluation is an increase in international competitiveness relative to trading partners. However, using the real effective exchange rate and other variables as a proxy for competitiveness, the Bank of Jamaica found a general decline in external competitiveness between 1986 and 2000 despite the depreciation in the exchange rate.[13]

Figure 3. Annual Average Exchange Rate, 1990 - 2002
(US$)



Total Debt

The debt burden, however, persists. In 2001, Jamaica's public debt stock increased to J$491.7 billion, representing 147% of GDP.[14] This compares with the previous year which recorded total debt of 341.2 billion or 111% of GDP. This is a 44.3% increase in indebtedness and is due primarily to the absorption of Finsac liabilities by the Central Government, inflows from bond issues in the international capital markets and loans from the multilateral institutions. Domestic debt accounted for 60% of the total debt, representing 82.4% of the GDP, while external debt represents 54.9% of GDP (Table 9).

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13 See C. Henry, "Measuring Competitiveness in the Jamaican Economy," Working Paper, Bank of Jamaica, October 2001.

14 See PIOJ (2001) *Economic and Social Survey Jamaica*: 6.6.

Table 9. Ratio of External Debt and Internal Debt to GDP, 1993-2001

Year	External Debt/GDP	Internal Debt/GDP
1998	44.9	43.9
1999	42.6	59.8
2000	46.7	57
2001	54.9	82.4
2002	57.0	90.3

Source: *ESSJ, 2001.*

Total debt servicing cost incurred for the FY 2002/03 was J$152.0 billion and represents 63.6% of total expenditure for that financial year. Of the total debt servicing cost amortization amounted to J$89.9 billion with domestic amortization accounting for $53.9 billion of the total. Interest payments amounted to $62.1 billion due mainly to domestic interest payments of $46.9 billion.

CARICOM Trade

CARICOM trade with Jamaica include manufactured goods, food, beverages, tobacco, crude materials and mineral fuels. From 1998-2001, imports from CARICOM have steadily increased while exports from Jamaica have fluctuated (Table 10). The largest category of imports is mineral fuels which contributed on average, over the period 1998-2001, approximately 50% of all imports from the CARICOM region.

Table 10. CARICOM Trade, 1998-2001
(US$ million)

Year	Imports	Exports
1998	310.3	43.6
1999	366.4	42
2000	401.5	48.7
2001	429.3	50.6

Source: *ESSJ, PIOJ* (various years).

Investment

Table 11 shows the gross investment for the period 1993-2001. This is aggregated nominal investment for the private and public sectors, local and foreign. It should be noted that during the period 1993-1996 where the percentage change in gross investment averaged over 20%, the inflation rate averaged 24.6%. For the period 1997-2001 changes in investment averaged 9.5% with the period 1997-1998 experiencing a reduction in investment. For this period inflation averaged 7.7%.

During the 1990s foreign investment increased substantially at an average rate of 7% of GDP when compared to the 1970s (averaging 1.7% of GDP), when FDI was seen as having a negative impact on the economy due to the large outflows of capital.[15] In 1999, US$520 million of FDI flowed into Jamaica. During the 1960s and 1970s, FDI flowed mostly towards the bauxite and tourism industries. Over the past decade, FDI flows have been significant in the apparel industry, the IT sector, and other "new exports" such as refined agricultural products.

Table 11. Gross Investment, 1993-2001
(J$ Million)

Year	Gross Investment	Percentage change in Gross Investment
1993	34,555.2	-
1994	43,825.4	26.8
1995	58,575.9	33.6
1996	70,418.2	20.2
1997	77,004.6	9.3
1998	73,005.1	-5.2
1999	73,768.3	1.0
2000	90,913.1	23.2
2001	107,679.8	19.4

15 See *Jamaica: Globalisation, Liberalization and Sustainable Human Development*, by David E. Bloom, Ajay S. Mahal, Damien King, Fiorina Mugione, Aldrie Henry-Lee, Dillon Alleyne, Philip Castillo and River Path Associates. Jamaica Country Assessment Study, UNCTAD/UNDP, 2001.

The Social Sector

Over the past decade, the main emphasis of the government has been on improving the quality of education, reducing crime, improving health care and alleviation of poverty. In 2001, 59.5% of the non-debt expenditure of the government was allocated to social services in an effort to raise the standard of living of Jamaicans.[16] In 1992, the United Nation Development Programme (UNDP) reports that Jamaica's human development index (HDI) was 0.749, ranking 65th in the world.[17] This ranking has deteriorated to 83rd in 1998 with an HDI of 0.735. The HDI however increased in 1999 to 0.738, improving Jamaica's ranking to 78th in the world.

Poverty and Inequality

About 440, 300 people live below the poverty line, i.e. approximately 16.9% of the population.[18] This means that these persons were unable to meet basic needs estimated at J$167,083 annually for a family of five. Since 1991, the poverty rate in Jamaica has been declining steadily from a high of 44.6% in 1991 to 16.9% in 2001[19] (Figure 4). This may be due to the low rate of inflation, the poverty eradication programme which started in 1995, as well as the activities of the Jamaica Social Investment Fund (JSIF) and the Social Development Commission (SDC).[20] It has also been suggested that the decline may be associated with the 15% increase in agricultural production in 1993.[21] Recognizing that a growing informal sector may have played a role, it has been suggested that the most powerful explanation of the decline is the recovery of real wages since 1993.[22]

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16 See PIOJ (2001) *Economic and Social Survey Jamaica*, Overview: 4.

17 See UNDP (2001) *Human Development Report*, N.Y.: Oxford University Press.

18 PIOJ (2001), *Economic and Social Survey, Jamaica:* 25.5.

19 See *Jamaica Survey of Living Conditions*, PIOJ.

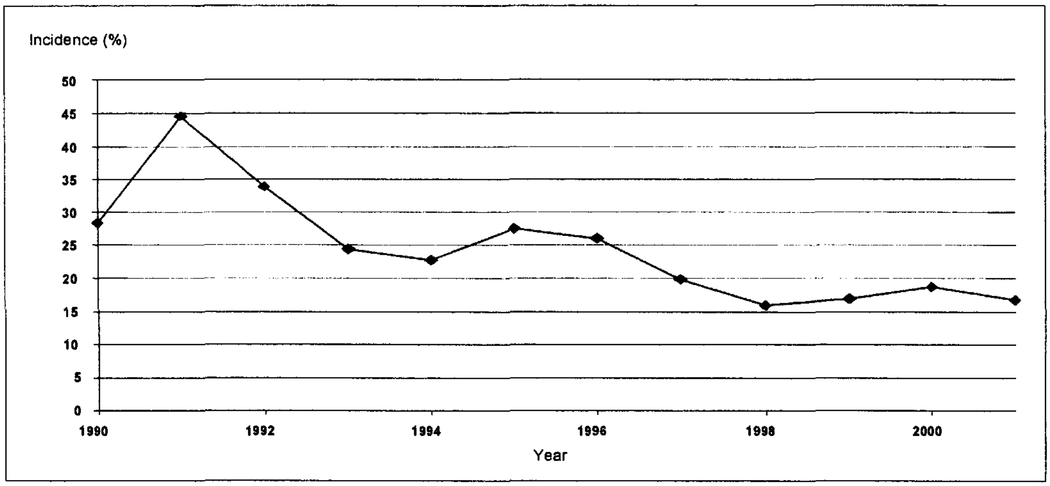
20 *Ibid.*

21 See A. Henry-Lee (2001). "The Dynamics of Poverty in Jamaica, 1989-1999." *Social and Economic Studies*, 50(1):199-228.

22 See *Informal Sector Study for Jamaica*, prepared by Group of Analysis for Development (GRADE) for the Inter-American Development Bank, November 2002.

It should be noted however, that while poverty declined income inequality has persisted and has been growing since the mid-1990s. Although the Gini coefficient, which measures income inequality, has been declining since the 1970s (from 0.4452 in 1975 to 0.3604 in 1996), income inequality has increased since 1996 to 0.3843 in 2001.[23]

Figure 4. Incidence of Poverty, 1990 - 2001



The Labour Market

Approximately 30% of the employed labour force is unionised.[24] Industrial relations show signs of improvement. The Planning Institute of Jamaica (PIOJ) reports that "the industrial relations climate for 2001 has been the best in the past 10 years."[25] Industrial disputes have been the lowest over the past decade, declining from 155 in 2000 to 120 in 2001. This has been attributed to the reforms in the labour market together with a decline in trade union activity.[26]

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23 See *Jamaica Survey of Living Conditions*, PIOJ.

24 Eleven of the active labour unions in Jamaica have formed the *Joint Confederation of Trade Unions* (JCTU).

25 PIOJ (2001), *Economic and Social Survey, Jamaica,* Overview: 5.

26 *Ibid.:* 21.11.

In January 2002, new minimum wages came into effect. The minimum wage was increased by 50% to J$1,800 per week from J$1,200 per week. Among the reforms in the labour market, legislative changes have been made which recognises "contract workers" as "workers" and proposals are being made to implement flexible work arrangements.

Education

Increasingly more people are gaining access to education. In 2001, enrolment in the public education system, post-secondary programmes and at the tertiary level all recorded increases.[27] Training for skilled and unskilled workers, as well as for professionals, senior officials and technicians also recorded increases in 2001.

Health

The health sector continues to show improvement in the quality and level of health care. In 2001, there was a decline in vaccine preventable diseases, due in part to the expanded programme on immunization.[28] Health Service Delivery is currently being decentralized.

The Political System of Jamaica

Jamaica has a parliamentary democratic system of government based on an independence constitution modeled from, but not the same as, the British Westminster system. Elections are constitutionally due every five (5) years. On average, about 60% of eligible voters participate in general elections. The politics of Jamaica is dominated by two political parties: the *Jamaica Labour Party* (JLP) and the ruling *People's National Party* (PNP) that has been in power since 1989. Both political parties advocate policy prescriptions consistent with a free market economic system. Over the past decade, several other political parties have emerged. In the last general elections in October 2002, in addition to the two main parties, four other political parties contested the elections: the *National Democratic Movement* (NDM), the *United Progressive Party* (UPP), the *Imperial Ethiopian World Federation Party*, and the *Republican Party*. Since the first parliamentary elections after Adult Suffrage in 1944, Jamaica's political history has yielded twenty four (24) political parties[29] most of which are inactive today.

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27 *Ibid.*

28 See PIOJ (2001), *Economic and Social Survey, Jamaica.*

29 See **www.eoj.gov.jm.**

The dominance of the two main political parties has yielded what is commonly known today as a "tribal politics" of "scarce benefits and spoils." Political patronage has characterized the relationship with party supporters and has led to growing dissatisfaction among the larger electorate. This has contributed to a decline in voter turn out from an average of 83% in the 1980s to an average of 66% in the 1990s.[30]

Increasingly, there are calls for "detribalizing politics" and improving governance. The World Bank's *Governance Research Indicator Country Snapshot* (GRICS) ranks Jamaica's performance on six governance indicators relative to over 160 countries.[31] The indicators are: voice and accountability; political stability/lack of violence; government effectiveness; regulatory framework; rule of law and corruption control. Jamaica performs best on regulatory framework, where it outranks over 75% of the other countries and performs similarly on voice and accountability. On other indicators measuring political stability/lack of violence, rule of law and government effectiveness the performance was less favourable. Jamaica performed better than only about 30% of the countries studied.[32]

While there are significant changes being made at the local government level, there is still dissatisfaction about the structure of government and its ability to meet the needs of the average Jamaican. This dissatisfaction was recently manifested in the local government elections in June 2003 which saw a landslide defeat for the ruling party that spearheaded and led the local government reforms over the past decade.

2. POLICY ENVIRONMENT

Industrial Policy

The long term plans (15 years) for Jamaica have been set out in the 1996 *National Industrial Policy* (NIP).[33] As a policy guideline to the economic development strategy of the government, the NIP outlines the strategic focus of the industrial policy:

(a) export push by targeting areas of competitive advantage and
(b) efficient import substitution, focusing on international competitiveness

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30 See Trevor Munroe (2000), *Voice, Participation and Governance in a Changing Environment: The Case of Jamaica.* UWI, Caribbean Group for Cooperation in Economic Development: 12.

31 See http://www.worldbank.org/wbi/governance/bycountry.htm

32 The indicators reflect the statistical compilation of perceptions of the quality of governance of a large number of survey respondents. They do not reflect the official position of the World Bank. It should be noted that the countries' relative positions on these indicators are subject to large margins of error.

33 Government of Jamaica (1996), *The National Industrial Policy,* Kingston, Jamaica.

Here, the focus is on "exploiting the specific advantages that give the country an edge in the international market-place (natural resources, human-resource specialties and talents, cultural products, geographical location) and on creating niches by a strategy of product differentiation (in terms of product quality, name recognition, and other distinctive characteristics)."[34]

Sector-groups or clusters were identified and *Industry Advisory Committees* (IACs) were established in the following areas: Manufacturing, Agriculture, Tourism, Mining/ Chemical, Information Technology, and Entertainment. The rationale for these sector groupings was "the existence or potential of strong linkages and spillovers among industries/ sectors within each cluster" and the "opportunity for establishing a dynamic synergy that can serve to reinforce growth within the cluster and throughout the economy as a whole."[35] Incentives were provided to stimulate productivity and growth in these industries/sectors, as well as appropriate regulatory regimes [see sections *Regulated Sectors* and *State Aid* below].

The NIP identified key performance measures and indicative targets to be used in evaluation as well as a time-frame for meeting them. In 2000, these plans and associated targets were modified to take into account the failures and successes of the long-term initiatives of the NIP. These are set out in the *Medium Term Economic and Social Policy Framework and Public Sector Investment Programme*.[36] With a focus on redeploying public resources in a strong Public Sector Investment Program, the medium term macroeconomic program features four key elements:

1. Rehabilitation of the financial sector, consolidation of fiscal policy and strengthening of the framework for private investment;

2. Improvement of the efficiency of government, partly through upgrading of its management information system, reforming of the system of incentives, and divestment of commercial enterprises;

3. Improving the sustainability of development mainly by linking economic initiatives with environmental protection/preservation especially through activities such as sustainable agriculture and tourism and

34 *Ibid.*: 4.

35 *Ibid.*: 7.

36 Government of Jamaica (2000), *Medium Term Social and Economic Framework* and *Public Sector Investment Programme*, 2000/2001 – 2003/2004: Consolidation for Sustainable Growth, Kingston, October.

4. Increasing inclusiveness by enhancing the efficiency of the social safety net, the accessibility and quality of education, and the availability and quality of the health services.

Trade Policy

Since independence, Jamaica's trade policy has relied on the use of border measures, such as tariffs, quotas, licenses and voluntary export restraints, to protect "infant industries." Over time, these measures have been used to protect "mature industries" that have relied on preferential arrangements. The dismantling of protectionist policies started under the structural adjustment programme (SAP) of the World Bank and the IMF in the mid-1980s. These strategies have been backed by onerous conditional finance and balance of payments supports, with conditions emphasizing money management and related demand controls to stabilize domestic prices and restrict wage increases.[37]

In the context of the unprecedented changes taking place in the world economy due to globalization, the NIP recognized "the need to review the mechanism for trade policy formulation so as to define Jamaica's strategic interests and to strengthen the process of strategic bargaining to defend those interests."[38] In 1998, the *WTO Trade Policy Review* provided an evaluation of Jamaica's trade policies and practices in light of WTO Agreements and obligations. The Review recognized the relative openness of the Jamaican economy and the many steps taken towards WTO compliance and integration into the multilateral trading system.

In 2001, the GOJ embarked on a more extensive review considering the adequacy of Jamaica's traditional approach to trade policy in facilitating the transition to full integration in the modern liberalized global economy. This review was triggered by the unprecedented changes taking place in the global environment of trade, particularly the emergence of "new trade areas" and "non-trade" concerns in the WTO arena, the far-reaching implications of the *Cotonou Agreement* and the EBA initiative to assist LDCs, the prospects of reciprocal trading arrangements in the FTAA and the deepening integration process in the CSME. In an effort to confront the challenges of this multilateral trading environment a new trade policy was adopted on October 29, 2001.[39] The new trade policy has three key objectives:

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37 Note that macro-economic policies to ensure stability are an integral part of the policy mix to ensure that inappropriate fiscal, monetary and exchange rate policies would not constrain the ability of firms to compete internationally. Liberal trade policy, in turn, seeks to ensure that barriers to trade do not negatively affect macroeconomic performance through its impact on fiscal balances, balance of payments and the exchange rate.

38 Government of Jamaica (1996), *The National Industrial Policy,* Kingston, Jamaica: 92.

39 See Ministry Paper #69, *Jamaica's New Trade Policy*, Ministry of Foreign Affairs and Foreign Trade, October 29, 2001.

- To create new, diversified exports by facilitating the growth of domestic capital as the basis for diversifying exports and facilitating market penetration;

- To displace imports, i.e., steadily reduce the share of imports relative to outputs and

- To increase the flow of net positive returns from overseas assets that have been generating significant remittances and other capital flows for Jamaica.

A major feature of the new trade policy is the need to facilitate the development of Jamaica's domestic capacity to produce goods and services by increasing domestic capital formation.[40] Significantly, the policy seeks to enhance the capacity to export by going beyond the narrow focus on *market access* issues, to promoting measures for facilitating *market penetration.*

Regionalism/Multilateralism

Recognizing the importance of deepening regional integration and promoting regional trade the new trade policy guideline provides for: speeding up the implementation of the CARICOM Single Market and Economy (CSME); expanding and strengthening regional trade relations; and increasing collaboration with the private sector in regional policy formation and negotiations. It also recognizes the need for active participation in the Free Trade Area of the Americas (FTAA) process to ensure that special considerations for vulnerabilities associated with "small economies" are addressed by focusing on the need to develop a strong domestic capital base as a basis for overcoming some of the vulnerabilities. The new trade policy further recognizes the need to prepare for the ending of preferential arrangements and to preserve preferences only as long as is necessary for adjustment to take place while preparing for reciprocal trade by 2005 in the FTAA and the ending of EU preferences by 2008.

Recognizing the need to fulfill Jamaica's obligations under the WTO Agreements, monitor developments and respond to issues arising in WTO negotiations, the new trade policy also advocates a proactive approach in WTO negotiations to facilitate domestic capital formation. In so doing it recognizes the need for proactive strategies to alleviate supply-side constraints as well as institutional and legislative changes as integral to the adjustment process and therefore must be central considerations in the WTO negotiations.

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40 "Domestic capital" refers to not only machinery and equipment, but also intellectual capital, local creativity, skills, infrastructure and relevant institutional supports produced within the domestic sociology.

Trade Policy Formulation and Implementation

Perhaps the most significant aspect of the new trade policy is its approach to deepening and widening the consultative process through the *Jamaica Trade and Adjustment Team (JTAT)*.[41] The policy recognizes the central role of non-state actors in the formulation and implementation of trade policy as provided under the *Cotonou Agreement*.

Jamaica has been receiving assistance in implementing its trade and development policy from the resources made available by the EU under the *Country Support Strategy* (CSS) for the period 2001-2006.[42] Under the provisions of the *Cotonou Agreement*, these resources are intended to facilitate the transformation required for WTO-compatible trading without reliance on preferential access to EU markets by the end of the period of adjustment (2008).

FDI Policy

In the 1970s, the climate for foreign investment was very restrictive due to concerns about the significant flows of factor incomes going abroad. Since the 1980s and 1990s, however, a more liberal foreign investment regime has emerged in Jamaica. The World Bank/IMF SAP was accompanied by a cocktail of policy measures referred to as the *Washington Consensus*. The policy measures included, *inter alia*, encouragement of FDIs, privatisation, deregulation and protection of property rights. Thus, laws that inhibited foreign investment, such as the *Foreign Exchange Control Act*, and other prohibited arrangements were eliminated. Privatisation has been a key factor in the growth of FDI, accounting for nearly one-third of all FDI inflows in 1999.[43] There have been significant privatisations in telecommunications, tourism, insurance, banking, manufacturing and minerals.

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41 See Footnote 39.

42 See Government of Jamaica and Delegation of the European Commission in Jamaica (2001), *Country Support Strategy*, Kingston, May. The sum allocated to Jamaica is Euro 100 million.

43 See *Jamaica: Globalisation, Liberalization and Sustainable Human Development*, by David E. Bloom, Ajay S. Mahal, Damien King, Fiorina Mugione, Aldrie Henry-Lee, Dillon Alleyne, Philip Castillo and River Path Associates. Jamaica Country Assessment Study, UNCTAD/UNDP, 2001.

The Jamaica Promotions Corporation (JAMPRO), Jamaica's investment/export promotions and facilitation agency provides information on investing and working in Jamaica. Currently, there are no restrictions as to sectors which are reserved for Jamaicans. Foreign investments are generally encouraged in Jamaica. Work permits can be obtained for a period of 6 months to 3 years.

Today, Jamaica has no legal impediment to direct foreign investment and applies the principle of national treatment to foreign investors.[44] There are standard and non-discriminatory mechanisms for screening investors, although the local private sector believes that the system favours foreign investors.[45] The main criteria are the creditworthiness of the company and environmental impact.[46] Although investment proposals are assessed on their merits, investments are preferred in areas, which may increase productive output, use domestic raw materials, earn or save foreign exchange, generate employment, or introduce new technology.[47] The government agency that regulates the Environmental Impact Assessment is the National Resources Conservation Authority (NRCA) which ensures that all investments comply with established environmental regulations, which may vary by industry. JAMPRO facilitates dealing with all authorities involved in the investment establishment process. The process is described in Table 12.

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44 There are restrictions in the area of public procurement. See *the Handbook of Public Sector Procurement Procedures* which prescribes the procedural framework for government procurement (www.mof.gov.jm). Other restrictions include investment projects that affect national security, those that include the use of banned imports, and projects harmful to the environment.

45 See Holmes, Henderson (2002) *Investment Frameworks in the Caribbean Community: Towards a Regionally Harmonized Best Practice Regime*, Report on the Jamaica Diagnostic Study: 11.

46 See Lincoln Price (2002) *Economic Profile and Investment Framework (Draft)*, JAMPRO.

47 See Holmes, Henderson (2002) *Investment Frameworks in the Caribbean Community: Towards a Regionally Harmonized Best Practice Regime*, Report on the Jamaica Diagnostic Study: 10-11.

Table 12. The Investment Establishment Process in Jamaica

- Submit project's feasibility proposal to JAMPRO for assessment and guidance
- Obtain business visa and work permit for non-Commonwealth national
- Secure land or property
- Submit application for utilities
- Obtain taxpayer registration number
- Obtain national insurance number
- Obtain national housing trust registration
- Obtain general consumption tax registration
- Register with JAMPRO for export projects
- Obtain import licences from the trade board
- Obtain tax compliance certificate
- Submit, when necessary, environmental impact assessment
- Incorporate local company or register business name at the Office of the Registrar of Companies. The following documents must be submitted:

    - Memorandum of Association
    - Articles of Association
    - Declaration of Compliance

The fees for registration are based on the nominal share capital

In addition to the same documents to be provided by private companies, the following documents must also be submitted in the case of public companies:

- Prospectus, or Statement in Lieu of Prospectus
- List of persons who have consented to be directors of the company
- Consent in writing to act as a director, if appointed director by the Articles or if named as director or proposed director in a Prospectus or Statement in Lieu of Prospectus
- An undertaking by the directors to take and pay for qualifying shares unless they have signed the Memorandum for a number of shares not less than the minimum stated in the Articles of Association. (*Office of the Registrar of Companies 1999*).

Source: JAMPRO.

Since 1982, under the *Jamaican Free Zones Act*, FDI is encouraged by incentives, including a 100% tax holiday in perpetuity. In these Zones foreign investors are allowed to operate in foreign exchange across a range of activities including warehousing and storing, manufacturing, redistribution, processing, refining, assembling, packaging and service operations like insurance, banking, and professional services. Since 1996, firms outside the free zone that export at least 85% of their production can also benefit from free zone status.

There are no specific regulations regarding foreign exchange, or the importation of capital goods and technology. There are no restrictions for obtaining loans in the domestic financial system, in local or foreign currency, by foreign investors. Foreign investment profits and dividends, however, are subject to taxes (except in the free zones). Jamaica has signed and ratified double taxation agreements with Canada, CARICOM, China, Denmark, Germany, Israel, Norway, Sweden, Switzerland, the United Kingdom and the United States. These treaties provide for income tax rates for non-residents lower than 25 per cent on certain types of income.[48]

Property rights are protected under Section 18 of the *Jamaican Constitution,* which allows no expropriation except for public purpose. Although there is no specific investment legislation, bilateral investment treaties[49] and regional agreements offer important guarantees to foreign investors. Jamaica has signed and ratified nine bilateral investment treaties (mainly with developed countries).

The intellectual property of investors is protected by the Jamaica Intellectual Property Office (JIPO) that has been established to implement and monitor the existing legislation concerning intellectual property rights protection. The legal framework includes: *The Copyright Act, The Trade Marks Act, The Patents Act, The Merchandise Marks Act and The Design Act.*

The *Fair Competition Act* (FCA), which established the Fair Trading Commission (FTC) provides investors further legal protection to ensure that competition and fair business practices are observed. The FCA was passed into law in March 1993 and took effect on September 9, 1993. The FCA covers both competition issues and consumer protection matters. The main consumer related prohibitions are misleading advertising, sale above advertised price and the unavailability of goods advertised at a bargain price. The competition matters are abuse of dominance, bid rigging, price fixing, market restriction, exclusive dealing and tied selling. The FCA does not cover merger regulation; it however prohibits agreements

48 The non-resident tax-payer must obtain a certificate from the Commissioner of Income Tax. Some of the treaties allow for reduced withholding tax rates.

49 Most investment treaties include the following standards: fair and equitable treatment; some form of protection; non-discrimination; national treatment and most-favoured-nation treatment.

which have as their object or effect the substantial lessening of competition in a market. Mergers in the financial sector are subject to approval by the central bank and the finance ministry.

The FCA applies to all business activities in Jamaica and to all enterprises carrying on business in Jamaica, with the exception of the following, which is set out in Section 3 of the Act:

(a) combinations or activities of employees for their own reasonable protection as employees

(b) arrangements for collective bargaining on behalf of employees for the purpose of fixing terms and conditions of employment

(c) the entering into of an agreement in so far as it contains a provision relating to the use, licence or assignment of rights under or existing by virtue of any copyright, patent or trade mark

(d) the entering into or carrying out of such an agreement or the engagement in such business practice, as is authorized by the Commissioners under Part V

(e) any act done to give effect to a provision of an arrangement referred to in paragraph (c)

(f) activities expressly approved or required under any treaty or agreement to which Jamaica is a party

(g) activities of professional associations designed to develop or enforce professional standards of competence reasonably necessary for the protection of the public

(h) such other business or activity declared by the Minister by order subject to affirmative resolution.

Under Section 3(h) the Minister has, to date, exempted the activities of the following institutions from the jurisdiction of the FCA:

- Coffee Industry Board
- Jamaica Public Services Company Limited, which is 80% owned by Mirant Corporation, an American company
- Citrus Board

The *Office of Utilities Regulation* (OUR) was established by the *Office of Utilities Regulation Act* in 1995. The OUR is charged with the responsibility of regulating the provision of utility services in the electricity, telecommunications, water supply and sewerage services. It also regulates public passenger transport by road, rail and ferry. The combined mandate of the FTC and OUR covers several aspects of the regulatory framework regarding FDI in Jamaica.

State Enterprises and Privatization

Since the 1970s, when state enterprises "controlled the commanding heights of the economy," Jamaica has embarked on a policy of privatization and divestment. During the 1980s and 1990s, divestment took place mainly in the insurance, banking, manufacturing, minerals and tourism sectors. Between 1981 and July 2001 some seventy-six (76) enterprises were privatized either by lease, sale of assets, or sale of shares.[50] The last major divestment took place in 2001, when the GOJ privatized the Jamaica Public Service Company (JPSCo)[51] and the use of the sale proceeds to reduce domestic debt. Currently, the GOJ is seeking to privatize some existing state enterprises, such as the motor vehicle inspection unit and the railroad services.

Air Jamaica, the national airline, was partially privatized in 1994 and is currently 55% privately owned by local investors with the government retaining a 45% shareholding. The two airports in Jamaica, the Norman Manley International Airport in Kingston and the Sangster International Airport in Montego Bay, however, are still government owned. They are operated by the Airports Authority of Jamaica, a public sector body established by the *Airports Authority Act*. The management of the Sangster International was privatized to a foreigner investor in January 2003.

The government currently owns the following enterprises with no immediate plans for privatization:

- The **National Water Commission**, established pursuant to the *National Water Commission Act* is responsible for the island's water supply system.

- The **Petroleum Corporation of Jamaica (PCJ)** was established pursuant to the *Petroleum Act* (1979) as a statutory corporation with the mandate to explore for oil, to develop Jamaica's petroleum resources and to enter all

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50 See Holmes, Henderson (2002) *Investment Frameworks in the Caribbean Community: Towards a Regionally Harmonized Best Practice Regime*, Report on the Jamaica Diagnostic Study: 13.

51 The GOJ sold 80% of its shares to an American firm Mirant Corporation.

stages of the petroleum industry. This includes the right to negotiate import contracts (e.g. The San Josè Accord), operation of the refinery, transportation and sale of petroleum and petroleum products. The PCJ Group includes subsidiaries Petrojam Limited (1982), which operates the oil refinery and Petcom Limited (1985), the marketing and retailing company. The PCJ operates the only oil refinery in Jamaica. Note that the distribution and marketing of petroleum is liberalized and includes local and foreign interests. Three are three major foreign marketing companies, Shell, Texaco and Esso, operating in Jamaica.

- The **Port Authority of Jamaica** is a statutory corporation established by the *Port Authority Act* (1972). It is the Government's principal maritime agency responsible for regulating and fostering development of Jamaica's ports and shipping industry. Its regulatory functions include the development and maintenance of navigational aids. The Authority owns the Kingston Transshipment Port, the Kingston and Montego Bay Free Zones, the Port of Montego Bay, which includes Commercial Terminal and Cruise Shipping Terminals, the cruise ship terminal in Ocho Rios, the Boundbrook Port in Port Antonio (comprising a Commercial and a Cruise Shipping Terminal).

The privatization trend since the 1980s has been reversed in at least two industries: sugar and urban transport. In 1998, the government took control over the island's failing sugar industry. Three estates/factories (Frome, Monymusk and Bernard Lodge), comprising the *Sugar Company of Jamaica* (SCJ) which was controlled by 51% local and foreign private sector interests since 1994, were sold to the government along with debts totaling J$2.9 billion. The government also owns/controls three other estates/factories, *Long Pond, Hampden* and the *St. Thomas Sugar Company Ltd.*

Prior to the early 1980s the government owned two urban transport systems which operated in the major urban centres in Jamaica: the Jamaica Omnibus Service (JOS) which operated in Kingston and the Montego Bay Municipal Bus Company which operated in Montego Bay. The JOS was unable to provide the level of service which was demanded by the travelling public and so the government granted franchises to alleviate the under supply by the JOS. Illegal operators also plied the routes as well. The government operated bus system was eventually dismantled in the 1980s. Public transportation was then operated by private entities and individuals. The system however became chaotic and the travelling public was very dissatisfied with the system.

In mid-1998, the *Jamaica Urban Transport Corporation (JUTC),* a government owned company, was incorporated and given an exclusive license to provide public bus services in the Kingston Metropolitan Region. In the context of public dissatisfaction with the inefficiency of the public transportation system, the rationale for this action was to provide affordable service, make special provisions for the transportation of children, the elderly and the disabled and establish effective operational standards.

Regulated Sectors

Regulations exist in various degrees across all sectors in Jamaica. While there exists specific institutions that regulate specific sectors, the *Jamaica Bureau of Standards* is the major regulatory institution that regulates activities in most sectors. The major regulated sectors in Jamaica are as follows:

Telecommunications

The telecommunication sector has undergone significant changes over the past two years and is scheduled to be fully liberalized by March 2003. Since February 1993 and up to 2001 Cable and Wireless Jamaica Ltd., a private foreign company had the monopoly in the provision of telephone services in Jamaica. Prior to 1993 telephone services were provided by the state-owned company, Telecommunications of Jamaica Limited.

The Telecommunications Act (2000) provides the legal basis for the introduction of competition in the telecommunications sector. The Act establishes the tariff and economic regulatory functions for the Office of Utilities Regulation (OUR) over this sector. The OUR regulatory functions include:

- determining which carrier or service provider is dominant (in consultation with the FTC)

- prescribing a system of regulatory accounts for dominant carriers and service providers

- arbitrating pre-contract interconnection disputes between the incumbent and entrants and

- assessing the Reference Interconnection Offer (RIO).[52]

The OUR is also involved in price control. Since 1988, C&WJ has been regulated by the rate of return method with the permitted rate of return on shareholders' equity of 17.5 - 20 percent. The Telecommunications Act (2000) provides for the implementation of price caps on the first anniversary of the Act. Under the new pricing regime, the company is permitted to change its price by the difference between the rate of inflation and an efficiency factor called "X."

52 The RIO is an offer by C&WJ setting out a list of interconnection services and charges.

The telecommunications sector is scheduled for a phased liberalization process as follows:-

Phase I (1st March 2000 to 31st August 2001) - the markets for the following services were opened up to competition: domestic mobile services; data services, such as internet service provision, using the incumbent's facilities; provision of single line and multi-line customer premises equipment; and wholesaling of the incumbent's international switched voice minutes.

Phase II (1st September 2001 to 28th February 2003) - the markets for the following services were open to competition: domestic voice facilities and services; resale of the incumbent's switched domestic voice minutes; and internet access over facilities of subscriber television.

Phase III (beginning 1st March 2003) - all markets will be open to competition.

Electricity

The Jamaica Public Service Company Ltd. (JPSCo.) is a private company in which the government sold majority (80%) shareholding to Mirant Corporation, an American Company. Following the sale of JPSCo. in 2001, the Minister exempted the activities of the company from the provisions of the FCA. The *Electric Lighting Act* (1890) regulates the electricity industry but does not contain guidelines regarding prices. The OUR does not at present regulate electricity prices, though in its Annual Report (2000) the agency reported that "The review and modernization of the primary and secondary legislation specific to the electricity and water sectors should be the next order of priority to ensure that the legal frameworks for governing and regulating these sectors are consistent with the Government's official policy for each sector."

Air and Maritime Transport

Although prices of air transport on international routes are determined by bilateral agreements, national prices are regulated and supervised by the *Civil Aviation Authority*. Fare increases require the prior approval of the Authority.

The Port Authority of Jamaica, a statutory public company, has regulatory responsibility for the operations of both privately and publicly owned seaports.[53] Shipping services are provided by over 30 shipping lines.

53 The main seaports include Kingston, Montego Bay, Ocho Rios and Port Antonio.

The Shipping Act establishes a framework for the registration and administration of vessels under the Jamaican Flag. The Act establishes the *Maritime Authority* which is the entity responsible for the registration and administration of vessels. The Act also deals with issues relating to maritime liens, ship mortgages and the welfare of seamen.

Financial Services

The financial sector comprises the activity of commercial banks, merchant banks, building societies, development banks, credit unions and insurance companies. Regulation in this sector, however, must be understood in the context of the banking crisis of the 1990s.

In 1991, the financial sector liberalization polices led to a rapid expansion of the bank and non-bank financial sector. Efforts by the government to regulate the expansion were thwarted by financial sector actors and others who advocated for minimum government intervention in the "free market." This contributed to weak prudential regulation and supervision by the relevant authorities.

Soon, capital shortages, impaired asset quality and other serious problems emerged in many financial institutions. In response, the Minister of Finance & Planning placed twelve (12) financial institutions under temporary management and intervened in ten (10) financial conglomerates, including commercial banks, insurance companies and non-core businesses.

In 1997, the government established the Financial Sector Adjustment Company (FINSAC) to help in the rehabilitation of those financial institutions facing liquidity and solvency problems and to provide protection for depositors. By August 2000, the FINSAC debt was J$127.9 billion or 44 percent of GDP. In an effort to manage the large debt burden, a strategy for public debt reduction was established within the framework of a Staff Monitored Programme (SMP) agreed with the IMF. A strategy for structural reforms of public enterprises was also put in place to address privatisation as well as administrative barriers and regulatory constraints. FINSAC itself was phased out in 2001.

The Financial Services Commission (FSC) was established in 2001 to regulate and supervise institutions that are licensed by it – namely insurance and securities companies, and companies managing mutual funds. Today, the Bank of Jamaica (BOJ), the Ministry of Finance (MOF) as well as the FSC, regulate the financial sector. All mergers must be approved by the BOJ and MOF.

In order to strengthen the operations of the financial sector and provide greater assurance and protection to depositors, amendments have been made to various pieces of legislation, including the Banking and Financial Institutions Acts, the Bank of Jamaica Act, the Building Societies Act, the Deposit Insurance Scheme, and the Industrial and Provident Societies Act. Several key legislations now regulate the industry, including the *Banking Act*, *Financial Institutions Act*, *Moneylending Act* and the *Insurance Act*.

A new corporation, the Jamaica Deposit Insurance Company, has been set up to manage the scheme to protect depositors, and to assist in fostering and promoting the development of sound business and financial practice among financial institutions. Currently depositors of all commercial banks, merchant banks and building societies are protected up to a maximum of $300,000 under the deposit insurance scheme.

Mining

The Mining Act creates a regulatory framework for mining activities. *The Bauxite and Alumina Industries Act* makes provisions for the relevant Minister of Government declaring entities or persons as recognized bauxite or alumina producers. Under the *Cement Industry Act* the relevant Minister of Government may grant to an applicant a license conferring the exclusive right to manufacture cement in Jamaica during a specified period. Currently there are two producers of cement in Jamaica, a locally-owned Western Cement Company, and the Caribbean Cement Company Ltd., owned by Trinidadian interests. Cement is also imported into Jamaica by a number of hardware companies.

Fishing

The Fishing Industry Act regulates the Fishing Industry. The Act prohibits fishing by citizens of Jamaica without the appropriate licence being granted and fishing vessels must also be licensed. The Act also permits the relevant Minister to declare open and closed seasons for any species of fish.

Sugar

The major players in the local sugar industry are:

- The Sugar Industry Authority (SIA), the regulator
- The All Island Jamaica Cane Farmers Association (AIJCFA), representing the cane farmers
- The Sugar Manufacturers Corporation of Jamaica (SMCJ), representing the manufacturers and
- Jamaica Cane Products Sale Limited (JCPS), the marketer.

The industry is governed by two principal pieces of legalization, namely, *Sugar Cane Farmers (Incorporation and Cess) Law*; and the *Sugar Industry Control Act* (SICA). The former sets out the objectives and rules governing the activities and operation of the AIJCFA and make provision for its funding. The SICA provides for the establishment of the SIA and sets out the legal framework for the growing and sale of sugar cane. It also stipulates the terms and conditions for the marketing of both locally produced and imported sugar.

AIJCFA and SMCJ jointly own the JCPS. The company acts as an agent of the SIA for the purpose of marketing Jamaican sugar and ensuring that the country's obligations under the preferential agreements are met. Under the terms of the SICA all cane farmers are required to obtain a certificate of registration from the SIA before a manufacturer may accept delivery of cane. The Act makes it an offense for a cane farmer to deliver sugar cane to a manufacturer without a Certificate of Registration and an offense on the manufacturer's part to accept delivery from an unregistered farmer. Manufacturers are also required to apply to the SIA for licences.

State Aid

The government provides a range of subsidies targeted at specific sectors that have been notified pursuant to Article XVI:1 of the *GATT 1994* and Article 25 of the WTO *Subsidies and Countervailing Measures Agreement*. The broad objective is to provide incentives to stimulate growth. While most subsidies target particular sectors, the *Urban Development Act* provides relief from income tax, stamp duty and transfer tax to persons or organizations that facilitate or carry out urban development in depressed areas. These incentives are available to both foreign and local businesses. Sector subsidies include the following:

Manufacturing

The specific policy objective and purpose of the manufacturing subsidies is "to improve the productivity and competitiveness of the manufacturing sector by providing a supporting framework geared to increase investment, growth and the modernization of the sector."[54] The subsidies are in the form of income tax and import duty relief as well as concessionary loans. The legislative basis for the subsidies is as follows:

- Export Industry Encouragement Act
- Jamaica Export Free Zones Act
- Income Tax Act
- Customs Act
- Industrial Incentives (Factory Construction) Act
- The Petroleum Refinery Encouragement Act

54 See Jamaica's subsidies notification to the WTO Committee on Subsidies and Countervailing Measures G/SCM/N/3/JAM, www.wto.org

In addition, JAMPRO administers a *Modernization of the Industry Programme* for manufacturing firms which exempts them from paying General Consumption Tax (GCT) on imported machinery and equipment for the modernization/retooling of factories.

Concessionary loans are also available to manufacturers under programmes administered by the government operated development banks.

Mining and Industrial Minerals

The specific policy objective and purpose of the Mining and Industrial Minerals subsidies is "to encourage investment and growth in the sector."[55] The *Bauxite and Alumina Industries (Encouragement) Act* targets companies engaged in the mining of bauxite or production of alumina in Jamaica and provides for the exemption of customs duties on imports of capital goods, duty concessions, and exemption from GCT and from the special consumption tax on lubricating oil, greases and other petroleum products used by the bauxite industry.

Services

The specific policy objective and purpose of services subsidies is "to increase investment and international competitiveness in the services sector." Tax and duty concessions are targeted at areas within the sector, e.g., finance, information technology, professional services, motion picture production, productive entertainment, shipping and tourism. In addition to the JAMPRO administered *Modernization of the Industry Programme* that is also available for the services sector, subsidies are also provided through the following legislation:

- Foreign Sales Corporation Act
- Shipping Incentives Act
- Income Tax Act
- International Finance Companies (Income Tax Relief Act)
- Jamaica Export Free Zones Act
- International Finance Company Act
- Under the Motion Picture Industry (Encouragement) Act, 1948

55 *Ibid.*

Perhaps the most extensive subsidies have been provided for the tourism industry. The focus has been "to expand, develop and support the accommodation sub-sector." Under the *Hotel Incentives Act* standard hotels get a 10-year relief from income tax and from import duties on building materials, machinery and equipment; combined convention centers and hotels get relief for 15 years.[56] Under the *Resort Cottages Incentives Act* resort cottages, with at least 2 furnished rooms, a living room and kitchen, etc., get similar benefits to those above and duty-free status for importation of building materials and furniture.

These incentives are available to:

- New hotels
- Existing hotels adding a minimum of ten (10) rooms or thirty per cent (30 per cent) of the existing number of rooms (whichever is greater)
- Existing hotels that have done or intend to do substantial structural alteration
- Approved convention hotels with three hundred and fifty (350) or more bedrooms are entitled to income tax and import duty relief ranging from eleven to fifteen (11-15) years.

The tourism industry has also benefited from the *Short Term Incentives Programme (STIP)* implemented in 1999 to provide exemption from import duties on equipment, furniture and furnishings for hotels doing major refurbishing. This is intended to provide assistance for one year to existing properties which are not eligible for incentives under any other legislative provisions, but the period was extended indefinitely. There is also what is referred to as "The Emergency Programme" which was said to be similar to the STIP and which was created to provide the same concessions to hotels whose incentives period had expired.

Agriculture

Approved farmers are guaranteed an income tax and import duty concessions for up to ten (10) years, after which the status may be renewed. The qualifying activities include most agricultural products grown in Jamaica and the production of hatching eggs.

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56 Under the Act, a hotel is defined as building(s) with 20 rooms or more and facilities for meals. A convention-type hotel has at least 350 bedrooms and facilities for holding conferences.

Information Technology

The *National Strategic Information Technology Plan* (NSITP) allocates 2% - 4% of the national budget to assist new ventures in information technology. It has established a venture capital loan and equity fund of US$23.8 million, which would provide financing to entrepreneurs to start their companies. Other programmes include the establishment of internet kiosks at post offices island-wide, and the use of the post office network to provide a wide range of community services, including but not limited to on-line health care, the marketing of products and agricultural extension services. Financial incentives have been available to foreigners.

Textiles and Apparel

In 1996, the GOJ launched a special assistance program for the export apparel industry. The objective was to improve competitiveness by encouraging companies to make structural changes and implement operational efficiencies. Initially, a grant of J$40 million (US$1.1 million) was made available to cover 5% of the companies' costs. Later, an additional J$160 million (US $4.4 million) was provided to encourage the broader development of the industry, particularly in those areas which will enhance long-term competitiveness. Benefits include loan financing (working capital) through the Export-Import Bank at 12%, debt restructuring for local companies through the National Investment Bank of Jamaica at 18%, and financing for retooling of factories for expansion through the National Development Bank at 13%. Loan financing have been available to foreigners.

Micro and Small Enterprises

Recognizing the significance of MSEs in the economy, the GOJ has attempted to shape policies and programmes to assist the sector. In 1997, the National Poverty Eradication Programme (NPEP) recognized the key role of community-based MSEs in poverty eradication.[57] During the period 1999/2000, the Ministry of Industry, Commerce and Technology (MICT) anticipated that approximately J$12.13 billion would be invested for JAMPRO-assisted projects to assist MSEs.[58] These programmes are classified as: Financial Services, Business Development Services, Institutional Support and Regulatory Framework.

57 See *Policy Towards Poverty Eradication and National Poverty Eradication Programme*, Ministry Paper #13, 1997.

58 During the year 2000, approximately 12,800 jobs were created and/or maintained. See *Performance of the Small Business Sector for 2000/2001 and Focus for 2001/2002 Fiscal Year.* Ministry of Industry, Commerce & Technology Paper, April 18, 2001.

In addressing Financial Services, the MICT adopted a new strategy to segment the MSE sector and design specific programme(s) to meet the needs of each segment of the sector. The main government-related programmes in each segment are provided by the following financial institutions:

Small Businesses	Export-Import Bank Development Bank of Jamaica Trafalgar Development Bank Self-Start Fund
Micro Businesses	Micro Investment Development Agency GOJ/Government of the Netherlands Micro Finance Programme

A similar segmented targeting approach was adopted in providing *Business Development Services* as follows:

Small Businesses	Jamaica Business Development Centre Trade Development Project (JAMPRO)
Micro Businesses	Microenterprise Business Development Services Project

Government Procurement Policy

The objectives of the policy are: (1) maximizing economy and efficiency in procurement; (2) fairness, integrity and public confidence in the procurement process; (3) sustainable development through minimizing negative impact on the environment and (4) fostering national growth and development.[59] The legal framework to achieve these objectives is as follows:

The *Contractor General Act*[60] establishes a *National Contracts Commission (NCC)* which is mandated to regulate government procurement and to ensure transparency, competition and fairness in procurement activities.

The *Financial Administration and Audit Act* which governs the back-end expenditure aspects of the procurement process, ensuring the necessary checks and balances to facilitate prudent expenditure.

59 See http://alca-ftaa.iadb.org/eng/gpdoc2/INTRO.htm

60 See www.ocg.gov.jm

The Contractor General investigates, at its own discretion, the award and implementation of any government contract, in order to ensure that such contract is awarded impartially and on the basis of merit, that the circumstances under which it is awarded or terminated do not involve impropriety or irregularity, and that the contract is implemented in conformity with its terms and conditions.

The NCC reviews procuring entity contract award recommendations and processes with estimated values equal to or above J$4M ensuring compliance with obligations arising from commitments to transparency, fair treatment and due process. The NCC is responsible for the development of procurement procedures in accordance with procurement policy and maintaining the national registry of government-approved suppliers.

The *Handbook of Public Sector Procurement Procedures* prescribes the procedural framework for government procurement.[61] The Ministry of Finance and Planning has overall responsibility for the procurement system including informing public sector procurement policy and monitoring implementation of policies. The procurement procedures employ three procedures: (1) open tendering; (2) selective or restricted tendering; and (3) private contract or single tendering. There is exemption for the purpose of national security, for example, certain military supplies; passports and compelling urgency such as natural disasters.

Competition Law in Jamaica

The Fair Competition Act (FCA) came into force on September 9, 1993 and is administered by the Fair Trading Commission. The FCA covers both consumer protection and competition matters. The Commission is a quasi-judicial body made up of two parts. The first arm comprises five commissioners empowered to make findings in certain cases of unfair trading, those being abuse of dominance, market restriction, exclusive dealing and tied selling. In other matters, the Commission must take the entity charged to court. These matters include all those relating to consumer protection, conspiracy and bid rigging.

The second arm is the Commission staff headed by the Executive Director, who directs a team of lawyers (currently 2), economists (currently 2), one research officer, and three complaints officers, collectively best described as the investigative arm.

In promoting competition, the FCA prohibits agreements and practices that are anti-competitive, i.e., that result in the lessening of competition in any defined market. The FCA covers two broad categories of prohibited activities, which are:

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61 See www.mof.gov.jm

- *Agreements that have, or are likely to have, the effect of substantially lessening competition in the market*—this includes resale price maintenance, market sharing and collusion, applying dissimilar conditions to equivalent transactions with other parties and thereby placing them at a competitive disadvantage and bundling;[62]

- *Abuse of dominance*—abusive conduct generally falls into one of two categories. First, conduct that exploits customers or suppliers through, for example, excessively high prices or discriminatory prices or other terms and conditions. Second, conduct that is anti-competitive behaviour, sometimes called 'exclusionary behaviour' because it removes or limits competition among existing competitors, or because it prevents new undertakings from entering the market. This second class of behaviour includes predatory behaviour, unfair vertical restraints and the restriction of access to essential facilities. This applies to potential as well as existing competitors.

Since inception to December 2002 the FTC closed over 4,200 cases. Of these cases approximately 10% are competition-related matters. The cases arose from complaints made by persons in direct competition with the companies complained about, who are in a vertical relationship (wholesaler/retailer) with the company complained against; and some are requests for opinion from the FTC, from companies which might be proposing to implement some arrangements. As companies change their distribution method, in a bid to be more efficient, their wholesalers/retailers may be adversely affected, for example though a reduction in profit margins or ability to increase their product line. Complaints regarding vertical restraint are usually of such nature; and the complainant is usually the wholesaler/retailer and not a rival producer.

The competition related matters relate to a range of industries, which have a few firms. The industries include the following:

- Cable TV
- Bill payment
- Nails
- Telecommunication
- Flour
- Supermarket retailing
- Health insurance
- Water tank
- Soda
- Cement
- Lottery
- Petroleum
- Beer

62 Bundling refers to making the conclusion of contracts subject to accepting supplementary obligations that, by their nature or according to commercial usage, have no connection with the subject of such contracts.

The competition related matters involved allegations of predatory pricing, exclusive dealing, price fixing, refusal to deal and resale price maintenance and discrimination.

Outcome of Cases:

- The cases which related to the health insurance and beer market ended in consent agreement between the FTC and the offending parties. In the beer case an extensive investigation was carried out and there was a finding (by the Staff) that the Respondent was in breach of the FCA.
- For all the cases relating to predatory pricing, no breach of the FCA was found. These relate to the cable TV, nail, supermarket retailing and water tank markets.
- There were two cases relating to the cement company. One was dealt with by the Anti-Dumping and Subsidies Commission and in the other there was a finding (by the Staff) that there was no breach of the FCA. The complainant claimed that the cement company was inefficient and was passing on its inefficiency by way of higher prices to consumers. It should be noted, as regards abuse of dominance, that the FCA applies only to exclusionary conducts (actions that exclude rivals) and not exploitative conducts (charging of excessively high prices).
- After the flourmills were privatized the new owners changed the distribution method which includes the direct selling of flour to wholesalers and retailers. The Distributors wanted to know if such arrangement is in contravention of the FCA. They were informed that there is no breach of the Act.
- The case involving lottery was discontinued when the attorney acting on behalf of the firm investigated invoked certain pronouncements made by the Court of Appeal, regarding the legality of vesting the Commissioners with the dual role of investigating and adjudicating.

3. SECTORAL OUTLINE AND ANALYSIS OF THE ECONOMY

Non-Tradeable Sectors

After two decades of privatization and liberalization there are very few non-tradeable sectors[63] in Jamaica. Monopolies still persist in water, refinery and energy, ports and shipping,

63 "Non-tradeable sectors" refer to those sectors which do not face foreign competition.

and segments of the public transport sector (see Section 2). Although there are some areas of business with no foreign companies, such as travel agencies, the vast majority of sectors in Jamaica are open to foreign competition.

Industry Structure

In Jamaica, some industries are fairly concentrated (based on number of firms). Table 13a shows the number of firms in selected industries. The number of firms in these industries ranges from one (petroleum refinery, flour and cement) to nine (petroleum marketing). The commercial banking industry, for example, is comprised of six banks.

Table 13a. Firms in Selected Industries in Jamaica

Industry	List of Companies
Banking (commercial)	National Commercial Bank First Global Bank Bank of Nova Scotia RBTT Jamaica Limited First Caribbean International Bank Jamaica (formerly CIBC) Citibank NA
Building Society	Jamaica National Building Society Victoria Mutual Building Society Scotia Jamaica Building Society FirstCaribbean International Building Society
Manufacturing (Flour)	The Jamaica Flour Mills (ADM)
Cement	Caribbean Cement Company
Insurance (Health)	Blue Cross of Jamaica First Life Insurance Company Limited Life of Jamaica
Beer	Red Stripe Limited Big City Brewery Limited
Telecommunication (mobile)	Cable & Wireless Jamaica Limited Centennial Digital Jamaica Digicel
Telecommunication (fixed)	Cable & Wireless Jamaica Limited Go Tel Communication Limited

Table 13a. Firms in Selected Industries in Jamaica - Cont'd

Industry	List of Companies
Petroleum (refinery)	Petroleum Corporation of Jamaica
Petroleum (marketing)	Shell Co. (WI) Limited Esso Standard Oil S A Ltd. Texaco Caribbean Inc. National Fuels & Lubricants Co. limited Jampet United Petroleum (Ja.) Limited Epping Oil Co. limited Cool Oasis Petcom (Petroleum Co. of Jamaica Limited)
Lottery	Supreme Ventures Limited Jamaica Lottery Company
Media (newspaper)	The Jamaica Gleaner Company Limited The Jamaica Observer Limited X-News Limited The Sunday Herald (New Media Communications Limited) Teen Herald
Media (Television)	Television Jamaica Limited CVM Television Limited Love TV
Cigarette	Cigarette Company of Jamaica
Alcoholic beverage (excluding beer)	J. Wray & Nephew Edwin Charley (Jamaica) limited Estate Industries limited

There are a few groups of companies and conglomerates operating in Jamaica. These groups are made up of companies which operate in related industries as illustrated in Table 13b.

Table 13b. Selected Conglomerates in Jamaica

Conglomerate	List of Companies	Industry
UGI Group of Companies	United General Insurance Company Limited	General insurance
	Guardian Insurance Brokers	Insurance broker
	Caribbean Loss Adjusters	Adjuster
	International Trust & Merchant Bank	Merchant bank
	ITMB Finance and Investments	Investment bank
	International Travel Services Limited	Travel service
	Golden Beach Sea Resort	Tourism
	CVM Television Limited	Media
	X-News Limited	Media
	Teen Herald	Media
	United Realtors Limited	Real estate
Grace, Kennedy & Company Limited	Hi-Lo Food Store	Supermarket
	Medi-Grace Limited	Pharmaceutical Distribution
	Fidelity Motors	Motor vehicle sale
	Agro-Grace Limited	Agriculture products
	Rapid & Sheffield Co. Limited	Hardware
	Industrial Catering Services Limited	Catering
	Versair In-Flite Services Limited	Travel service
	Kingston Wharves	Port services
	Grace, Kennedy Export Trading Limited	Export
	Dairy Industries Jamaica Limited	Man. of dairy products
	Grace Food Processors (Canning) Ltd.	
	Grace Food Processors Ltd.	Canning
	Allied Insurance Brokers Limited	Insurance broker
	George & Branday Limited	Investment banking
	Jamaica International Insurance Company	General insurance
	First Global Bank	Commercial bank
	Grace, Kennedy Remittance Services Limited (Western Union)	Money transfer
ATL Group of Companies*	ATL Traders Limited	Retail
	The Jamaica Observer Limited	Media
	ATL Automotive limited	Motor vehicle sales
Carreras Group Limited*	Cigarette Company of Jamaica	Cigarette manufacturing and distribution
Lascelles DeMercado & Co. Limited*	Lascelles Wines & Spirits	Distributor of liquors
	Lascelles Merchandise Ltd.	Distributors
Jamaica National Building Society (Group)	(Subsidiaries)JN Fund Managers Limited	Investment banking
	NEM Insurance Company Limited	General insurance
	Management Control Systems Limited	Information technology
	JN Micro Credit Company Limited	Loans to small enterprises
RJR Communications Group	Television Jamaica Limited	Television
	Multi Media Jamaica Limited	Internet etc.
	(Radio Stations) Fame FM, Radio2 FM and Supreme 94	Radio broadcasting

* Not a complete list of companies making up group.

Service Sector

The service sector comprises transport, storage and communication, distribution, financial service and tourism. This sector contributed an annual average of 64% to GDP for the period 1992 – 2001.

Telecommunication

The main legislation is the Telecommunications Act 2000. The liberalization process in this sector started in 2000; the sector was scheduled to be fully liberalized by March 2003. The telecommunications sector consists of over 65 companies involved in a range of telecommunications activities. The services offered include internet services, mobile phone services and the re-selling of international switch minutes. Currently there are three mobile service providers, Cable & Wireless Jamaica (C&WJ) limited, Mossel Jamaica limited (T/A Digicel) and Oceanic Communications limited (formerly Centennial Communications limited). There are two operators of fixed line services: C&WJ and GoTel Communications limited. GoTel Communications is a recent entrant in the market.

Tourism

Tourism is the largest earner of foreign exchange for Jamaica, contributing more than 45% of the foreign exchange earned by the economy.[64] The tourism product of Jamaica comprises a broad range of activities. The dominant activity is accommodation, accounting for about 51% of tourism's contribution to GDP and about 47% of its contribution to employment in the industry (Table 14). Although there are mainly local owned hotels, there are a few foreign owned and foreign managed. There are approximately 23,067 beds distributed over 48 all-inclusive and 166 non all-inclusive facilities, as well as guesthouses, villas and apartments. In 1999 and 2000, room capacity grew significantly with major investment in hotel construction. Hedonism III, in Runaway Bay, opened as a 225-room facility in 1999, while in 2000, the Ritz Carlton added a 430-room facility in Montego Bay and the FDR Pebbles also opened facilities in Trelawny.

The entertainment component, accounting for about 10% of tourism's contribution to GDP, creates value-added services estimated at approximately J$37,340 per worker (Table 14). Only miscellaneous communication services (telephone) and beverages command a greater share per worker of the tourism dollar in the private sector. It is also significant to note that government spending makes the largest value-added contribution to the sector (J$107,848 per worker).

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64 World Trade Organization (WTO) (1998). *Trade Policy Review,* Jamaica, 1998. Geneva and Lenhan, MD: Bernan Associates and WTO Publications.

Table 14. Structure of the Tourism Industry, Jamaica, 1997

Sector	Direct Contribution to GDP and Employment				GDP/ Worker
	Contribution to GDP		Contribution to Employment		
	Total (J$ million)	% All	Number of Workers	% All	
Accommodation	8,609.6	51.09	33,927	47.40	25,376.84
Food and Beverage	733.4	4.35	3,908	5.46	18,766.63
Entertainment	1,656.8	9.83	4,437	6.20	37,340.55
Transportation	1,554.8	9.23	11,449	16.00	13,580.23
Shopping (1)	2,675.4	15.88	13,890	19.41	19,261.34
Miscellaneous (2)	347.9	2.06	579	0.81	60,086.36
Government (3)	797.0	4.73	739	1.03	107,848.44
Investment	477.7	2.83	2,641	3.69	18,087.85
All Sectors	16,852.6	100.00	71,570	100.00	

Notes: (1) Estimated from margin earned includes in-bond and other tourism related stores.
(2) Demands from beverages and telephone services.
(3) Includes direct and indirect taxes, the latter not contributing to GDP.

Source: Tourism in Jamaica, An Economic Analysis, 1997, as reported in RES & CO (1999); *Master Plan for Sustainable Tourism Development, Diagnostic & Strategic Options,* Draft Report Prepared for the Office of the Prime Minister.

Over the past 15 years, the industry has experienced a transition from an earlier stage in which the dominant hotels were foreign owned to its current structure with dominant local ownership. Government divested all of its holdings over the past 12 years. Today, about 40% of the rooms available and 60% of all the all-inclusive hotels are supplied by Sandals, Super Clubs, and Friends International. However, since 1998, government, through Finsac has taken over failing operations to avoid excessive negative fall-outs in the industry. Two of the hotels now held by Finsac are the former Club Jamaica and the Jamaica Grande Hotel.

With respect to market access, government has set no limitations on market access for cross-border supply, consumption abroad, and commercial presence, for the activities of hotels and restaurants, as well as travel agencies and tour operators in the WTO General Agreement on the Trade in Services (GATS).[65] There is also no participatory discrimination

65 *Ibid.*

for ownership by entrepreneurs and investors with respect to nationality. Total foreign ownership is allowed. Restriction exists only with respect to the employment of other nationalities in the sector.[66]

The government has provided substantial support for the tourism industry. In addition to the incentives identified in section 2.6.3 above, supporting institutional arrangements include the following:

- Office of the Prime Minister (coordinated the preparation of the Tourism Master Plan)
- Tourism Product Development Company (TPDCO) (has mandate to implement Tourism Master Plan)
- Jamaica Tourist Board (strong lobbying unit that push for the creation of appropriate infrastructure and promotional activities)
- Tourism Advisory Council (created to advise on the implementation of the National Industrial Policy with reference to tourism)
- JAMPRO (export promotion and investment mandate)
- Development of industry-related infrastructure (including roads such as the Ocho Rios Bypass, the Northern Coastal Highway; upgrading of the Montego Bay and Kingston Airports, improvement of the Montego Bay and Negril sewerage systems; and associated road and drainage systems to assist with flood control)

Financial Services

The financial services sector comprises the activity of commercial banks, merchant banks, building societies, development banks, credit unions and insurance companies.

Over the period 1996-2002 there has been significant consolidation in this sector (Table 15). In 1996 there was a total of 189 financial institutions. At the end of 2002, that number declined to 100, with each sub-sector recording a decline in number of institutions. The decline in this sector started in 1996. In January 1997 Finsac was formed by the government to administer the restructuring of the sector. Finsac took over one enterprise which comprised a commercial bank, building society and other companies and acquired shares in three other

66 See Footnote 64.

commercial banks and five insurance companies in exchange for financial support. It should be noted that all the banks which failed or required financial assistance were locally owned banks.

Table 15. Number of Institutions, 1996-2002

Institutions	1996	1997	1998	1999	2000	2001	2002
Commercial banks	11	9	9	6	6	6	6
Merchant and trust companies	30	27	18	14	11	11	10
Building societies	25	10	8	5	5	4	4
Insurance companies	29	29	29	25	22	22	21
Credit unions	88	73	67	65	60	58	58
Development banks	6	6	6	6	5	5	5

Commercial Banks

Of the six commercial banks currently operating in Jamaica, five are foreign-owned and one locally-owned. The six banks have a branch network of approximately 125 branches (Table 16).

Table 16. Ownership Structure and Branch Network of Commercial Banks

Institutions	No. of Branches	Ownership
Bank of Nova Scotia	41	Foreign
Royal Bank of Trinidad & Tobago Jamaica Ltd.	23	CARICOM
Citibank N. A.	2	Foreign
First Caribbean International Bank Jamaica	12	CARICOM
National Commercial Bank	47	Foreign
First Global Bank	1	Local

Insurance Companies

The insurance industry comprises foreign, regional and local insurance companies and their intermediaries. Currently, there are 2 major regionally owned life insurance companies, Life of Jamaica (owned by the Sagicor Group, a Barbadian owned company, formerly Barbados Mutual) and Guardian Life (a Trinidadian owned company). There are several other general and life insurance companies many of whom have merged over the past few years. There are also health insurance providers, insurance brokers and agents selling insurance in Jamaica. All companies within this sector are regulated by the Financial Services Commission and the main legislation is the *Insurance Act*, 2001.

Music/Entertainment

The entertainment industry produces services such as music (including computerized music), concerts, films, drama, advertisements and jingles, event production and management, project management, artiste management and consultation, entertainment consulting, publishing of artistic works and more. The music component of the entertainment industry is arguably the most dynamic sub-sector with the greatest potential for significant growth.

Data from the recently completed Caribbean Music Industry Database (CMID) describes the structure of the music industry and its potential for growth.[67] The music industry of Jamaica is described as comprising mainly live performances, especially in dances and festivals, broadcast via radio and television, recorded music at retail outlets, hotels, restaurants and various offices and companies, and a fairly well-established recording industry.[68]

Over the past three decades, the recording industry in Jamaica has been dominated by a few locally owned larger companies which record, manufacture and distribute local and foreign products. There were no transnational firms operating in Jamaica until 'Island Jamaica' in 1995, which is a joint venture between the former owner of 'Island Records,' Chris Blackwell and PolyGram.[69] Today, the industry has a few large limited liability companies but is dominated by a large number of "informally constituted" enterprises engaged in the following type of activities:[70]

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67 James [ ] (2001) (ed.), *The Caribbean Music Industry (CMID) Database*, prepared for UNCTAD & WIPO, October.

68 *Ibid.*: 31.

69 See Keith Nurse (2000), *The Jamaican Music Industry: Economic & Export Performance*, prepared for Caribbean Export Development Agency, Barbados. PolyGram acquired Island Records in 1989. PolyGram was later acquired by Seagram in 1998 and was renamed the *Universal Music Group*, headquartered in the USA.

70 See Michael Witter (2001), "Music and the Jamaican Economy" in *The Caribbean Music Industry Database*, edited by [ ] James, prepared for UNCTAD & WIPO.

- One person carrying out a single activity, say a musician
- One person carrying out multiple activities, say a musician-producer-promoter
- Loose affiliations of persons, say "crews" of DJ's
- Sound systems, bands or musical groups not registered as legal entities

There are a range of public sector institutions supporting the entertainment industry. These include the following:

- Jamaica Promotions Corporation (JAMPRO)
- Jamaica Intellectual Property Office (JIPO)
- Entertainment Advisory Board (EAB)
- Entertainment Industry Advisory Council
- Jamaica Cultural Development Centre (JCDC)
- Edna Manley School of Music and the Creative Arts
- UWI Reggae Studies Unit

There are also a range of private sector institutions supporting the entertainment industry, including the following:

- Jamaica Federation of Musicians & Affiliated Artistes
- Jamaica Association of Composers Authors & Publishers (JACAP)
- Jamaica Copyright Licensing Agency (JAMCOPY)
- Jamaica Association of Female Artistes (JAFA)
- Jamaica Music Industry Association (JMIA)
- Sound System Association
- Jamaica Musical Rights Administration (JMRAS)
- Jamaica Performing Administration Society (JPAS)
- Intellectual Property Centre

It is argued, however, that these institutional arrangements are inadequate and "nowhere near the large-scale investments needed to support and stimulate major new developments in the industry and thus to exploit its potential to the fullest."[71]

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71 *Ibid.*

Goods Sector

This sector comprises the subsectors, agriculture, forestry and fishing, mining and quarrying, manufacturing and construction and installation. The goods sector contribution to GPD on an annual average for the period 1992-2001 amounted to 35.6%. The manufacturing sector contributed 12.5% of GDP in 2001 and employed approximately 7% of the labour force. Some of the products manufactured in Jamaica are flour, sugar, cement, soft drink, beer, biscuit, cigarette, petroleum products, chemicals, fertilizer and alcohol.

Cocoa

The Cocoa Industry Board (CIB) was set up by the Cocoa Industry Board Act (1957) to regulate the cocoa industry. The current activities of CIB are to purchase, process, market and sell cocoa beans.

While there are many growers of cocoa beans in Jamaica (approximately 22,000 farmers), the CIB is the sole buyer of wet cocoa beans, sole operator of fermentaries in Jamaica and the sole exporter of Jamaican cocoa.

Ackee

There are eighteen (18) locally-owned ackee factories in Jamaica processing mainly for export. While some firms export canned ackee under their own brand name, others are involved in co-package arrangements in which the product is packaged under different brand names for distribution. The two (2) largest exporters, Grace Kennedy and Co. Ltd. and Jamaica Export Trading Co. Ltd., export canned ackee to approximately 23 countries. The largest market is in the UK, Canada and the USA mainly due to the significant ethnic Jamaican/Caribbean population in these countries.

In 1972, the *US Food and Drug Administration* (FDA) imposed a ban on the entry of canned ackee into the USA due to food safety concerns. In 2001, the ban was lifted for four (4) local firms that were approved by the FDA. These firms are Tijule Ltd., Canco Ltd., Ashman Food Products Ltd., and Westbest Foods.

Ackee export is being actively encouraged by the government as it seeks to diversify the economy. The Ministry of Agriculture has offered assistance by providing seedlings for planting and technical assistance through the *Ackee Tree Planting Programme* and the *Ackee Resuscitation Project*. The Export-Import Bank and the Jamaica Exporters Association (JEA) have provided special assistance to agro processors engaged in exports.

Flour

The sole flourmill in Jamaica is operated by Archer Daniel Midland Milling Company (ADM), an American company. ADM acquired the flourmills from the government in 1997. There is no competition in the manufacturing or supply of flour in Jamaica. ADM is the sole supplier, as flour is not imported into the country. This is due primarily to the 20% - 25% tariffs that apply to flour.

There are currently over 30 companies involved in the bakery industry in Jamaica, producing pastries, biscuits, bread and patties. There is a Baker's Association in Jamaica but not all bakers are represented or are members of the association.

Sugar

The Sugar industry contributed about 1 percent of the GDP in 1998 and 1.3 percent in 1999. The industry is dominated by six (6) state-owned factories/estates, Frome, Monymusk, Bernard Lodge(together comprising the Sugar Company of Jamaica), St. Thomas Sugar Company and Hampden, as well as two (2) private locally-owned factories/estates, Worthy Park and Appleton. The Sugar Company of Jamaica accounts for 65% of sugar production and has been operating with substantial financial losses. The private companies on the other hand have been more efficient than the public companies and have generated profits.

The total market for Jamaican sugar is about 287,000 tons (Table 17). Although there is significant demand for local sugar, sugar is mainly sold abroad, in Europe and the USA. To meet local demand for sugar, while maximizing preferential export benefits, Jamaica imports refined sugar of about 5 times the tonnage exported to the USA. Jamaica Cane Products Sales, Ltd., a company owned by the farmers and processors and retained by the Sugar Industry Authority, markets cane products locally and internationally.

Table 17. Markets for Jamaican Sugar, 1999-2000

Market	Tons	
	1999	2000
International		
EU	150,000 (Q)	150,000 (Q)
Protocol Sugar	126,000	126,000
SPS	24,000	24,000
USA	12,000	12,000
Domestic		
Brown	75,000	65,000
Refined Imports	50,000	60,000
Total	287,000	287,000

Source: Sugar Industry Authority (1999).

Note: SPS = Special Preferential Sugar; Q = quota.

The main institution serving the sugar industry is the *Sugar Industry Authority (SIA).* The SIA is a well-established and powerful coordinating statutory agency established under the *Sugar Industry Control Act (1970)*. Its functions include regulation, planning, monitoring of cane and sugar quality, research and development, factory inspection, and importation of raw sugar. Other important institutions are the following:

- **All-Island Jamaica Cane Farmers Association (AIJCFA)**: This institution was formed in 1941 to facilitate a coordinated approach to cane farmer representation, settlement of disputes, negotiating contractual arrangements, agreement on cane pricing and sourcing financial assistance. The association is represented on the Boards of SIA and JCPS (Ministry of Agriculture, 2001).

- **Jamaica Cane Products Sales (JCPS):** The JCPS was incorporated under the Companies Act in 1986. Its main function is to act as agent of the sugar manufactures and cane farmers and also as marketing agent of the SIA. Since 1994, the marketing aspects of the Authority's functions have been contracted to JCPS.

- **Sugar Manufacturing Corporation of Jamaica** (SMCJ): The SMCJ was established in 1929 to facilitate cooperation between the factories, particularly on sales activities. All sugar manufacturers are members of the corporation which is represented on the board of the JCPS.

- **Agricultural Restructuring Company** (ARC): The ARC is an institution set up by government in 1997 to facilitate the orderly/coordinated financial intervention of the Government of Jamaica in the agricultural sector. The main problem it addresses is the insolvency of sugar companies.

- **Sugar Industry Housing Limited** (SIHL): The SIHL was established in 1970 as a limited liability company and a wholly owned subsidiary of the SIA. It carries a significant share of the industry's responsibility for housing.

- **Sugar Producers Federation** (SPF): The SPF is the industrial relations arm of the sugar industry. It negotiates with the trade unions and government and agreements reached usually set the pattern for the rest of the industry. Other functions of the SPF include welfare of pensioners, health, sports and the maintenance of statistics on work stoppages and cane fires.

Over the past decade, the industry has been declining due to falling sugar prices since 1994 in the EU market. In the world market, sugar is priced at about US$198 per ton. Available data from the *Sugar Industry Authority* suggest that the industry in Jamaica operates at about 5 times the cost level necessary to break even in the world sugar market without the support of preferences. The industry currently faces major challenges to become internationally competitive in the context of the EBA Initiative and the recent initiation of WTO dispute settlement proceedings by Brazil and Australia, requesting consultations with the European Union with respect to its Common Market Organisation (CMO).

Cement

There is one cement manufacturer in Jamaica: the Caribbean Cement Company ltd (CCCL). CCCL is a subsidiary of Trinidad Cement Limited, which is itself 20% owned by a Mexican cement company. CCCL has been the sole supplier of cement in Jamaica up to July 1999 when Mainland International, a local hardware store, entered the cement market. For the period September 2001 to May 2002, Mainland International supplied about 14% of total cement consumption. The tariffs on imported cement are: 15% import duty, 3% Standard Compliance Fee (paid to the Bureau of Standards) and 12.5% general consumption tax. To date, the cement company has brought two cases to the Anti-Dumping and Subsidies Commission, alleging that cement imported out of Thailand and Indonesia were dumped. The Commission found that there was dumping in both cases and imposed countervailing duties of 87.94% in one case and 9.98% in the other.

While the set-up cost for cement production is large, the market for the distribution of the product is contestable as any company or individual can import cement into Jamaica, once the Bureau of Standards has approved that cement. Competition in this industry is vital, as cement is the main input in the construction sector.

Soft Drinks

Since the 1970s there were a few soft drinks manufacturers who dominated the industry. Today, the market is dominated by three (3) main manufacturing and export oriented organizations: Jamaica Drink Company Ltd. (manufacturers of the brand, Bigga), Caribbean Bottlers Ltd. (manufacturers of Coca Cola), and Jamaica Bottlers Ltd. (manufacturers of Pepsi). The Jamaica Drink Company, whose parent company is Wisynco Ltd., is the only locally owned company formed in 1996. The industry also consists of distribution companies such as Jamaica Beverages Ltd. (distributors of Busta and Fruta).

There are barriers to entry that exist in this industry. Natural barriers include large initial capital requirement for entry. Further, government licensing, patent rights and tariffs create further artificial barriers. These barriers, however, have not restricted the entry of foreign investment. Jamaica Bottlers Ltd. is one of several Caribbean subsidiaries of Pepsi Americas. Other subsidiaries are located in Bahamas, Puerto Rico and Trinidad & Tobago. Caribbean Bottlers Ltd. is a subsidiary of Coca Cola International.

Beer

There are two beer manufacturers in Jamaica: Red Stripe Limited (formerly Desnoes and Geddes Limited) and Big City Brewing Company. Since 1927 and up until June 2001, Red Stripe Limited was the only beer manufacturer in Jamaica, producing approximately 69,856,000 litres of beer in 2000, an increase of 6% of the 1999 production level (see Table 18). For the year 1999, Red Stripe exported approximately 19% of the beer it produced. Besides these two brewers, there are several enterprises, such as Grace Kennedy & Company Limited, a conglomerate, which import beers into Jamaica. Beers are imported from countries such as Mexico, United States and the United Kingdom.

There are approximately twelve brands of beer currently for sale in Jamaica, the locally produced beers plus imports. The locally brewed beers are lager–Red Stripe, Red Stripe Light, Heineken, and Real Rock–and stout–Guinness and Dragon Stout. Imported beers include Millers Lite, Corona, Budweiser, Iceberg, Coors, Becks and Green leaf (hemp beer).

Table 18. Estimated Market Shares in the Supply of Beer[1] (1999 data)

	Production less exports[2]	Imports	Local Consumption
Quantity (litres)	53,378,964	729,062	54,478,462
Estimated market share	98.7%	1.3%	100%

1 These national figures are indicative of Red Stripe Limited shares of the beer market.
2 In 1999, all Jamaican production of beer was by Red Stripe Limited.

There are three main levels of operation in the beer market. These are manufacturing/ importing, distribution and wholesale and retail. All operators (local breweries and importers) operate at the three levels. Currently there are no statutory restrictions on entering the beer market at any level. A new entrant could enter the beer industry by setting up a brewery or it could import from outside Jamaica. The production of beer requires specialized equipment, which involves significant capital outlay. Big City Brewing is the first brewery to be set up in Jamaica since Red Stripe that has been in operation since 1918 and specifically in the brewery business since 1927.

It should be noted that the importation of beer does not require an import permit. It is estimated that imported beers attract a number of duties totaling about 30% of C.I.F. value. This tariff is expected to be totally eliminated by 2005, making it easier for entry at the importation level of the market.

At present the distribution and wholesale of beers are carried out by the brewers and importers, while the retailing is done mostly by independent operators of pubs, supermarkets, restaurants, etc. It is at the wholesale level of the market that there is likely to be anti-competitive activities, such as full line forcing, fidelity discounts, or exclusivity arrangements, which can raise entry barriers.

Fertilizer

Antilles Chemical Company limited (ACCL) is the sole producer of inorganic fertilizer in Jamaica and has been in operation for over 35 years. ACCL is a wholly owned subsidiary of CFG limited, an American company. In a newspaper advertisement[72] put out by ACCL,

72 The *Financial Gleaner*, March 22, 2002.

ACCL reported that it has "capacity to produce over 160,000 tons of fertilizer per year. At present, the company is using only 34% of its capacity to supply the total Jamaican market". Fertilizer is imported from countries such as Costa Rica, USA and the Dominica Republic. The composition of the market for fertilizer remained relatively unchanged over the period 1997-2001. In 2001 significant amounts of fertilizer were imported from the Dominica Republic and Costa Rica. ACCL lodged a complaint with the Anti-Dumping and Subsidies Commission, alleging that fertilizer exported out of the Dominica Republic is dumped in Jamaica. The Commission found that the fertilizer was in fact dumped and imposed an anti-dumping duty of 15.61%.

Petroleum

The petroleum industry consists of a number of products, including the following:

- Liquid petroleum gas (LPG)
- Automotive fuels (gasoline and diesel)
- Turbo fuel
- Fuel oil
- Lubricants

Petroleum Corporation of Jamaica, the state-owned refinery is the sole refinery in Jamaica and is involved in the three main levels of operation, i.e., production, wholesale and retail. Other players in the petroleum industry, are Shell, Texaco and Esso (multinationals) and National Fuels, Industrial Gases Limited, Petcom, which is a subsidiary of Petrojam, Jampet, United Petroleum, Epping Oil Co. and Cool Oasis, all locally-owned companies.

Not all companies are involved in all products in the petroleum industry. For example, Shell, IGL and Petcom are the only companies involved in the LPG market. All the companies mentioned above, except for IGL, deal in automotive fuels. There are a number of retailers (auto parts stores) that import their stock of lubricants.

Summary

The Jamaican economy may be defined as a market driven one. Jamaica started its trend towards economic liberalization in the 1980s and during that period and the 1990s the government privatized a number of state-owned enterprises. This trend is continuing; the electricity company and the management of one of the two international airports are the last two enterprises to be privatized.

In the 1990s, the government has also set up a number of agencies to regulate and to ensure a competitive marketplace in this market driven economy. The Fair Trading

Commission, the administrative body of the Fair Competition Act was established in 1993, and the Office of Utilities Regulation was established in 1995. Both agencies have been very active in the liberalization of the telecommunication sector which is now on stream and is scheduled to be fully liberalized in March 2003. The Anti-Dumping & Subsidies Commission, which is mandated to protect Jamaican manufacturers from dumped products, was established in 1999. The Consumer Affairs Commission, which along the Fair Trading Commission, is active in the protection of the consumers who may be exploited as companies pursue profits. The Consumer Affairs Commission is an evolution of the Prices Commission which was in place during the period when the economy was dominantly state-owned.

Coupled with the privatization and deregulation, the government has also eliminated import quotas and reduced tariffs for a number of products. While the economy has a few monopolies, with the ease of imports, most markets are contestable. For instance, there is one producer of cement in Jamaica; however tariffs are low enough for firms to profitably import cement which competes effectively with the local producer. In fact, of the three cases decided on by the Anti-Dumping & Subsidies Commission, two were cement-related.

Some industries in Jamaica may be characterized as oligopoly, tending towards monopolistic. In the financial sector there are six commercial banks, three building societies, three health insurance providers and 14 general insurance providers. In the telecommunication industry there are three mobile service providers, two fixed line service operators with over nine other companies possessing licence to operate this service. There are also a number of conglomerates in Jamaica. There are groups of companies with divest holdings: one includes a hotel chain, motor car dealership and newspaper; another includes a supermarket chain, pharmaceutical distribution, commercial bank and cambio.

Recognizing the link between export and growth which leads ultimately to development, the government has put in place a number of incentives for firms operating in the manufacturing, agriculture and tourism sectors. These incentives range from income tax relief to exemption from import duties. The tourism sector is particularly important, as it is the largest earner of foreign exchange for the country. The government has also put in place programmes to assist small enterprises.

In general the Jamaican economy has gone through tremendous changes since the 1980s. There are significant changes in the variety of goods and services being produced compared to the period prior to liberalization as markets are now open and companies compete vigorously to serve consumers. The Jamaican economy has also been a beneficiary of changes in technology. The telecommunications, banking and television industries are just a few of the industries which have evolved and provided new services through the use of advance technology, which ultimately benefits the consumers. While the government has reversed its privatization process in at least two areas, the process is moving to a fully market driven economy.

UPDATE ON THE ECONOMY OF TRINIDAD AND TOBAGO

Alisha Abraham
and
Taimoon Stewart[1]

1. GENERAL ECONOMIC BACKGROUND

Introduction

The twin-island Republic of Trinidad and Tobago is the fifth largest country of the Caribbean. With an area of 5,128 square kilometers (sq. km.) and population of about 1.3 million, the country is characterised as a middle-income economy with per capita GDP of approximately US $6,921 per annum. Unlike most Caribbean economies, Trinidad and Tobago relies very heavily on the mining of crude oil and other energy related activities. The larger island, Trinidad (4,828 sq. km.) is generously endowed with large reserves of crude oil and natural gas as well as fertile land suited to medium-scale agricultural production, while Tobago (300 sq. km.) is renowned for its flora and unspoiled beaches.

Economic Growth

Though heavily dependent on the energy sector, Trinidad and Tobago has managed to achieve a fair level of economic diversification over time, with vibrant manufacturing, construction, distribution and financial sectors. The petroleum sector now contributes about 22 per cent to overall GDP, while the distribution (17 per cent), finance, insurance and real estate (14 per cent), construction (10 per cent), and manufacturing (8 per cent) sectors also contribute significantly to GDP. Following periods of considerable prosperity in the 1970s, severe economic decline in the 1980s and structural adjustment in the late 1980s and early 1990s, the Trinidad and Tobago economy since 1994 has maintained a steady path of positive economic growth. Measured at 3.2% in 2002 (Central Bank 2002), real GDP growth averaged 4 per cent between 1994 and 2001, compared with average negative growth of 2 per cent between 1986 and 1993. The economy is expected to continue along a growth trajectory

1 We are grateful to Mr. Chanzo Greenidge for his assistance in updating the paper.

over the short- to medium-term in light of a forecasted increase in the production of crude oil and natural gas.

External Sector

Being highly open and export-driven, the overall health of the domestic economy is closely dependent on its overall external position and in particular, the prices of main export commodities and foreign direct investment (FDI) flows. In the post-adjustment period, the country's external position improved appreciably on account of large inflows of direct investment in the energy sector, reduced external debt obligations and increased commodity prices particularly towards the end of 2000 and 2001. Between 1994 and 2001, the overall balance of payments registered surpluses in all but one year (1995) when it declined to 0.5 per cent of GDP. The current account also evinced positive balances in all but two years - 1997 and 1998- when it fell to 9.9 per cent and 10.5 per cent of GDP respectively, on account of relatively weak commodity prices. This improved external position has led to the concurrent accumulation of international reserves by the Central Bank; overall current account surplus of $49 million - although the external current account surplus fell to 1% of GDP in 2002 from 4.5% in 2001-(Central Bank 2002). Gross International Reserves, which had fallen to -US$261 million in 1988, increased steadily since 1995, reaching approximately US$2.5 billion by the end of 2001.

Domestic Prices and Exchange Rate

The domestic price level has also been successfully managed during the post-adjustment period. Inflation as measured by movements in the Retail Price Index has remained relatively low and stable, particularly following a change in exchange rate regime in 1993. Since then, the average annual rate of inflation has been 4.3 per cent compared with rates in excess of 11 per cent in 1989 and 1990. Given the inextricable link between domestic and international prices, the stability of the local price levels has to a great extent occurred as a result of management of the nominal exchange rate by the Central Bank of Trinidad and Tobago since the adoption of a flexible exchange rate regime in April 1993. The nominal exchange rate averaged TT$6.30 to US$1 throughout the period 1997-2000, followed by a slight appreciation in 2001 on account of increased commodity prices and falling interest rates internationally. In 2002, the exchange rate depreciated slightly to 6.2473 from 6.2314 in 2001.

Fiscal Performance

During the boom, government established itself as the primary spender in the economy, incurring high levels of both current and capital expenditure. Following the dramatic fall of oil prices in the 1980s, however, there was a significant deterioration of the government's fiscal position as the overall fiscal balance declined to deficits as low as 8 per cent of GDP in 1986. The adoption of a structural adjustment program in the late 1980s and early 1990s spelled the need for fiscal consolidation via expenditure-reducing and revenue-enhancing methods. Since the mid-1980s, there has been an almost continuous improvement in government's overall fiscal balance, which improved from a deficit of 8 per cent of GDP in 1986 to a surplus of 1.6 per cent of GDP in 2000. Though this represents some level of fiscal improvement there has been some recent signs of weakness in the government accounts. The overall fiscal balance declined to deficits of 1.9 per cent and 3.2 per cent of GDP in 1998 and 1999 respectively. In 2002, the country again experienced a deficit of 0.3% of GDP in 2002 after a surplus of 1.8% in 2001.

Unemployment

The labour market bore the brunt of the shocks associated with structural adjustment. Unemployment remained at high levels during that period, and only fell with the resumption of economic growth. The level of unemployment was estimated at around 10.8% in 2002 after peaking at rates of about 22 per cent between 1987 and 1989. From a sectoral standpoint, most employment opportunities continue to be generated by the services sector, which employs approximately 56 per cent of the workforce. The construction sector is the second employer, hiring about 12 per cent of the Trinidadian labour force. This is followed by the manufacturing (9.8%), agricultural and transport (8.7%), and storage and communications sectors (8.3%). Although the petroleum sector contributes significantly to overall GDP, its contribution to employment is estimated at around 3 per cent.

Medium-Term Policy Framework

Prospects for the economy over the medium-term (2002-2004) appear fairly bright despite continued global economic slowdown as growth is expected to continue based on increased activity in the energy sector. The production of crude oil is expected to increase with the commissioning of BHP Billiton, while the price of crude is expected to stay at relatively high prices. In addition, natural gas production is also expected to increase with the completion of Atlantic LNG's Trains II and III at the end of 2002 and the recent introduction of Train III in mid-2003.

Over the medium-term, the government has outlined the following broad objective:

> To transform Trinidad and Tobago into a knowledge-based society with a globally competitive, technologically driven diversified economy, that will sustain full employment, equal opportunity, growing prosperity, a secure life and the highest standard of living for its citizens (Medium-Term Policy Framework 2002-2004).

One of the major goals within this objective is to achieve a higher level of economic diversification than exists at present in order to improve or increase the resilience of the economy to the vagaries of international energy prices. To this end, government intends to target several types of activities, particularly those in the non-oil sector of the economy. These include the support and expansion of energy-based *downstream* industries, manufacturing industries such as information technology, food and beverages, printing and packaging chemicals and plastics and metal processing. Other areas of activities to be given priority include agriculture and services particularly business and professional services, information technology services, tourism, recreation and sporting services, and construction and engineering services.

Government has also outlined a strategic objective of achieving full employment by the year 2010. To this end, certain sectors have been targeted based on their potential to generate employment. These include: downstream industries from the gas industry; the information and telecommunications sector and its downstream industries; the manufacturing sector; micro, small and medium enterprises, and the agri-business sector.

Table 1. Key Economic Indicators, Trinidad and Tobago, 1986-1993

Indicator	1986	1987	1988	1989	1990	1991	1992	1993
Real GDP Growth (%)[1]	-4.3	-5.2	-3.9	-0.8	-0.1	2.6	-0.5	-2.6
Inflation (%)	7.7	10.8	7.8	11.4	11.1	3.8	6.6	10.8
Unemployment (%)	17.2	22.3	22.0	22.0	20.0***	18.5	19.6	19.8
External Current Account Balance(% of GDP)	-13.2	-5.2	-2.6	-1.5	8.5	-0.4	0.6	-2.4
Overall Balance of Payments (% of GDP)	-14.0	-5.2	3.8	3.1	3.7	5.9	-2.2	3.3
Gross International Reserves (US $ Mill.)	1164.0	342.8	-260.5	101.5	581.8	439.7	316.1	446.0
Exchange Rate ($TT/US)[2]	3.60	3.60	3.84	4.25	4.25	4.25	4.25	5.67
Overall Fiscal Balance (% of GDP)	-7.9	-7.2	-6.5	-4.1	-1.3	-0.2	-2.9	-0.2

Sources: CBTT Annual Economic Survey, CBTT Annual Report, CBTT Monthly Statistical Digest, CBTT Handbook of Key Economic Statistics 1989, Balance of Payments Report for Trinidad and Tobago; Central Intelligence Agency, World Factbook 2003.

*** Average of first second and third quarters

1 Based on real GDP (factor cost) calculated in 1985 prices

2 Rates prior to 1993 represents rates at which currency was converted as published in BOP Reports. Rates from 1993 onwards represent the mid-point of the average of the buying and selling rates of the TT/US dollar.

Table 1. Key Economic Indicators, Trinidad and Tobago, 1994-2001 - Cont'd

Indicator	1994	1995	1996	1997	1998	1999	2000	2001
Real GDP Growth (%)[1]	5.0	3.2	2.8	3.0	4.0	5.1	4.7	3.5
Inflation (%)	8.8	5.3	3.3	3.7	5.6	3.4	3.6	5.5
Unemployment (%)	18.4	17.2	16.3	15.0	14.2	13.1	12.2***	10.7**
External Current Account Balance(% of GDP)	4.4	5.0	1.2	-9.9	-10.5	0.5	6.7	5.3#
Overall Balance of Payments (% of GDP)	3.6	-0.5	3.7	3.0	1.3	2.4	5.4	3.7#
Gross International Reserves (US $ Mill.)	678.9	652.3	937.7	1120.3	1184.5	1367.8	1890.4	2531.1
Exchange Rate ($TT/US)2	5.87	5.89	5.99	6.25	6.28	6.27	6.27	6.21*
Overall Fiscal Balance (% of GDP)	0.0	0.2	-0.5	0.1	-1.9	-3.2	1.6	0.8

Sources: CBTT Annual Economic Survey, CBTT Annual Report, CBTT Monthly Statistical Digest, CBTT Handbook of Key Economic Statistics 1989, Balance of Payments Report for Trinidad and Tobago; Central Intelligence Agency, World Factbook 2003.

* Up to September 2001

** Data for first quarter 2001 only

*** Average of first second and third quarters

\# Ratios are for the period January-June 2001

1 Based on real GDP (factor cost) calculated in 1985 prices

2 Rates prior to 1993 represents rates at which currency was converted as published in BOP Reports. Rates from 1993 onwards represent the mid-point of the average of the buying and selling rates of the TT/US dollar.

2. POLICY ENVIRONMENT

This section of the study examines the existing policy framework within which business is conducted in Trinidad and Tobago. Given the country's high level of openness and dependence on foreign investment, close attention is paid to the existing investment and trade policies that are applied as part of overall industrial policy, which also includes broader fiscal and monetary frameworks.

The current industrial policy includes monetary, fiscal and investment policy. Monetary policy is geared towards the maintenance of a tight monetary stance in order to maintain a low and stable rate of domestic inflation, and external stability. Fiscal policy is aimed at the proper management of revenue and expenditure and the generation of fiscal balance. In this regard, government has taken steps to simplify and rationalize the tax structure and has expressed its objective to reduce both personal and corporate tax rates over time. Government also intends to continue on-going efforts to restructure and reorganize the Customs and Excise Division and to improve the administration and operation of the Value Added Tax Office.

Investment policy is focused on the belief that the private sector should play a leading role in economic growth. To this end, government intends to continue with the divestment of state enterprises and to continue to simplify the process of entry for foreign investors. New regulatory, institutional and legal frameworks have been developed to facilitate this process. As part of the investment initiative, two sectors, namely the Small Business Sector and the Export Processing Zone, have been targeted for development. Both areas of activity have benefited from the establishment of specialized institutions to assist and promote their development. Government has also provided fiscal and other incentives, as well as infrastructure and other support facilities to the target sectors.

During the structural adjustment years, significant changes were made to the country's trade policy in order to effect the necessary economic reforms and overall policy of liberalization. The main objective of trade-related reforms was and still is to increase efficiency and international competitiveness. This took the form of several policy initiatives, which include:

- The automation and improvement of the administration of the Customs and Excise Division
- Trade facilitation and improving market access
- Strengthening of regulatory institutions, namely the Trinidad and Tobago Bureau of Standards (TTBS) and the Caribbean Industrial Research Institute (CARIRI)
- The elimination of quantitative restrictions and the gradual reduction of tariffs
- The passage of anti-dumping and unfair trade practices legislation; and
- The elimination of import duties on capital goods and raw materials used by the manufacturing sector.

Given their importance to the economy, a closer look will now be given to the trade and investment policies.

3. TRADE POLICY

Trade Reform in Trinidad and Tobago

As a country that depends heavily on its ability to export, Trinidad and Tobago's trade policy has historically been an important determining factor in its economic development. One of the major features of the structural adjustment program of the 1990s was trade reform, which was focused on the development of a robust export capability and increased competitiveness of the non-traditional sectors, namely:

- Non-oil Manufacturing
- Agriculture and Agro-processing
- Services and
- Small Business

Typically this trade reform program involved a re-orientation of the focus of local production from one which was previously inward-looking[2], to a more export-oriented (outward-looking) path to development.

The main aspects of Trinidad & Tobago's trade reform program were as follows:

1) The dismantling of the Import Negative List for manufactured and agricultural products. This has been substantially reduced over the years with the exception of a few items;

2) The phased reduction of customs duty in accordance with CARICOM's schedule for the Common External Tariff, to a maximum of 20%, effective January 1998:

Period of Application	Maximum Tariff Rate (%)
01/01/93-31/12/94	35
01/01/95-31/12/96	30
01/01/97-31/12/97	25
01/01/98 onwards	20

2 T&T, like many other countries of Latin America in the late 1950s and for about four decades after, pursued a very protectionist trade policy based on the principle of import-substitution in an attempt to decrease its dependence on developed countries and to generate its own manufacturing capability. This strategy was effected *via* the use of the Import Negative List, and special duty free treatment for machinery and other inputs into manufacturing activities. It also led to active state ownership of enterprises and/or subsidies granted to fledgling enterprises.

3) The removal of Stamp Duty on imported goods and the implementation of a Value Added Tax (VAT), which is non-discriminatory in nature, and is levied on both local and imported goods and services;

2) Computerization of customs import and export procedures and a review of its operations, which included institutional strengthening and re-training of personnel;

4) Implementation of several measures to protect local producers from the use of unfair trade practices by both local and foreign competitors in an attempt to level the playing field especially in the early stages of liberalization. These measures included:

- Anti-Dumping and Countervailing Duties legislation (Anti-Dumping and Countervailing Duties Act, 1995) and the establishment of the Anti-dumping Authority;

- Customs reform aimed at reducing fraud such as under-invoicing, concealment and mis-declaration. Reforms were also made in the operation of the Customs and Excise Division along with the introduction of the Single Administrative Document (SAD) and the computer-based ASYCUDA (Automated System for Customs Data) program. These were intended to enable improvement in the overall efficiency of the operational processes and procedures with respect to the import and export of goods.

- Improved legislation pertaining to adherence to internationally accepted standards for imported products with the enactment of the Standards Bill, 1997 and

- The current drafting and future implementation of Competition Policy legislation, which would include legislation that provides for an institutional framework and a comprehensive education program for the public and private sectors and the population on a wider basis.

Agricultural Trade Reforms

With respect to agricultural trade reform resources and to adhere to GATT guidelines, the following measures were implemented:

- Elimination of all agricultural products except sugar and poultry from the Negative List

- Phased reduction of surcharges on agricultural items in order to improve incentives facing agriculture.

The Government has, however, been mindful that this relatively fast pace of liberalisation could have a negative impact on local producers particularly in the manufacturing and agricultural sectors in the short-term. Therefore, in order to ensure that local companies were allowed to compete on a level playing field with foreign competitors and not be victim to unfair competition, Government has instituted a regime of WTO-accepted safeguard measures, which consists of:

- Temporary Import Surcharges
- Anti-dumping Legislation
- Competition Policy (draft stage)

A system of import surcharges was introduced in 1990 to provide protection on a temporary basis, for locally manufactured products in the domestic market during the period of transition and adjustment of the import trading regime from one which was administered by the Import Negative List to one based on more market-oriented customs tariffs only, as represented by the CET. These surcharges were gradually reduced on a phased basis to zero per cent by January 01, 1995, and served to ensure a smooth transition for local manufacturers from a regime of protection to a liberalised trading environment.

Trade Agreements

The country is also signed to several bilateral and multilateral Trade Agreements apart from Caricom, which provide preferential treatment for locally produced goods. These include:

- Caricom/Colombia Trade Agreement
- Caricom/Venezuela Trade Agreement
- Trinidad and Tobago/Venezuela Partial Scope Agreement
- LOME Agreement
- Caribbean Basin Initiative (CBI)
- Caribbean-Canadian Trade Agreement (CARIBCAN)
- Free Trade Area of the Americas – Framework Agreement
- Generalized System of Preferences
- Global System of Trade Preferences
- General Agreement on Tariffs and Trade/World Trade Organization
- Association of Caribbean States

4. INVESTMENT POLICY

Policy Regimes Governing Foreign Direct Investment (FDI)

Investment policy has taken several forms over the years. As a small highly open economy with initially very little prospects for internally generated investment funds, investment policy has often, though not always, been designed with respect to attracting foreign investment.

Following independence in the 1960s, a strategy of widespread nationalization was pursued. The Trinidadian government assumed a leading role in investment and promoting growth, with the result that by the 1970s and into the first half of the 1980s, most enterprises of an industrial nature were either fully or partly government-owned. Although there was always a heavy presence of foreign investors, this was by and large confined to the energy sector and any foreign investment outside of that sector was generally not encouraged as Government pursued an inward-looking development strategy. Legislation pertaining to foreign investment often reflected a hostile or highly restrictive stance when it came to the ability of foreign investors to operate in T&T. However, a shift in policy towards FDI came in the face of economic decline brought on by the fall in oil prices in the 1980s and the country's mounting inability to finance its investment requirements from domestic savings. Within this new framework, FDI was identified as having a potentially crucial role to play in the mobilization of private foreign capital and engendering economic growth.

Present Investment Climate

The existing policy environment is more or less a consolidation of past attempts at improving the country's investment climate, offering a range of incentives to potential foreign and local investors.

Institutional Support

In an attempt to address some of the existing barriers to foreign investment, the Tourism and Industrial Development Corporation (TIDCO) was established by Government in 1993. Its mandate is to assist in the diversification of the economy by acting as a marketing, promotion and investment facilitation agency with respect to tourism, industrial development and export of goods and services.

TIDCO's major functions can be summarized as follows:

- To inform and implement Government policies with respect to investment, tourism, trade and industrial development

- To be a catalyst for sustainable economic development by promoting, facilitating and assisting the growth of export competitive and environmentally responsible business

- To be an advocate in shaping Government policies in the areas of tourism, trade, investment and industry by informing the regulatory, legal, institutional and informational environment based on local and international factors

- To promote T&T internationally and

- To interface with the international institutions such as the IBRD and the IDB to design, structure and execute projects in concert with the government.

The Company also promotes and facilitates the export activities of the local manufacturers and producers. It provides trade information on the criteria, rules and regulations for entering foreign markets as well as conducting sectoral studies and highlighting or promoting possible areas for investment. Some of the non-oil areas that are promoted include: Agri-business, Banking and Financial Services, Entertainment, Information Processing, Light Manufacturing and Marine Services.

Establishing a Foreign-Owned Business in Trinidad and Tobago

At present there is generally no requirement for approval or licensing for foreign investors. Foreign forms wishing to establish a business presence in Trinidad and Tobago are required to register within 14 days of their establishment. An external company is registered in Trinidad and Tobago by filing the following documents with the Registrar:

- Application for Registration of an External Company

- Affidavit or solemn declaration of an officer of the external company

- Copy of the corporate documents of the company

- Statutory declaration of an attorney-at-law

- Power of attorney

- The registration fee is TT$2,000 (approximately US$320) plus TT$40 (approximately US$6.35) for each of the above five documents.

Where there are sectoral regulations (such as banking, insurance, medical practitioners etc.) foreign investors must meet the requirements for entry and registration.

Over the years government has made concerted efforts to provide an environment that is both conducive to foreign investment and fair to other investors as well. To this end special incentives are offered to both local and foreign firms. These include many different investment incentives:

- Concessions from import duty on raw materials, machinery, and equipment for approved industrial projects
- Exemption from corporation tax on profits, and from tax on dividends (under the Fiscal Incentives Act and Hotel Development Act)
- Loss write-off provisions
- Training subsidies for developing new skills
- Provision of industrial sites and developed industrial accommodation
- Export allowances, promotion and assistance
- Export credit insurance
- Double taxation relief
- Exemption from Value Added Tax on inputs for companies exporting 80% of production
- Free Zones under Act 19 of 1988 and
- Venture Capital Companies under Act 22 of 1994.

In some circumstances incentives are available only to locally incorporated companies or locally owned companies. The following is a more explicit list of incentives that are currently offered to both foreign and locally owned businesses:

Tax Holidays

Under the Fiscal Incentives Act tax holidays (or partial holidays) for periods up to ten years may be granted for the manufacture of approved products by approved enterprises.

Approved enterprises may fall under the following classifications:

- Highly capital intensive enterprises investing in excess of TT$50 million (US$8.3million)
- Export enclaves, where products are manufactured exclusively for export
- Enterprises using a significant portion of local inputs

These concessions are discretionary and require applications to the Ministry of Trade and Industry via TIDCO.

An approved enterprise will also be granted exemption from customs duties and VAT on the construction of the approved project. These projects have usually been large-scale manufacturing within one of the three classifications, and are available only to locally incorporated companies. The tax exemption can be extended to dividends, which may be tax exempt and free of non-resident withholding tax on any taxes in excess of the investor's tax rate on the dividend in his country of residence.

Import Duty Concessions

The Customs Act Section 56 allows for concessions to be granted to approved enterprises for approved industrial projects.

The applications for approval are made to the Ministry of Trade and Industry *via* TIDCO and are granted to a wide range of manufacturing companies, which provide increased employment and use local materials to add value.

Venture Capital Act

The Venture Capital Act (1994) established a venture capital investment programme (VCIP) to approve venture capital companies. A tax credit is allowed at the marginal rate for investment in registered venture capital companies, which are approved and monitored by a government-appointed administrator. Dividends from a venture capital company are tax-exempt.

Loss Relief

The Income Tax Act and Corporation Tax Act provide for the carry-forward of tax losses without limitations. However, tax losses may be lost if a company's ownership changes with a view to transferring the losses. Group relief is available for 100% owned subsidiaries and parents but the company benefiting from surrendered tax losses must pay at least 75% of the taxes that would otherwise have been due.

Special Classes

The Income Tax Act provides for several special classes of company, which are entitled to a tax credit of 15% of their chargeable income for seven years. This reduces their effective tax rate to 20% from the statutory rate of 35%.

These special classes of company include:

- approved small companies
- approved companies trading in a regional development area and
- an approved activity company

These special companies must be locally incorporated and owned and are subject to a rigorous approval process to ensure that criteria outlined in the Income Tax Act are complied with. The approval process is via TIDCO except for approved small companies, which is via the Small Business Development Company Limited.

Non-Tax Incentives

Several non-tax incentives exist to assist increased production and extra-Caricom exports. These are administered by TIDCO and include industrial sites and developed industrial accommodation.

The Export Technical Assistance Facility (ETAF)

The objective of the ETAF is to assist actual and potential exporters to search, enter and maintain export markets. Specifically the aim is to motivate and assist individual firms with the preparation and implementation of export expansion plans that will create cost-effective expansion of sales and provide learning experiences in exporting and entering new markets. The ETAF is a matching grant program which will provide assistance to eligible local exporters on a 50/50 cost sharing basis to assist them with the cost of entering and competing in export markets.

Some incentives are also offered in order to attract investment in targeted sectors. These sectors include Construction, Tourism, Agriculture, Free Zones and Export.

Incentives for Investment in Construction

Local construction is provided with a range of tax incentives some of which are discretionary and some of which are performance-based.

Approved Property Development Company

Companies engaged in both urban and rural property development may apply to the Board of Inland Revenue to be "approved" as an urban and rural property development company. To be approved, companies must be locally owned and undertake construction in both rural and urban areas. Once approved they are entitled to an allowance against their taxable income of 15% of construction costs for commercial properties completed in the year of income.

Housing Act Exemptions

The Housing Act allows for the approval of the profits from construction of certain dwelling houses to be tax exempt. To be exempt the houses must have construction costs of less than TT$250,000. An approved housing company will also be allowed to distribute tax-exempt profits by way of tax-free dividends. Any houses constructed by an approved housing company may then be exempted from income tax on rentals for a period of ten years from the construction date.

Other Construction Tax Incentives

The Income Tax Act also provides for construction incentives that are performance-based. Any taxpayer may now obtain a wear and tear allowance on a newly constructed commercial property at the rate of 10% per annum on the declining balance.

As an alternative rental income can be exempted until the year 2000 but once the taxpayer has elected for one of these incentives, the election is irrevocable.

Incentives for Investment in Tourism

The Tourism Development Act (2000) provides for tax holidays of up to ten years and duty free concessions for the development of hotels.

In addition to the tax holiday the approved Hotel may be granted accelerated depreciation and capital allowances on the construction cost of the hotel after the holiday period. No depreciation is charged during the holiday period and an allowance of 20% per annum is allowed for any five of the following eight years after the holiday period. Tax-exempt profits may be distributed tax-free by way of dividends. This tax concession is granted on a discretionary basis based on the size of the hotel (minimum 10 rooms) and the capital expenditures involved.

Incentives for Investment in Agriculture

The Ministry of Agriculture, Land and Marine Resources has designed a new package of agricultural incentives. This incentive program(me) is expected to attract higher levels of investment capital and technology, foster linkages between primary producing and agro-processing sectors and enhance the foreign exchange earning capacity of both traditional and non-traditional sectors. The incentives are offered only to registered farmers and include:

1) Fiscal incentives, mainly in the form of duty-relief for a range of items such as:

   - Wheel tractors
   - Agricultural inputs (e.g. insecticides, herbicides, fungicides, etc.)
   - Hand tools
   - Small machinery
   - Vitamin/drug preparations for livestock/poultry
   - Vehicles (VAT relief)
   - Stamp duty exemption on a range of agricultural and
   - Inputs such as marine accessories, boat equipment

2) Guaranteed prices for the following commodities such as sugar, rice, coconut, citrus, cocoa, coffee and milk.

3) Other direct support measures that are offered include:

   - Input subsidies : planting material, breeding stock, fuel, etc.
   - Subsidized services: soil conservation, veterinaries services and
   - Subsidies for pasture establishment/ rehabilitation, water pumps and other specific investments

All three categories of incentives are consistent with the GATT Agreements (1994) on Agriculture.

Free Zones

Free Zone incentives have been developed in Trinidad and Tobago to promote the establishment of companies that export the majority of their goods and services. Free Zone companies generally produce large volumes of goods or services and therefore offer potential to increase the country's employment levels.

Under the Trinidad and Tobago Free Zones (Amendment) Act of 1995, an area may be designated a free zone becoming eligible to the incentives under the Act. These incentives include:

- Exemption from customs duty on the importation of goods into the free zone
- Exemption from income tax
- Exemption from corporation tax
- Exemption from business levy
- Exemption from withholding taxes on remittance of profits, dividends and other distributions
- Exemption from land and building taxes on land, buildings, improvements to buildings, plant and machinery in the free zone

The prescribed activities, which may be carried on in a free zone include:

- Warehousing and storing
- Manufacturing operations
- Transshipment operations
- Loading and unloading operations
- Exporting
- Importing
- Service operations including banking
- Insurance and professional services
- Packaging and shipping
- Assembling
- Processing, refining, purifying and mixing
- Merchandising, including international
- Trading on products.

Approved Free Zone Companies cannot supply more than 20% of goods produced in the Free Zone to the market in Trinidad and Tobago. They must also maintain separate accounts including the particulars of materials and goods imported, exported or used in manufacture within the Free Zone.

Incentives Offered for Export Activities

Tax Allowances for Promotional Expenses

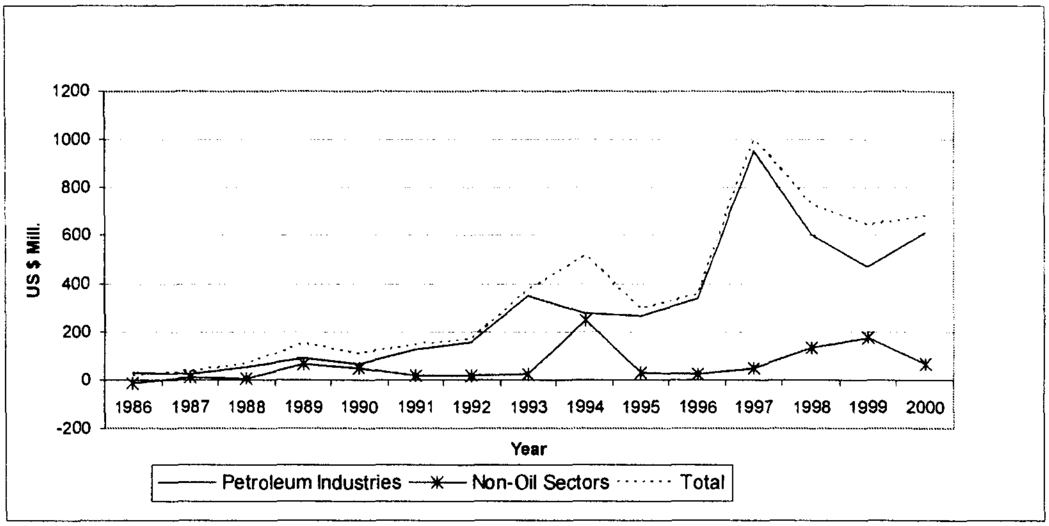
Promotional expenses wholly and exclusively incurred in order to create or promote the expansion of foreign markets (outside Caricom) for the export of goods or construction industry services are allowed to be grossed up to 150% of the expenses incurred.

Manufactured products exported outside Caricom (excluding petrochemicals, and certain products) are granted a tax credit. The tax credit covers the profits on the proportion of export sales to total sales so that profits on exports are effectively tax exempt. The export allowance was withdrawn in 2002.

The Effects of Foreign Investment Policy

An examination of the economy of Trinidad and Tobago reveals a very high level of penetration of foreign investors in many sectors. After falling to US$295 million in 1995, there has been a steady increase in FDI in the five years to 2000. FDI flows into the country were estimated at US$680 million in 2000. Prior to this recent increase, FDI spiked in 1993 and 1994 at US$373 million and US$521 million respectively, from US$171 million in 1992 and US$20 million in 1986. This apparent increase occurred primarily as a result of privatization of the large petrochemical industries, which took place in those years. While FDI continues to be concentrated in the energy sector, namely in the extraction and refinement of oil and gas (Chart 1), foreign investment flows also increased, albeit at a much slower pace in other non-energy areas of activity such as manufacturing, construction, tourism and other services during the second half of the 1990s.

CHART 1. TRENDS IN FDI BY SECTOR



There are approximately 152 foreign firms operating in Trinidad and Tobago, 42 in the energy sector and the rest in the non-energy sector. Table 2 below gives details on the extent of FDI by sector and industry in the energy and non-energy sectors. Within the non-energy sector, foreign firms have successfully permeated sectors such as services, manufacturing, distribution and retail sales. There are approximately 35 US firms, 18 from the UK and about 23 from Canada. Other countries with investment interests in the non-energy sector include India, Australia, Taiwan, Japan, Italy, France, Finland, Switzerland, Mexico and other Caribbean territories. In many cases, these industries dominate the product markets in which they operate. For instance, FDI dominates the margarine and butter markets, liquid milks, chocolates, tea and coffee drinks, toothpastes, pharmaceuticals, detergents and fabric softeners among others. As Table 2 indicates, there appears to be a particularly high degree of penetration by foreign firms (approximately 60 firms) in areas such as services including transport, financial services, courier services, professional services, utilities, pest control, security and fast food.

TABLE 2. EXTENT OF FDI BY SECTOR AND INDUSTRY NON-ENERGY SECTOR AS AT 1999

SERVICES	COUNTRIES
Transport:	
Marine	
Air	United States-2
	Antigua-1; Canada -1; United States -3
Helicopter	United Kingdom-1
Financial Services:	
Banking	Canada-1; United States-1; Venezuela-1
Insurance	
General	India-1; United States-1
Life	Barbados-2; Bermuda-1; Guyana-2
Actuarial	United Kingdom-1
Money Transfer	United States-1
Courier	United States-4
Professional Services	
Advertising	United States-1
Information systems	Japan-1; United States-2; United Kingdom-2
Services	Canada-2; Dominica-1
Accounting	United Kingdom-1; United States-1
Construction	Canada-1
Instrumentation (Elect.)	
Management Consultancy	
Trade Management	Canada-1
Project Management	Canada-1
Engineering	Canada-3
Environmental Management	Canada-2; United States-1
Utilities	
Water Resource Management	n.a.
Telecommunicaitons	Canada-1; United Kingdom-1; United States-2; Venezuela-1
Elect. Power Generation and Transmission	Canada-1; United States-1
Health Care	Canada-1; United States-1
Pest Control	United Kingdom-1
Security	United Kingdom-1
Fast Foods	United States-3
Gaming and Lottery	United States-1
Tourism (Hotel)	United States-1

TABLE 2. EXTENT OF FDI BY SECTOR AND INDUSTRY NON-ENERGY SECTOR AS AT 1999 - Cont'd

MANUFACTURING	COUNTRIES
Packaging:	Canada-2; France-1; United States-1
Consumer Products	Jamaica-1; United Stated-1
Pharmaceutical	India-1
Steel	Japan-1
Automobile	Canada-2; Japan-1
Clothing Accessories	France-1
Food Processing: General	
Fish and by-products	Barbados-1; Taiwan-1; United Kingdom-1
Meats	Barbados-1; Canada-1
Beans and Pease	Barbados-1; Italy-1
Dairy	Switzerland-1
Beverage	United Kingdom-1; United States-1
Cigarette	United Kingdom-1
Paper and Printing	France-1; United Kingdom-1; Venezuela-1
Construction Materials	Canada-2; France-1; India-1; United Sgtates-1; Venezuela-2
Table & Dinner-ware	Guyana-1
Artificial Teeth	United States-1
Lumbering	Finland-1
Metal Works	Venezuela-1
DISTRIBUTION	
Pharmaceuticals	United States-3
Books	United Kingdom-1
Consumer Goods	United States-1; United Kingdom-1
RETAIL	
Furniture	United Kingdom

Assessment of Policy Environment

Despite considerable attempts over the years in terms of liberalization of the domestic economy and providing an atmosphere conducive to investment by both foreign and local stakeholders, some weaknesses under the current policy framework were identified in the country's last Industrial Policy Paper (1996-2000). These were:

- Low labor productivity relative to leading industrialized countries
- Cumbersome bureaucracy, which delays approvals for investment
- Some strengthening of the legal framework was necessary
- A perceived lack of support from the financial sector in serving the needs of the business community and
- Trinidad and Tobago was inadequately promoted internationally as both a tourist and investment destination.

5. PRIVATIZATION POLICY

The role of the State has changed considerably in the post-structural adjustment phase of the country's economic development. During the years of economic boom in the 1970s and early 1980s, the State assumed the leading role in the country's development by actively engaging in economic activity through state-owned enterprises. However, economic recession and the resultant need for structural adjustment made the high costs of maintaining the public enterprise sector unacceptable at that time. The years that followed witnessed a concerted attempt by Government to rationalize its involvement in economic activity and in particular, productive activity.

The State was subsequently seen as a facilitator of economic activity, providing a stable and appropriate macro-economic environment, good governance, effective services in the areas of law and order, public health, training and infrastructure. Government therefore embarked on a Divestment Program in 1993, establishing a Divestment Secretariat to oversee the conduct of the program. To date, Government has divested either all or part of its holdings in about thirty-three (33) enterprises. Currently, government still has full ownership of twenty-five (25) companies in areas such as energy and energy-based industries, financial services, manufacturing and agro-based industries, services and transport and communication. The Trinidad and Tobago Government also has majority holding in five (5) companies, three of which are engaged in financial services, with the remaining two in the service and transport and communications industries. The State also has minority ownership in six (6) companies; two in the financial services industry, the manufacturing and agro-based industry and the transport and communication industry, respectively.

6. REGULATION OF KEY SERVICE PROVIDERS

The Regulated Industries Commission (RIC) is a statutory body established under the Regulated Industries Commission Act, No. 26 of 1998, which came into effect on June 01, 2000. The RIC succeeded the Public Utilities Commission (PUC) and is intended to be a consumer-oriented entity with strong regulatory powers and responsibilities. The RIC is responsible for regulating the providers of public utilities in Trinidad and Tobago and is entrusted to ensure transparency, fairness and equity, while facilitating competition and promoting the sustainability of these services.

Service providers, which come under the supervision of the RIC, are:

- The Water and Sewerage Authority (WASA)
- Trinidad and Tobago Electricity Commission (T&TEC)
- Telecommunications Services of Trinidad and Tobago Ltd. (TSTT)
- The Power Generation Company of Trinidad and Tobago Ltd. (POWERGEN)
- InnCogen Limited (INNCOGEN)

The functions of the RIC include:

- Making recommendations with respect to the award of licences
- Monitoring and enforcing compliance with licence conditions
- Establishing the principles upon which tariffs will be based and monitoring rates charged to ensure compliance
- Prescribing standards for services and monitoring compliance of those standards
- Carrying out diagnostic studies on efficiency, economy of operation and performance
- Facilitating competition between service providers where competition is possible and desirable
- Investigating complaints by consumers, of their failure to obtain redress from service providers
- Imposing and collecting fees for licenses and
- Ensuring that service providers earn sufficient return to finance necessary investment.

7. SECTORAL ANALYSIS

This section of the study is intended to provide a more detailed look at the structure of key sectors in the economy. Sectors identified as having a more important economic role were chosen according to their contribution to overall economic output, i.e., their contribution to GDP. In the case of Trinidad and Tobago, these include the Manufacturing, Construction, Transport, Storage and Communication, Distribution and Other Services (Hotels and Guest Houses) sectors. An attempt was made to identify key characteristics as indicators of the level of competition or how contestable a particular industry may be. Some of these characteristics include:

- Number and size of firms in existence
- Distribution of market share
- Existence of dominant firms or natural monopolies
- Ownership structure of firms (whether foreign or local)
- Rules governing entry and exit; and where possible
- Competition issues facing firms in their respective industries

Methodology

Data for this section of the study were collected using a sample of firms from the non-energy sector. Firms were selected on the basis of size by employment and contribution to the overall output of the sector or industry under which they are classified according to the Central Statistical Office (CSO). Firms were surveyed primarily by means of a questionnaire and, in some cases, telephone interviews. The questionnaire was designed to incorporate questions specific to the parameters outlined above. While all responses were not complete, every attempt was made to make inferences regarding missing data based on *a priori* knowledge of the particular industry.

Construction Sector

With respect to its contribution to total output of the economy, between 1995 and 1999, activity in the Construction sector accounted for an average of 9 per cent of GDP. Employment statistics showed that over the same period, Construction (including electricity and water) employed, on average 12 per cent of the labour force. Though technically classified as a non-oil sector, activity in the Construction sector is closely linked to developments in the Petroleum sector since any expansionary activity in that sector usually requires commensurate investment in plant and relevant infrastructure. In addition, increased activity in the Petroleum sector, which usually translates to higher GDP, often leads to increased activity in construction by way of infrastructure development and commercial and residential real estate.

According to the CSO, there are about 1,430 firms operating in the Construction sector. These firms range in scope with respect to the type of construction activity in which they engage. These activities include industrial and residential building, road building, asphalt paving, ready-mix concrete paving and installation of fixtures and fittings. The ownership structure of firms reveals a high degree of local dominance in this sector. Of the ten largest firms, two are foreign-owned,[3] while the rest are local. These firms also range in size (according to labour force) from 350 to 999 employees.

While there exists no formal barriers to entry, entry costs tend to be relatively high, given the high cost of capital and the nature of payments for projects, which generally requires completion of part of a project before payments are made. Successful operation in the sector also requires a certain amount of 'time-in-train' in order to build a proven track record as well as a certain level of expertise, all of which tend to preclude easy entry.

Nevertheless, the industry as a whole is regarded as very competitive particularly within the recent past as some firms have begun outsourcing services such as labour and transport, thereby curbing overheads. This can however, have negative consequences, for example, if there are several large projects taking place simultaneously, there can be a shortage of these services, resulting in costly delays.

Projects are awarded generally by a tendering process, which is where competition issues arise in this sector. There appears to be a general lack of transparency with regard to the tendering process, particularly with respect to large government projects. It is alleged that larger players in the sector exert political influence in order to secure projects. With respect to the provision of certain fixtures and fittings such as air conditioning, there has been a drastic reduction in cost by certain players in the sector.

Manufacturing

This sector has made commendable strides over the years, in terms of assisting in the diversification process, to the extent that local manufacturers have managed to successfully penetrate CARICOM markets as well as those in other regional and extra-regional territories. Much of the import substitution strategy of the 1960s and 1970s was designed to protect Manufacturing from imported competition, which allowed for the mushrooming of a wide range of manufacturing firms. Though trade liberalization and the dismantling of various forms of protection led to the closure of some firms, which were unable to withstand the

3 Bechtel (Canada) Ltd. of Canada and Carillion Ltd. of the United Kingdom.

pressures of international competition, for the most part, the sector has performed favorably in the face of stiff competition from imports. As a result, this sector continues to be placed at the forefront of the diversification thrust given its potential to generate export earnings and employment. The contribution of the Manufacturing sector to GDP averaged 7.8 per cent between 1995 and 1999.

Firms surveyed in this study were selected on the basis of their contribution to the overall output of the sector. According to classifications used by the CSO, these firms fall in the following areas of activity: Food, Beverages and Tobacco; Printing and Publishing, Chemicals and Non-Metallic Minerals and Assembly-Type and Related Industries. There are an estimated 1,442 firms in these industries.

Chemicals and Non-Metallic Minerals

There are about 190 firms operating in this sub-sector with the six largest firms ranging in size from about 100 to 500 employees and engaging in areas of activity such as the manufacture of cement, bottles, construction materials and plastic fixtures and fittings.

Cement

With respect to the production of cement, there is one local producer, which is jointly-owned by local (80 per cent) and foreign (20 per cent) parties, with the foreign owners being Mexican cement producer Sierra Trading (CEMEX S.A. de CV). This company also has subsidiaries in Barbados and Jamaica and has therefore cornered the CARICOM market with respect to the production and sale of cement in the region. With only one producer of cement in Trinidad and Tobago, the local industry is not competitive by any standard. One reason for the lack of entry into this area of production is its capital intensity and subsequent high entry cost (about US$100 million). It also requires a considerable amount of expertise and technical know-how. Within the recent past, there has been some proven cases of dumping of cement in the domestic market by Thai producers.

Construction and Building Materials

With respect to the manufacture of construction and building materials, it is not clear how many local firms exist. However, there are about five foreign-owned firms involved in the manufacture of ceramic floor tiles, paints, electrical fittings, aluminum doors and window frames. Nevertheless, the market is generally perceived to be dominated by local producers. Entry requirements vary according to the particular segment of the industry, for example, in the manufacture of clay construction materials, entry is relatively difficult as start-up requires a sizeable initial investment of about TT$20 to TT$50 million. Successful operation also depends on proximity to raw materials, as transportation costs could be onerous.

As a result, this segment of the market is dominated by one producer, which has about 70 per cent of the clay block market. For other non-clay products such as concrete blocks, windows and roofing, entry can be relatively easier since they require lower start-up costs. Though a certain level of expertise is necessary, such know-how as well as the requisite machinery and equipment is readily available locally. While certain segments of the industry tend to be dominated by few producers, the market can be generally described as very competitive, given the high degree of substitutability between certain types of construction materials (e.g. building blocks) which are almost generic by nature. Furthermore given the nature of the products involved, they are usually purchased once by the average consumer, therefore producers cannot use alternative avenues for competing such as service or maintenance. Competition among producers therefore generally takes place at the level of prices. Competition issues arising in this sector pertain to the allegation that some producers attempt to lower cost by not charging and/or remitting the proceeds of the Value Added Tax (VAT), which, if true, calls for closer monitoring and administration by the VAT Office.

With respect to the manufacture of plastic fixtures and fittings, though one local producer accounts for 60 per cent of the market share, the industry has become more competitive since liberalization as parts can now be readily imported and distributed. This also means that entry requirements are also easier met since this type of distribution requires no specialized skill and costs an estimated US$20,000 to begin trading. Competition issues arise in the area pertain to the non-uniformity of standards across the industry. In the domestic market, conformity to standards is voluntary, which perhaps suggest the need for increased vigilance on the part of the Trinidad and Tobago Bureau of Standards (TTBS).

Distribution

The Distribution sector, which is comprised of both wholesale and retail distributors, is clearly the most important non-oil area of activity in terms of its contribution to overall output. Between 1995 and 1999, Distribution accounted for an average of 15.5 per cent of GDP.

Distribution-Retail

There are approximately 8,363 retail distributors in Trinidad and Tobago, which are involved in the retail selling of food, beverages, toiletries, pharmaceuticals, furniture, electronics, automobiles and automotive products.

Selling of food and beverages is more or less done through supermarkets and a number of smaller family-owned grocery stores. This type of trade is largely dominated by one retail supermarket chain which has managed to penetrate main suburban areas through a pervasive network of outlets.

CONCLUSION

Despite the persistence of gaps in current policy, progressive liberalization has to a large extent provided an atmosphere conducive to investment by both foreign and local stakeholders. An examination of the economy of Trinidad and Tobago reveals a very high level of penetration of foreign investors in many areas, especially the energy sector.

Trinidad and Tobago has emerged as a leading exporter of services and manufactured goods within Caricom despite its continued dependence on the extractive sector. While securing openings for Trinidadian non-oil exports through recently concluded bilateral trading arrangements with non-Caricom countries such as Costa Rica and the Dominican Republic, the Trinidadian government's current trade liberalization strategy has also had the effect of further opening the economy to competition in most tradable sectors.

UPDATE ON THE ECONOMY OF THE BAHAMAS[1]

Central Bank of Bahamas

1. MACROECONOMIC OVERVIEW

The Commonwealth of The Bahamas is an archipelago comprising 700 related islands and cays and interconnecting waters in the Atlantic Ocean. It is spread over some 100,000 square miles, with a total land mass of 5,382 square miles. There are some thirty inhabited islands, and the capital city, Nassau, is located on the island of New Providence, while the city of Freeport, the second largest city, is situated on Grand Bahama. At its northern, western, eastern, and southern borders lie The United States of America, Cuba, Haiti/ Dominican Republic and Turks & Caicos Islands, respectively.

The 2000 Census Report estimates the population of The Bahamas at 303,611, with an estimated average annual growth rate of 1.99% per annum from 1990 to 2000. The bulk of the population, at 210,832 or 69% reside in New Providence, while 46,994 or 15% reside in Grand Bahama. The other islands (called the Family Islands) are less populated.

Gross Domestic Product

The IMF estimates for The Bahamas indicate that real GDP grew from 1992 to 2002 at an average annual rate of 2.12% (Tables 1 and 2). The period began with the economy's emergence from recessionary conditions in the previous two years owing to the Gulf War. This recovery continued into 1993 and 1994 with a moderation in 1995 and gains in 1996 and 1997 and stabilizing thereafter. Recent estimates of nominal GDP point to a 2.0% increase in 2002 and 2.9% projected for 2003. These preliminary estimates for 2003 take into account a number of major investment projects that have recently been finalized, most notably the $600 million expansion (revised upward to $1 billion in May 2004) of the Atlantis

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Table 1. Gross Domestic Product, 1992 to 2002
Years Ended December 31, (in millions except as otherwise indicated)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Nominal GDP(1)	$2,857	$2,854	$3,053	$3,069	$3,742	$3,940	$4,190	$4,573	$4,920	$4,917	$5,058
Increase (decrease) in nominal GDP(2)	-7.5%	-0.1%	7.0%	0.5%	21.9%	5.3%	6.3%	9.1%	7.6%	-0.1%	2.9%
Nominal per capita GDP(1)	$10,823	$10,608	$11,184	$11,041	$13,130	$13,633	$14,314	$15,354	$16,238	$15,956	$16,276
Population (in thousands)(3)	264	269	273	278	285	289	294	298	304	310	316
Real GDP (1991 *prices*)	2720.9	2664.8	2716.8	2746.1	3205	2785	2848	3,189	3,348	3,280	3,357
Estimated increase (decrease) in real GDP(2)	n.a.	-2.1%	2.0%	1.0%	16.7%	-13.1%	2.3%	12.0%	5.0%	-2.0%	2.3%

Source: Ministry of Finance and Department of Statistics.

(1) Represents Ministry of Finance estimates based on GDP growth data prepared by the IMF.

(2) Represents IMF estimates.

(3) Represents Department of Statistics estimates.

Table 2. Nominal GDP and Expenditures (as a % of nominal GDP), 1992-2002
Years Ended December 31, (in millions and as a percentage of nominal GDP) - Continued

	1992		1993		1994		1995		1996	
Nominal GDP(1)	$2,857	100%	$2,854	100%	$3,053	100%	$3,069	100%	$3,742	100%
Add: Imports of goods and services	$1,499	52%	$1,497	52%	$1,640	54%	$1,797	59%	$1,987	53%
Total supply of goods and services	$4,356	152%	$4,351	152%	$4,693	154%	$4,866	159%	$5,729	153%
Less: Exports of goods and services	$1,607	56%	$1,651	58%	$1,710	56%	$1,772	58%	$1,831	49%
Total goods and services available	$2,749	96%	$2,700	95%	$2,983	98%	$3,094	101%	$3,898	104%

	1997		1998		1999		2000		2001		2002	
Nominal GDP(1)	$3,940	100%	$4,190	100%	$4,576	100%	$4,920	100%	$4,917	100%	$5,058	100%
Add: Imports of goods & services	$2,396	61%	$2,727	65%	$2,730	60%	$3,106	63%	$2,818	57%	$2,758	55%
Total supply of goods & services	$6,336	161%	$6,917	165%	$7,306	160%	$8,026	163%	$7,735	157%	$7,816	155%
Less: Exports of goods & services	$1,839	47%	$1,896	45%	$2,417	53%	$2,724	55%	$2,564	52%	$2,568	51%
Total goods and services available	$4,497	114%	$5,021	120%	$4,889	107%	$5,302	108%	$5,171	105%	$5,248	104%

Source: The Central Bank of The Bahamas.
(1) Represents Ministry of Finance estimates based on GDP growth data prepared by the IMF.

resort on Paradise Island. The inflation rate in The Bahamas has been relatively low, averaging near 2.0% over the review period after starting at the high of 5.6% in 1992 but steadily declining thereafter.

Government

The government plays a significant role in the Bahamian economy, accounting for an estimated 20% of GDP in recent years and employing an estimated 29% of the workforce. It also participates in the communications, transportation, utilities, hotel and banking industries through its ownership of 24 public corporations. In continuing its pursuit of a program of privatisation, the government is in the final stages of privatising Bahamas Telecommunications Company Limited, or "BTC," which is the dominant provider of telecommunication services in The Bahamas.

Employment and Labour

The unemployment rate increased in 2002 (Table 3) due to a number of international factors affecting the tourism industry, including a reduction in the number of visitors from the United States following the September 2001 terrorist attacks. Prior to this, unemployment rate increases in the early 1990s moved in tandem with recessions in the United States whereas an offsetting boost occurred in government spending leading up to the 1992 general elections. Declines in the unemployment rate that followed were the result of the increase in employment associated with the opening of the Atlantis resort in 1998 and other developments. The unemployment rate is expected to decline over the next several years as a result of a number of tourism-related projects, including the $600 million expansion of the Atlantis resort, the reopening of Club Med in San Salvador, the $130 million Carnegie Club project in Abaco and similar projects expected in the near future in Exuma Cays, South Eleuthera, Rum Cay, Cat Island, Grand Bahama and other Family Islands.

Inflation

The inflation rate in The Bahamas (Table 3) tends to parallel movements in inflation rates in the United States, reflecting the openness of the Bahamian economy and the fixed exchange rate. The Bahamas has, in recent years, experienced relatively low inflation rates. Despite higher energy costs, domestic inflation climbed to 2.2% in 2002. The domestic inflation rate in 2001 was 2.0%. Accelerated price increases for education costs and furniture and household goods in 2002 were offset by slowed cost advances on most other goods and services.

Table 3. Annual Average Rate of Unemployment/Inflation, 1992 - 2002

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Average unemployment rate	**14.8**	**13.1**	**13.3**	10.9	11.5	9.8	7.8	7.8	n.a.*	6.9	
	9.1										
Average Inflation rate (Avg. chg. *in retail price index*)	5.6	2.7	1.3	2.1	1.4	0.5	1.3	1.3	1.6	2.0	2.2

Source: Department of Statistics

* The Government does not compile unemployment data for census years. A census is conducted by the Department of Statistics every ten years for each year ending in "0".

Fiscal Management

The fiscal management program (Table 4A) continues to focus on strengthening the overall budgetary situation through improvements in tax administration and enforcement capacity, enhancement of revenues and containment of expenditures and a carefully considered privatization program. The fiscal year of The Bahamas consists of twelve months ending June 30 of each year.

The Fiscal 2002/2003 budget, approved by Parliament in June 2002, reaffirmed the Government's commitment to fiscal prudence and to pursuing policies to strengthen the Bahamian economy while giving priority to the improvement of social welfare. The budget featured provisions for the establishment of the Ministry of Financial Services and Investments and a mandate that the Ministry of Financial Services and Investments develop new initiatives in the financial services and e-commerce areas. The Fiscal 2002/2003 budget also reflected the importance of trade liberalization initiatives to The Bahamas by including provisions for the reorganization of the Ministry of Economic Development into the Ministry of Trade and Industry with the central responsibility for coordinating The Bahamas' negotiations with the World Trade Organization and the Free Trade Area of the Americas. The Fiscal 2002/2003 budget also outlined new incentives for the development of the Family Islands Development through the proposed creation of duty-free Economic Enterprise Zones in depressed communities. The budget also provided for the elimination of the stamp tax for first-time home buyers for homes valued less than $250,000 for an initial period of five years. In addition, the Government announced in January 2003 its plans to conduct a comprehensive review of The Bahamas' existing tax system to determine the changes necessary to align the tax system to trade liberalization obligations that The Bahamas may assume under the World Trade Organization and the Free Trade Area of the Americas.

The Fiscal 2003/2004 budget forecasts an overall deficit of $122 million as compared with a projected deficit of $172 million in Fiscal 2002/2003. The budget forecast reflects the government's estimate that improved revenue administration will yield an additional $30 million in revenues in Fiscal 2003/2004. Inclusive of net lending ($29 million) to public corporations, the expenditure target was set at $1.2 billion, which is $18 million, or 1.5%, above the 2002/2003 budget. Capital spending is budgeted at $145 million. Total revenues, which are estimated at $1.0 billion, are expected to exceed the Fiscal 2002/2003 budget by 3.6%.

Government Revenue

The Bahamas does not have a system of direct taxation, but instead relies on indirect taxes, mainly in the form of customs duties, stamp taxes, real property taxes and taxes on tourism activities. The majority of the revenue collected derives from taxes on international trade, which has represented 62.8% of total revenue over the past decade on a calendar

Table 4a. Budgeted Fiscal Indicators
Years Ended December 31 (in millions, except as otherwise indicated)

	Budget 2002/03	Budget 2003/04
Revenue and Grants	**962,761**	**991,503**
Tax Revenue	879,762	889,282
Non-tax Revenue	77,802	83,794
Capital Revenue	3,000	18,000
Grants	2,197	427
Expenditure	**1,109,302**	**1,114,493**
Current Expenditure	953,894	968,938
Capital Expenditure	127,435	119,705
Net Lending [( ) = repayment]	27,973	25,850
GF Surplus/Deficit (A-B)	146,541	122,990
Internal Borrowing	**186,166**	**173,290**
Bahamian Dollars	**186,166**	**173,290**
Treasury Bills (net)	-	-
Loans	-	-
Government Securities	-	-
Foreign Currency		
Loans	-	-
Government Securities	-	-
External Borrowing	**29,661**	**26,066**
Government Securities	-	-
Loans	29,661	26,066
Other Financing [( ) = decrease]	0	0
Change in short-term advances	-	-
Other	-	-
Debt Repayment	**66,853**	**73,952**
Internal	59,146	65,256
Bahamian Dollars	54,146	60,256
Foreign Currency	5,000	5,000
External	7,707	8,696
Cash Balance Change [( ) = increase]	-	-

Source: Treasury Accounts and Treasury Statistical Summary Printouts.

basis. Non-tax revenue, comprising various fees, service charges and property sales, has accounted for a further 10.4% of total revenue over the same period.

A significant restructuring of the tax system in The Bahamas is likely to occur in response to trade liberalization obligations that The Bahamas would assume as a member of the World Trade Organization and the Free Trade Area of the Americas. The government commissioned a comprehensive review of its tax system in January 2003.

External Debt

Total direct external government debt stood at $95.9 million as of December 31, 2002, representing a decrease of approximately 18.3% from its highest recorded amount of $117.5 million in December 2001(Table 4b). Historically, The Bahamas has not relied heavily on external borrowings, although in April 1997, it completed a sovereign note offering of $50.0 million. As of December 31, 2002, external debt, including non-governmental guaranteed debt of public corporations, accounted for approximately 33.3% of total direct government debt.

Total Debt Service

During the ten-year period ended December 31, 2002, foreign currency debt service of the government accounted for an average of 2.71% of GDP and Bahamian dollar debt service accounted for an average of 3.67% of GDP. The foreign currency public sector debt to GDP ratio fell steadily from 15.9% in 1993 to 5.9% in 2002, with the growth portion of actual public sector foreign currency debt attributed to public corporations, outstripping the growth attributed to government.

From 1993 to 2002, Bahamian dollar debt service requirements grew at an annual average rate of 5.2%, whereas foreign currency debt service recorded average annual growth of 1.7%, and growth in overall debt service of 3.6%. In recent years, the debt service requirements for Bahamian dollar debt have outweighed such requirements for foreign currency debt, consistent with the higher Bahamian dollar debt burden. From 1993 to 2002, the ratio of foreign currency debt service to government revenues showed relative declines within a low range of 10.2% to a high range of 21.7%. The ratio rose in the first half of 2002 which boosted the ratio for that year.

External Sector

The Bahamas customarily has a current account deficit because it imports significant volumes of goods and services to support the tourism industry. For this reason, the

Table 4b. Selected Fiscal Data, 1993-2002

	1993	% GDP	1994	% GDP	1995	% GDP	1996	% GDP	1997	% GDP
Selected Fiscal Indicators										
Revenue & Grants	**537,146**	18.8	**618,227**	20.2	**660,193**	21.5	**686,415**	18.3	**729,460**	18.5
Tax Revenue	482,108	16.9	552,585	18.1	585,559	19.1	615,270	16.4	658,237	16.7
of which: Int' Trade	312,944	11.0	378,236	12.4	393,764	12.8	404,774	10.8	483,782	12.3
NonTax Revenue	55,038	1.9	62,054	2.0	61,553	2.0	70,623	1.9	69,918	1.8
Capital Revenue	-		-		9,000		22		805	
Grants	-		3,588		4,081		500		500	
Current expenditure	533,425	18.7	551,596	18.1	586,213	19.1	650,178	17.4	699,004	17.7
Capital expenditure	50,623	1.8	52,941	1.7	71,117	2.3	69,581	1.9	130,395	3.3
Net Lending to public enterprises	38,219	1.3	33,666	1.1	26,051	0.8	30,107	0.8	35,524	0.9
Deficit	**(85,121)**	-3.0	**(19,976)**	-0.7	**(23,188)**	-0.8	**(63,451)**	-1.7	**(135,463)**	-3.4
Debt Indicators										
External Debt	110,609	3.9	101,032	3.3	90,863	3.0	76,940	2.1	96,344	2.4
Direct Debt of Government	1,063,608	37.3	1,135,129	37.2	1,164,488	37.9	1,233,148	33.0	1,378,446	35.0
of which F/C	167,255	5.9	148,803	4.9	155,518	5.1	133,245	3.6	147,545	3.7
of which B$	896,353	31.4	986,326	32.3	1,008,970	32.9	1,099,903	29.4	1,230,901	31.2
National Debt	1,414,617	49.6	1,480,455	48.5	1,498,600	48.8	1,547,342	41.4	1,710,405	43.4
of which F/C	392,133	13.7	367,948	12.1	359,428	11.7	326,003	8.7	358,068	9.1
Total Public Sector B$ Debt	472,465	16.6	444,520	14.6	413,002	13.5	391,405	10.5	433,977	11.0
Government	285,449	10.0	263,330	8.6	237,083	1.0	226,475	6.1	272,144	6.9
Public corporations	187,016	6.6	181,190	5.9	175,919	5.7	164,930	4.4	161,833	4.1
Total Public Sector F/C Debt	452,704	15.9	412,133	13.5	392,601	12.8	359,720	9.6	419,689	10.7
Government	167,255	5.9	148,803	4.9	155,518	5.1	133,245	3.6	147,545	3.7
Public corporations	285,449	10.0	263,330	8.6	237,083	7.7	226,475	6.1	272,144	6.9
Total Public Sector B$ Debt Service	116,343	4.1	118,096	3.9	134,362	4.4	128,738	3.4	151,691	3.9
Principal	42,734	1.5	41,649	1.4	56,318	1.8	47,704	1.3	63,173	1.6
Interest	73,609	2.6	76,447	2.5	78,044	2.5	81,034	2.2	88,518	2.2
Total Public Sector F/C Debt Service	116,707	4.1	99,417	3.3	89,806	2.9	100,157	2.7	101,393	2.6
Principal	85,707	3.0	67,502	2.2	58,534	1.9	63,867	1.7	74,112	1.9
Interest	31,000	1.1	31,915	1.0	31,272	1.0	36,290	1.0	27,281	0.7

Table 4b. Selected Fiscal Data, 1993-2002 - Continued

	1998	% GDP	1999	% GDP	2000	% GDP	2001	% GDP	2002	% GDP
Selected Fiscal Indicators										
Revenue & Grants	**761,347**	18.2	**869,099**	19.0	**937,208**	19.0	**920,269**	18.7	**885,642**	17.5
Tax Revenue	681,444	16.3	793,258	17.3	862,485	17.5	820,124	16.7	795,975	15.7
of which: Int' Trade	448,060	10.7	502,686	11.0	525,839	10.7	528,294	10.7	506,637	10.0
NonTax Revenue	79,450	1.9	75,535	1.7	74,707	1.5	100,082	2.0	89,666	1.8
Capital Revenue	452		306		15		63		2	
Grants	-		-		-		-		-	
Current expenditure	726,544	17.3	787,591	17.2	817,264	16.6	862,124	17.5	919,607	18.2
Capital expenditure	81,993	2.0	96,768	2.1	98,911	2.0	92,861	1.9	99,509	2.0
Net Lending to public enterprises	35,395	0.8	35,320	0.8	33,838	0.7	59,543	1.2	5,046	0.1
Deficit	**(82,585)**	-2.0	**(50,580)**	-1.1	**(12,805)**	-0.3	**(94,259)**	-1.9	**(138,520)**	-2.7
Debt Indicators										
External Debt	93,300	2.2	104,737	2.3	110,247	2.2	117,495	2.4	95,953	1.9
Direct Debt of Government	1,435,992	34.3	1,512,603	33.1	1,514,357	30.8	1,603,539	32.6	1,806,484	35.7
of which F/C	137,230	3.3	134,087	2.9	131,017	2.7	153,885	3.1	225,953	4.5
of which B$	1,298,762	31.0	1,378,516	30.1	1,383,340	28.1	1,449,654	29.5	1,580,531	31.2
National Debt	1,875,177	44.8	1,886,282	41.2	1,878,970	38.2	1,962,296	39.9	2,212,829	43.7
of which F/C	364,979	8.7	363,505	7.9	350,098	7.1	345,860	7.0	442,856	8.8
Total Public Sector B$ Debt	453,292	10.8	533,549	11.7	486,507	9.9	248,986	5.1	296,193	5.9
Government	293,236	7.0	332,230	7.3	294,107	6.0	249,001	5.1	296,451	5.9
Public corporations	160,056	3.8	201,319	4.4	192,400	3.9	206,346	4.2	205,796	4.1
Total Public Sector F/C Debt	430,466	10.3	466,317	10.2	425,124	8.6	248,986	5.1	296,193	5.9
Government	137,230	3.3	134,087	2.9	131,017	2.7	153,885	3.1	225,953	4.5
Public corporations	293,236	7.0	332,230	7.3	294,107	6.0	249,001	5.1	296,451	5.9
Total Public Sector B$ Debt Service	131,945	3.1	154,769	3.4	157,245	3.2	185,723	3.8	183,211	3.6
Principal	41,618	1.0	58,812	1.3	66,505	1.4	85,084	1.7	85,550	1.7
Interest	90,327	2.2	95,957	2.1	90,740	1.8	100,639	2.0	97,661	1.9
Total Public Sector F/C Debt Service	81,816	2.0	127,020	2.8	95,710	1.9	109,554	2.2	136,159	2.7
Principal	51,917	1.2	97,825	2.1	64,179	1.3	80,442	1.6	111,456	2.2
Interest	29,899	0.7	29,195	0.6	31,531	0.6	29,112	0.6	24,703	0.5

Source: The Central Bank of The Bahamas.

government has adopted several important initiatives designed to reduce the level of imports by encouraging the use of domestic agricultural and manufactured goods by the services sector and also to increase exports of domestically produced goods. The current account deficit has largely been offset by a capital account surplus due to the inflow of private capital into the economy, particularly in connection with tourism-related projects.

Foreign Trade

Geographic Distribution of Trade

The largest trading partner of The Bahamas is the United States (Table 5), which primarily reflects the close proximity of the countries, the effective parity of U.S. and Bahamian dollars, and the generally favourable relationship between the countries. The Bahamas also conducts a substantial amount of trade with Canada, the United Kingdom and other countries comprising the European Union. According to most recent estimates, the U.S. received 76.8% of non-oil exports and accounted for roughly 83.1% of all imports in 2001. Corresponding numbers for the European Union were 11.2% and 1.3%, and for other countries (among them, the UK, Canada, Caribbean countries and others) were 12.0% and 15.6%, respectively. Given its heavy reliance on trade with the United States, The Bahamas' economy is, and will continue to be, dependent upon economic and other conditions in the United States.

Balance of Payments

The two accounts of the balance of payments is comprised of: (1) the current account, which includes net exports of goods and services (the difference in value of exports minus imports) and income, net financial and investment income, and net transfers and (2) the capital account, which is the difference between financial capital inflows and financial capital outflows.

The Bahamas' external current account deficit largely reflects the trends in tourism receipts and merchandise trade, which together is a reflection of the fiscal policy of the government. The current account deficit decreased in 2002 to $299.6 million from $388.0 million in 2001 and $500.9 million in 2000 (Table 6). The merchandise trade deficit increased on average 8.5% per annum beginning from 1994-2000 (despite an average annual growth in exports of 25.8% as compared to imports of 13.0%) before declining by 17.7 % in 2001 to $1093.7 million and a further 6.8% in 2002 to $1019.1 million. During the review period, the overall services account surplus has remained relatively stable with the major fluctuations occurring in the travel receipts in the wake of weaknesses in the tourism sector and overall economy. In 2002 the services account surplus also decreased to $887.9 million in 2002 from $837.5 million in 2001 as a result of an increase in net investment income outflows

Table 5. Imports and Exports, by Category, 1992-2001

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Imports: (1)										
Foods and live animals	$184.3	$190.0	$196.8	$209.0	$224.3	$232.7	$260.1	$261.8	$278.7	$273.8
Beverages and tobacco	$24.7	$22.0	$19.5	$20.4	$20.6	$27.2	$35.3	$49.4	$52.2	$60.1
Crude materials (except fuel)	$18.1	$19.4	$23.0	$26.2	$27.3	$35.6	$45.3	$48.1	$60.9	$46.7
Mineral fuels, lubricants, etc.	$116.7	$76.3	$98.6	$156.4	$192.9	$148.5	$112.7	$172.5	$207.5	$292.8
Animal and vegetable oils	$2.4	$2.9	$3.5	$3.8	$3.9	$3.6	$3.9	$3.7	$3.7	$3.5
Chemicals	$100.3	$94.3	$89.3	$100.7	$125.2	$167.5	$160.5	$153.2	$183.3	$146.6
Manufactured goods	$170.9	$154.4	$177.7	$194.0	$207.1	$286.7	$358.7	$313.2	$371.3	$297.7
Machinery and transport equipment	$223.8	$198.8	$245.9	$308.6	$339.4	$466.0	$555.8	$500.7	$526.5	$518.0
Miscellaneous Manufactures & other items	$172.6	$173.9	$188.6	$202.9	$206.3	$218.8	$257.7	$222.0	$281.9	$260.2
Other commodities and transportation	$23.9	$21.9	$12.9	$21.1	$17.6	$35.4	$26.4	$26.7	$36.4	$29.3
Total Imports	$1,037.7	$953.9	$1,055.8	$1,243.1	$1,364.6	$1,622.0	$1,816.4	$1,751.3	$2,002.4	$1,928.7
Exports: (1)										
Domestic exports										
Crude salt	$8.2	$14.8	$15.5	$13.5	$17.4	$21.6	$12.9	$13.6	$10.5	$13.5
Crawfish, fish and other crustaceans	$56.3	$42.9	$61.3	$59.7	$74.4	$62.5	$70.4	$76.6	$86.6	$72.1
Rum/cordials and liquers	$21.1	$11.9	$8.6	$3.2	$4.7	$5.2	$12.3	$31.0	$29.6	$38.4
Other domestic exports	$20.3	$20.3	$19.6	$16.2	$18.0	$12.7	$42.6	$72.8	$117.5	$104.5
Total	$105.9	$89.9	$105.0	$92.6	$114.5	$102.0	$138.2	$194.0	$244.2	$228.5

(1) All export and import data is provisional.

Source: *External Trade Statistics Report,* Department of Statistics.

Table 6. Balance of Payments Summary, 1992-2002-
Years Ended December 31, (in millions, 1994-2002 provisional)

	1992[R]	1993[R]	1994	1995	1996	1997	1998	1999	2000	2001	2002
A. Current Account Balance (I+II+III+IV)	**37.5**	**49.7**	**(41.7)**	**(144.3)**	**(271.0)**	**(665.9)**	**(995.7)**	**(406.4)**	**(500.9)**	**(388.0)**	**(299.6)**
Current account balance as a % of nominal GDP		1.7%	-1.4%	-4.7%	-7.2%	-16.9%	-23.8%	-8.9%	-10.2%	-7.9%	-5.9%
I. Merchandise (Net)	**(766.0)**	**(737.3)**	**(815.0)**	**(931.3)**	**(1,022.8)**	**(1,301.8)**	**(1,373.9)**	**(1,249.2)**	**(1,328.6)**	**(1,093.7)**	**(1,019.1)**
Exports	217.7	192.2	198.5	225.3	249.8	246.2	362.9	523.2	787.1	765.1	740.5
Imports	983.7	929.6	1,013.5	1,156.7	1,272.6	1,547.9	1,736.8	1,772.4	2,115.7	1,858.8	1,759.6
II. Services (Net)	**874.1**	**891.6**	**883.8**	**905.0**	**863.6**	**745.1**	**542.8**	**936.1**	**946.0**	**839.6**	**887.9**
Transportation	(67.2)	(73.5)	(64.9)	(81.7)	(114.3)	(140.7)	(146.9)	(112.3)	(135.9)	(161.3)	(129.0)
Travel	1,050.4	1,125.6	1,134.0	1,133.1	1,163.3	1,166.1	1,098.2	1,272.5	1,426.2	1,339.5	1,388.5
Offshore Companies											
Other Government	(11.9)	(11.1)	(13.9)	(13.9)	(26.8)	(25.9)	(35.7)	(26.8)	(29.4)	(48.6)	(60.9)
III. Income (Net)	**(82.7)**	**(128.6)**	**(137.7)**	**(135.9)**	**(148.9)**	**(148.6)**	**(199.0)**	**(129.7)**	**(161.7)**	**(175.6)**	**(210.7)**
1. Compensation of Employees	(24.7)	(23.0)	(25.0)	(27.8)	(29.1)	(31.1)	(34.4)	(40.9)	(51.1)	(48.5)	(49.9)
2. Investment Income	(58.0)	(105.6)	(112.7)	(108.1)	(119.8)	(117.5)	(164.6)	(88.6)	(110.6)	(127.1)	(160.8)
IV. Current Transfers (Net)	**12.0**	**23.9**	**27.2**	**17.9**	**37.1**	**39.3**	**34.3**	**36.4**	**43.4**	**41.7**	**42.3**
1. General Government	15.0	27.0	29.0	20.7	40.0	43.7	38.0	41.5	47.4	45.8	49.0
2. Private Sector	(3.0)	(3.0)	(1.8)	(2.8)	(2.9)	(4.4)	(3.7)	(5.1)	(4.0)	(4.0)	(6.7)

Table 6. Balance of Payments Summary, 1992-2002 - Concluded
Years Ended December 31, (in millions, 1994-2002 provisional)

	1992[R]	1993[R]	1994	1995	1996	1997	1998	1999	2000	2001	2002
B. Capital and Financial Account (I+II) (excl. Reserves)	**(7.8)**	**(0.1)**	**55.3**	**90.7**	**156.8**	**403.0**	**860.0**	**585.5**	**420.4**	**262.8**	**372.6**
I. Capital Account (Net Transfers)	**(9.8)**	**(9.5)**	**(11.6)**	**(12.5)**	**(24.4)**	**(13.0)**	**(11.7)**	**(13.6)**	**(16.5)**	**(21.3)**	**(24.5)**
II. Financial Account (Net)	**2.0**	**9.4**	**66.9**	**103.3**	**181.2**	**416.0**	**871.7**	**599.1**	**436.8**	**284.1**	**397.1**
1. Direct Investment	7.4	27.0	23.5	106.7	88.2	209.6	146.4	149.2	250.3	101.2	144.8
2. Other Investments	(5.4)	(17.6)	43.4	(3.4)	93.0	206.4	725.3	449.9	186.5	183.0	252.3
Central Gov't Long Term Capital	(4.7)	(16.3)	(5.8)	(9.6)	(18.3)	13.8	(11.3)	2.5	9.0	26.3	(21.4)
Other Public Sector Capital	33.9	(3.1)	(15.7)	(17.4)	(6.9)	9.4	6.1	(7.3)	(11.6)	(27.4)	(13.5)
Banks	(47.4)	1.2	3.7	12.2	23.0	61.3	29.8	93.4	(29.6)	120.5	183.6
Other	12.8	0.7	61.1	11.4	95.2	122.0	700.7	361.3	218.7	63.6	103.8
C. Net Errors and Omissions	**(56.9)**	**(31.6)**	**(4.3)**	**50.6**	**106.7**	**319.5**	**255.0**	**(114.2)**	**19.3**	**95.0**	**(12.3)**
D. Overall Balance (A+B+C)	**(27.1)**	**18.0**	**9.3**	**(3.0)**	**(7.5)**	**56.6**	**119.3**	**65.2**	**(61.4)**	**(30.2)**	**60.7**
E. Financing (Net)	**27.1**	**(18.0)**	**(9.3)**	**3.0**	**7.5**	**(56.5)**	**(119.3)**	**(65.2)**	**61.5**	**30.0**	**(60.8)**
Change in SDR holdings	0.2	0.0	(0.0)	(0.0)	—	—	—	—	(0.1)	0.0	0.0
Change in Reserve Position with the IMF	(0.4)	1.4	0.0	0.0	—	—	—	—	0.5	0.3	(0.6)
Change in Ext. Foreign Assets ( ) = Increase	27.4	(19.5)	(9.3)	3.0	7.5	(56.5)	(119.3)	(65.2)	61.1	29.8	(60.2)

[R] Revised figures.

Source: The Central Bank of The Bahamas.

(Figures may not sum to total due to rounding).

and other net payments for external services despite an increase in net travel inflows, including both tourist travel and travel by Bahamians. Since September 2001, a credit restraint policy has been instituted to limit the potential foreign currency outflows associated with consumer credit. The result of this policy has been a gradual softening in imports in line with prevailing economic conditions.

The long-term capital account traditionally runs at a surplus, reflecting private sector investment and net inflows offset in part by public sector net outflows in recent years. However, the amount of such inflows into the economy fluctuates considerably from year to year and has been substantially less in the past two years. Factors negatively affecting foreign direct investments in the economy during the past two years have included the September 11, 2001 terrorist attacks on the United States, the generally weak recovery of the United States economy and the general uncertainty created by the war in Iraq. Nevertheless, the capital account surplus rose to $372.6 million in 2002 from $262.8 million in 2001 as a result of increased private foreign direct investments and elevated short-term inflows through the banking system.

Foreign direct investment inflows are expected to strengthen during 2003 and 2004 and to be accompanied by a widening of the trade deficit. Nonetheless, such developments are likely to have a positive impact on external reserves.

External Reserves

External reserves averaged $255.2 million from 1992-2002, increasing at an average rate of 9.8% per annum (Table 7). Reserves peaked in 1991 at $404.0 million owing to strong inflows associated with the Atlantis resort and other developments although the largest boost to reserves, of 54.4%, occurred between 1998 and 1999. More recently, external reserves totalled $373.2 million at the end of December 31, 2002, representing an increase of 19.5% as compared with year-end 2001. This increase largely reflects tightened domestic credit policies imposed in September 2001 after the terrorist attacks in the United States, and the rapid recovery in tourism in 2002. For the first four months of 2003, a continuing increase in tourism in The Bahamas helped provide an $86.7 million increase in external reserves as compared to a $61 million improvement for the same period in 2002. A relatively low level of international reserves could increase the Bahamian economy's vulnerability to external factors. According to the IMF, foreign exchange reserves (substantially all of which are in U.S. dollars) averaged 2.26 months of imports of non-oil merchandise over the period 1998 to 2002.

Table 7. Official Foreign Exchange Reserves, 1992-2000
Years Ended December 31 (in millions)

Sector	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Balances with bankers	$115.3	$126.3	$113.6	$115.3	$103.6	$135.8	$243.5	$180.6	$119.3	$44.5	$126.3
Foreign securities	$20.6	$29.4	$51.4	$46.7	$50.8	$75.1	$86.7	$214.8	$215.1	$260.0	$238.3
Special drawing rights at IMF	-	-	-	-	-	-	-	-	0.1	0.1	0.1
Reserve position at IMF	10	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.1	7.8	8.5
TOTAL	**$145.9**	**$164.3**	**$173.6**	**$170.6**	**$163.0**	**$219.5**	**$338.8**	**$404.0**	**$342.6**	**$312.4**	**$373.2**

Source: The Central Bank of The Bahamas

2. POLICY ENVIRONMENT

Economic Policies

The economic strategy of the government is to pursue sound macroeconomic and fiscal policies that will enhance the competitiveness of the Bahamian economy and the attractiveness of the economy to domestic and international investments, which is expected to generate new job opportunities and additional income for Bahamians. The government's economic policies principally focus on building the tourism, financial services, manufacturing and agriculture and fisheries sectors as well as developing and improving the electronic commerce capabilities of The Bahamas.

The government is promoting The Bahamas as the premier vacation destination in the region. The promotion of tourism has included (i) increasing tax incentives to the hotel industry to upgrade and expand their facilities; (ii) upgrading the tourism infrastructure, including Bahamian cruise ship port facilities, Nassau International Airport and electrification and road construction on the Family Islands; (iii) stimulating the development of new tourist destinations within The Bahamas; (iv) expanding marketing efforts and (v) introducing measures designed to increase the level of cruise visitors.

The Bahamas is pursuing the expansion of its financial services industry by (i) promoting the availability of a broader range of financial products, such as mutual funds and its stock exchange, and (ii) updating the financial services legislative and regulatory framework. The Bahamas also has adopted several initiatives designed to encourage expansion into other types of international services, such as transshipment operations and yacht and ship maintenance and repair facilities, in order to bring The Bahamas closer to becoming a full-range international services economy.

Several major initiatives have also been adopted to encourage the services sector's use of domestic agricultural and manufactured goods. These initiatives have included (i) relief from taxes to companies that purchase and sell locally produced goods and services and (ii) providing local entrepreneurs with guaranteed loans to produce these goods and services. The Government's initiatives in this area have encouraged the manufacturing of gift items, mattresses, pillows and agricultural produce for sale to hotel and resort facilities.

Finally, the government's focus is continuing on its overall financial condition by maintaining the Government's existing credit ratings and strong financial position through effective management of government revenues and expenditures, which the Government believes will lead to a reduction in the overall deficit, a balanced fiscal budget and the maintenance of the fixed exchange rate between the Bahamian dollar and the U.S. dollar. The Government's priority is to consolidate its fiscal position by reducing the overall deficit.

Legislative Incentives to Promote Growth

The Bahamas has traditionally used tax and other incentives to promote growth. For example, to facilitate developments in the Freeport area, the Hawksbill Creek Agreement was executed in 1955, providing for a contract between the Grand Bahama Port Authority, Ltd. and the Government. This program allowed the use of 233 square miles of crown land for development purposes, along with a series of fiscal concessions, including guaranteed freedom from taxation and custom duties. Under the Hawksbill Creek Agreement, customs exemptions extend until 2054 and relief from real property and certain other taxes extends until 2015.

The Grand Bahama Port Authority is committed to (i) ongoing infrastructure developments within the Freeport area and the island of Grand Bahama; (ii) promotion of the development of an international university on Grand Bahama; (iii) encouragement of second-home investments in the Port Area and (iv) establishment of an organization to market investment on Grand Bahama internationally. As of December 31, 2002, there were a total of 2,919 businesses licensed by the Grand Bahama Port Authority.

Foreign investors in The Bahamas can benefit from various legislative incentives, including relief from customs duties on approved raw materials, equipment and building supplies, exemptions from business licenses and real property taxes for up to twenty years, and assurance of unrestricted repatriation of capital, profits and dividends. The Government also assists foreign investors in acquiring publicly owned lands for approved developments on concessionary terms and, in the case of overseas investors, permits access to Bahamian capital markets for proposed projects expected to produce a net gain to the economy. Joint ventures between Bahamian and foreign investors are encouraged.

The government also accommodates foreign investment through its policies regarding the granting of residency permits to non-Bahamian investors and land purchases by foreigners. Major international investors and acceptable owners of residences valued at $250,000 or more are given accelerated consideration for annual or permanent residency permits. These actions further earlier legislative initiatives that eliminated the prior discriminatory differential in the stamp tax applicable to non-Bahamians acquiring local property and the bias in real property tax assessments against non-resident owners.

Electronic Commerce Initiatives

In 2000, work commenced on an initiative to transform the Bahamian economy to a digital economy and thereby create an environment in which businesses have confidence in the electronic systems used to conduct commercial transactions in The Bahamas. The key elements of this initiative include the following:

- establishing a reliable, viable and affordable telecommunications infrastructure
- educating skilled persons to perform the tasks associated with an electronic workplace
- developing a legal and regulatory framework conducive to e-commerce and
- delivering government services electronically to add value to those services being offered in the private sector.

As part of this initiative, the following three pieces of enabling legislative measures were passed by Parliament in January 2003: (1) the Electronic Communications and Transactions Act, which provides, among other things, for the legal recognition of electronic transactions, electronic contracts and electronic signatures; (2) the Computer Misuse Act, which criminalizes certain wrongful actions involving computers, such as computer hacking, and (3) the Data Protection (Privacy of Information) Act 2003, which is designed to protect an individual's privacy with respect to certain personal information collected electronically. As a prelude to enactment of this legislation, the customs duties on computer software and on all computers and related equipment were eliminated to encourage businesses to access information electronically, and the Bahamas Development Bank made loans available to small and medium-sized businesses for the purchase of new computer equipment.

Government Agencies

Government entities providing essential public services are the Airport Authority; Water and Sewerage Corporation; Public Utilities Commission; Public Hospitals Authority; Bahamas Electricity Corporation; Central Bank of the Bahamas and Securities Commission of the Bahamas. The Bahamas Maritime Authority oversees the registration of ships and enhances services to flag registrants.

The main government agencies established to support and encourage development of certain sectors in the economy in the interest of job creation are the Bahamas Development Bank (BDB), The Bahamas Investment Authority (BIA), and The Bahamas Agricultural and Industrial Corporation (BAIC), the National Insurance Board, Bahamas Mortgage Corporation. The Bahamas Hotel Training College and the College of the Bahamas are government-owned entities established in the interest of developing its human resources.

The Bahamas Development Bank (BDB) began operations in 1978 to provide medium- and long-term financing for development enterprises, cooperatives and small businesses. The Bank has been instrumental in the development of local enterprises in the fisheries, tourism, transportation and light manufacturing sectors. Funding for loans granted by the BDB comes from a number of international, regional and local sources. At 31 December 2001, there were a total of $41.2 million in loans outstanding from the Bank.

The BIA operates out of the Ministry of Financial Services and Investments and has created a "onestop shop" to streamline and coordinate procedures governing foreign direct investments as well as domestic initiatives. The BIA engages in policy formulation, investment priorities, project proposal review and analysis, and post-approval support and monitoring.

The BAIC is responsible for (i) stimulating, facilitating and encouraging the development of agriculture and small manufacturing operations and cottage industries in The Bahamas; (ii) processing and marketing local agricultural produce; (iii) assisting in the creation and promotion of business and industrial development throughout the islands; (iv) providing technical assistance and (v) expanding and creating economic opportunities for Bahamians to participate in the economic development of The Bahamas.

As part of its functions, the BAIC oversees activities in the Government's Industrial Park located on New Providence. The Industrial Park provides manufacturing and processing operations with covered factory space and with all the necessary infrastructure at substantially subsidized rental rates. In addition to the subsidized rental rates, BAIC provides the Industrial Park with maintenance and security services. There are currently 12 companies operating in the Industrial Park that produce such items as paper products, boxes, plastic containers, detergents and other cleaning materials, ice cubes, furniture and other items.

International Trade Agreements to Promote Growth

In addition to the government's domestic initiatives, persons may benefit from tax relief offered to Bahamian exports under various international agreements. Under the Caribbean Basin Initiative (CBI), approved products manufactured in The Bahamas, such as fresh and frozen seafood, tropical fruit products and winter vegetables, ethnic and specialty foods, handicrafts, giftware, wood products (including furniture and building materials), recreational items such as sporting goods and toys, and other items may qualify for duty-free entry into the United States. The Canadian government offers similar incentives under Canada's equivalent of the Caribbean Basin Initiative, the CARIBCAN program. Under the Conotou Agreement, a wide range of goods manufactured in The Bahamas may be exported to the European Union with potentially little or no duties. However, given the date on exports to Europe (1.3% of total exports), this preferential market access has not been utilized to any significant extent.

Environmental Policy

The government expressed its commitment to pursuing an ecologically sound development strategy. Accordingly, plans are now underway to merge the Bahamas Environmental Science and Technology Commission (BEST) with the Department of

Environmental Health Services to create a new Department of Environmental Planning charged with overseeing the environmental aspects of all real estate developments in The Bahamas. At present, the Bahamas Environmental Science and Technology Commission conducts an environmental assessment of all foreign development projects before the government gives final approval.

3. REGULATORY ENVIRONMENT

1) Financial Sector

Exchange Rates and Exchange Controls

The unit of currency in The Bahamas is the Bahamian dollar. The Government has maintained effective parity of the Bahamian dollar with the U.S. dollar since February 1973.

Although the Central Bank administers exchange controls under the provisions of the Exchange Control Regulations Act, it delegates to authorized dealers the authority to approve allocations of foreign exchange for certain payments. No restrictions are imposed on current account transactions, but exchange controls are used to monitor developments in this area. In the case of capital account transactions, all transfers to countries outside The Bahamas require exchange control approval and outflows of resident-owned capital are restricted. The use of official exchange for direct investment abroad is limited in amount and is restricted to investments that are expected to meet certain balance of payments criteria. Investments abroad that do not meet these criteria may be financed by foreign currency borrowings, by purchases of foreign currency at a premium of 25% over the official market rate in the investment currency market maintained by the Central Bank (Investment Currency Market), or by use of retained profits of foreign subsidiary companies. Twenty percent of the 25% premium on Investment Currency Market transactions are refunded once the proceeds from the sale of the investment are repatriated. Purchases and sales of foreign currency in the Investment Currency Market, which opened in 1995, totalled $168.4 million and $701.6 million, respectively, during the year ended December 31, 2002. The use of investment currency is prescribed for transactions involving residents purchasing foreign currency-denominated securities from non-residents and making direct investments outside The Bahamas.

The Government instituted measures in September 2002 to liberalize exchange controls by increasing the authority delegated to authorized dealers and relaxing certain capital account restrictions. The capital account measures simplified the process for purchasing foreign currency by resident companies and individuals by permitting such customers to apply directly to their banks for a broad range of personal and business transactions, including immigration matters, employee stock option plans, bail bond payments and direct outward investments where the Central Bank has determined that the economic benefit to The Bahamas of such investment has been adequately justified.

In financing overseas investments by borrowing, residents other than authorized banks must obtain the permission of the Central Bank to borrow foreign currency from non-residents, and authorized dealers are subject to exchange control guidelines with respect to their lending in foreign currency to residents. Residents also must obtain the specific approval of the Central Bank to buy property outside The Bahamas, and if such purchases are for personal use, can only be made with foreign currency purchased in the Investment Currency Market.

Inward investment by non-residents of The Bahamas is unrestricted, except with respect to investments in certain businesses statutorily reserved for Bahamians, such as wholesale and retail operations, downstream tourism services, such as transport, sports etc., restaurants, nightclubs and domestic newspapers and magazine publications. However, the consent of the Central Bank is required for the issue or transfer of shares in a Bahamian company to a non-resident and for the transfer of control of a Bahamian company to a non-resident. In addition, special procedures apply to investments in real property.

As specified under the International Persons Landholding Act, land purchases by non-residents must be registered with the Government's Investment Board and, if the land consists of five or more contiguous acres of undeveloped land for use other than as a single family dwelling, an application must be made for a permit.

Securities Markets

Efforts have been intensified in recent years to accelerate the development of capital markets in The Bahamas. The most outward sign of progress has been the establishment of The Bahamas International Stock Exchange (BISX). BISX was opened for trading on May 2000. The level of domestic capital market activity at the Exchange diminished sharply in 2002. The trading volume on the Exchange in 2002 decreased by 23% from the trading volume in 2001, falling from an aggregate of 3.933 million traded shares in 2001 to 3.018 million traded shares in 2002. The value of equities listed on the Exchange declined by 38% in 2002, falling from an aggregate value of $23.5 million in 2001 to $14.6 million in 2002. The voluntary de-listing of one company on the Exchange reduced the total number of publicly listed companies trading on the Exchange to 16. The Government is currently assessing the long-term viability of the Exchange.

The Securities Commission of The Bahamas is responsible for administering the Securities Industry Act, the Securities Industry Regulations, the Mutual Funds Act and the Mutual Funds Regulations. This legislation empowers the Securities Commission to regulate the securities markets and mutual funds and is designed to ensure that adequate disclosure of material information for investment products is made to investors. The Securities Commission's functions also include supervising and regulating the Exchange and market participants, responding to complaints and inquiries from investors, conducting investigations, and formulating principles to regulate and govern mutual funds, securities and capital markets.

Government Enterprises and Privatization

Traditionally, the government has played a significant role in the economy through its ownership and management of 24 public corporations. In light of the government's ownership interest in these entities, the government is the guarantor by contract of certain indebtedness of the public corporations, and the incurrence of any debt by the public corporations is subject to government approval. At 31 December 2002, the total debt of the public corporations was $484.7 million. The government contractually guaranteed $369.0 million. The government also extends financial assistance to certain of these public corporations to enable them, among other things, to meet their obligations under various loan agreements.

The government intends to continue to reduce its role in the economy through privatisation and is in the advance stage of negotiating the sale of a 49% ownership interest in the Bahamas Telecommunications Company (BTC) to strategic investors. These negotiations are still ongoing. In earlier privatization efforts, the Government divested four hotel properties at a total value of $10.25 million in 1994, divested another hotel property for $8.5 million in May 1995, and reduced the Government's ownership in the Bank of The Bahamas from 100% to 50%, thereby raising a total of $11.5 million, through two separate share offerings in September 1994 and October 1995.

4. REAL SECTOR PERFORMANCE

The two pillars of the Bahamian economy, tourism and financial services, together account for an estimated 55% of the overall GDP of the country and over 60% of employment. Tourism has contributed an estimated average 40% of GDP and employs more than half of the workforce. In 2002, The Bahamas received over 4.4 million visitors, who spent approximately $1.67 billion. More than 80% of these visitors were from the United States. The government has intensified efforts to improve the competitiveness of the tourism sector, principally by promoting new investment in hotels and other facilities and expanding marketing efforts. The financial services sector of the economy has, on average, accounted for an estimated 15% of GDP over the last eleven years. The Bahamas has traditionally been an attractive location for offshore financial services businesses because of its favourable tax regime and legislative environment. In 2000, a package of legislation was enacted to boost the regulatory and supervisory regime to align the financial sector into compliance with best international standards and practices, and heighten the appeal of The Bahamas as an offshore financial services centre.

A significant volume of goods and services is needed to sustain the tourism industry, which means that there is usually a current account deficit, but the latter generally increases with foreign direct investments. In turn, the recurrent account deficit is normally offset by a capital account surplus due to inflows of capital into the economy from new investments in the tourism infrastructure.

The budget of The Bahamas for Fiscal 2003/2004 is indicative of the government's intent to stem a further decline in The Bahamas' financial position and stabilize increases in government debt levels. Reducing the ratio of government debt to GDP is of the highest priority. The Fiscal 2003/2004 budget envisages an overall budget deficit of $122 million, as compared with a projected deficit of $172 million in Fiscal 2002/2003.

Tourism

Tourism is the major sector in the Bahamian economy, accounting for an estimated 40% of GDP and employing, directly or by means of downstream services, over half of the labour force in 2002. In the absence of other natural resources, the mainstay of The Bahamas has been its crystal clear waters and white sand beaches, close proximity to the United States, accessibility, and political stability.

New investments in tourism facilities include the announced $600 million expansion of the Atlantis resort on Paradise Island. Concessions granted under the Heads of Agreement include an exemption on import duties on construction materials, an agreement not to issue any new casino licenses on New Providence for 20 years from the earlier completion of the expansion or December 31, 2007, an extension of casino-tax concessions that were set to end in 2009, and an agreement from the government to expand electricity and telephone systems to accommodate the resort. The expansion will include a new 1,200 room hotel, in addition to expanded restaurants, retail and convention space. The expansion project is expected to create approximately 2,000 permanent jobs for Bahamians. Tourism investments from other sources include the Four Seasons Resort in Exuma which is expected to open in the fall of 2003 and the Carnegie Club Resort in Abaco set to open by the end of 2004. The government also recently approved a number of tourism-related construction projects that it expects will bolster The Bahamas' tourism industry.

The 2003/2004 budget also includes elements to complement the new tourism infrastructure, such as provisions for repair and maintenance work at Prince George Dock and the improvement of facilities at Nassau International Airport and the airports in Exuma and Marsh Harbour.

The Ministry of Tourism's total budget was $77.9 million in Fiscal 2001/2002 and is $69.4 million in Fiscal 2002/2003. To address the recent downturn in the tourism industry, the government's marketing of The Bahamas as a travel destination to U.S. residents has focused on The Bahamas' close proximity to the United States. Faced with increased competition from other destinations, marketing efforts have been directed at encouraging tourists visiting Florida to visit The Bahamas as a part of their vacation package.

The performance of the Bahamian tourism sector is, and will continue to be, dependent largely upon economic and other conditions in the United States and other countries from which visitors originate. Primarily because of the terrorist attacks on the United States on September 11, 2001, and the global economic downturn, the growth in cruise visitors rebounded to 9.8% in 2002 and deteriorated to 1.6% in 2001 compared to a 26.8% increase in 2000. The more lucrative stopover traffic decreased by larger than 6.7% in 2002 as compared to 0.4% in 2001 (Table 8). The government expects that the recent decline in the value of the U.S. dollar will result in an increase in arrivals in The Bahamas from destinations other than the US.

For the review period, total tourist expenditures at $1.72 million were highest in 2000 corresponding to a 16.7% increase in visitors to 4.2 million over 3.6 million in 1999 (Table 8). Additionally, preliminary indications are that tourism expenditures increased by 2.3% to $1,673.9 million in 2002 following a decrease of 4.8% to $1,636.4 million in 2001. Total arrivals in The Bahamas increased by 5.2% to a record 4.4 million tourists in 2002 compared to a decline of 0.5% in 2001. Despite a decrease in the total number of visitors in the more lucrative stopover segment, total tourism expenditures grew in 2002 due to a recovery in hotel pricing, principally in New Providence, and increased hotel room sales in Grand Bahama. The cruise visitor segment also experienced increased expenditures in 2002, gaining 2.4% compared to a decline of 0.3% in 2001. Stopover visitors accounted for approximately 90.6% of total expenditures in 2002.

Financial Services

The financial services sector is the second largest segment of the Bahamian economy. In terms of its contributions to GDP and employment, in 2002, this sector accounted for an estimated 15% of GDP and employed an estimated 11% of the workforce. The Bahamas has successfully promoted itself as a choice jurisdiction for conducting financial services, ranging from offshore banking, asset protection trusts and international business companies to estate planning and ship registration. The attractiveness of the Bahamas as a jurisdiction for financial service businesses is due to (i) the absence of corporate and personal income taxes; (ii) its accessibility and geographic proximity to the United States; (iii) skilled professional support; (iv) political, social and economic stability; (v) its strong regulatory framework, and (vi) minimal exchange controls for transactions between non-resident parties. The Bahamas' commitment to improving its standing as an established offshore financial center has been bolstered by the recent enactments and amendments of various legislation designed to strengthen The Bahamas' anti-money laundering regime and improve the level of regulatory supervision of financial institutions in The Bahamas.

As of December 31, 2000, 410 bank and trust companies were licensed to operate within or from The Bahamas. As a result of new regulatory standards enacted in December 2000, particularly with regard to the requirement that banks conform to physical presence standards, the number of bank and trust companies licensed to operate within or from The Bahamas decreased to 301 as of December 31, 2002. These institutions carry out a variety

Table 8. Selected Tourism Data, 1992-2000
Years Ended December 31, (in millions, except as otherwise indicated)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Stopover visitors											
Total visitors	**1.4**	**1.5**	**1.5**	**1.6**	**1.6**	**1.6**	**1.5**	**1.6**	**1.5**	**1.5**	**1.4**
Increase (decrease)		5.9%	0.0%	6.7%	0.0%	0.0%	-6.3%	6.7%	-6.3%	0.0%	-6.7%
Total expenditures (1)	$1,132	$1,199	$1,231	$1,245	$1,292	$1,307	$1,244	$1,464	$1,564	$1,484	$1,517
Cruise visitors											
Total visitors	2.1	2.0	1.8	1.5	1.7	1.8	1.7	2.0	2.5	2.6	2.8
Increase (decrease)		**-4.8%**	**-10.0%**	**-16.7%**	**13.3%**	**5.9%**	**-5.6%**	**17.6%**	**25.0%**	**4.0%**	**7.7%**
Total expenditures (2)	$102.6	$96.4	$96.0	$95.8	$101.7	$105.2	$105.5	$114.9	$148.0	$147.6	$151.2
Increase (decrease)		-6.0%	-0.4%	-0.2%	6.2%	3.4%	0.3%	8.9%	28.8%	-0.3%	2.4%
Total visitors	3.7	3.7	3.4	3.2	3.4	3.5	3.3	3.6	4.2	4.2	4.4
Increase (decrease)		0.0%	-8.1%	-5.9%	6.2%	2.9%	-5.7%	9.1%	16.7%	0.0%	4.8%
Total expenditures (3)	$1,243.5	$1,304.2	$1,334.1	$1,346.2	$1,397.5	$1,416.1	$1,354.0	$1,582.9	$1,719.2	$1,636.4	$1,673.9
Increase (decrease)		4.9%	2.3%	0.9%	3.8%	1.3%	-4.4%	16.9%	8.6%	-4.8%	2.3%
Average visitor nights per stopover visitor (in nights)	5.8	5.8	5.8	5.7	5.2	6.0	6.8	7.1	6.5	6.0	n.a.
Average occupancy rate	54.9%	57.7	60.3	66.0	67.7	69.9	70.3	69.2	67.2	60.5	63.0
Average daily room rates (in $)	n.a.	**$82.1**	**$73.3**	**$83.0**	**$82.1**	**$100.4**	**$109.6**	**$132.8**	**$148.7**	**$147.5**	**$155.7**

Source: Ministry of Tourism.

(1) Figures for 2002 are preliminary.

(2) Includes stopover, cruise and day visitors.

(3) Represents total expenditures of stopover, cruise and day visitors.

of operations ranging from retail banking to portfolio management and trust services. Of these institutions, 112 are restricted, non-active or nominee licensees, this is slightly above the average ratio for the period from 1992 of 32.2%. As of December 31, 2002, the total asset base of offshore banking and trust institutions was estimated to be approximately $304.2 billion (a 38.7% increase over 1998's $219.3 million), placing The Bahamas among the top ten offshore banking centers in the world. Although Government revenues derived from license fees has declined by 31% since fiscal year 2002/2003, total employment in the sector has remained stable.

Outside of the banking sector, statistics compiled by The Bahamas' Securities Commission indicate a modest increase in the number of active mutual funds under management, from nearly 700 in 2001 to 706 in 2002. The value of assets under management also rose moderately from $94.5 billion in 2001 to $97.3 billion in 2002. In the insurance sector, the number of registered insurance companies increased by three in 2002 to a total of 147. Of the 147 registered insurance companies, the number of insurers located outside The Bahamas remained at 27 in 2002. Based on the latest available information, the asset base of the domestic insurers was in excess of $680 million in 2001.

A private sector Financial Services Consultative Forum along with the Securities Commission, has promoted a new Investment Funds Act that will replace the Mutual Funds Act of 1995 and create enhanced regulatory capabilities of the Securities Commission. The Investment Funds Act also will provide more flexibility to the financial services industry with respect to the types of financial services products offered in The Bahamas. The International Business Companies Act (IBC) is also likely to undergo similar amendments.

Construction and Manufacturing

The construction sector accounted for an estimated 8% of the GDP of The Bahamas and employed an estimated 11% of the workforce in 2002 (Table 9).

Construction has often been a key stimulus to the overall economy during the period 1992-2002, particularly in the years 1992, and 1998. At present, tax incentives and new tourism-related projects at Carnegie Club (in Abaco), Emerald Bay (in Exuma) and Crab Cay (in Exuma), as well as the Atlantis resort expansion, are expected to increase the level of construction activity in the near future. Expectations are that residential real estate purchases by non-Bahamians will undergo an accompanying increase in New Providence, Grand Bahama and the Family Islands during the next year. In addition, the government, through legislative initiatives such as the Hotel Encouragement Act of 1954, provides incentives to hotel owners to develop and upgrade their hotel facilities.

The manufacturing sector accounted for an estimated 4% of the GDP of The Bahamas and employed an estimated 4% of the workforce in 2002. The manufacturing industry is mostly of a "niche" type and is concentrated in industrial estates on Grand Bahama, many of

Table 9. Construction Activity in The Bahamas, 1992-2000

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Building Permits:											
Number	2,841	2,365	2,618	2303	2,489	2695	2,942	3206	3208	3053	3063
Value (in millions)	$236.6	$221.8	$310.7	$259.2	$654.8	$316.4	$483.1	$646.5	$536.6	$752.0	$533.0
Building Starts:											
Number	1,118	1,015	996	1040	1,099	1153	1,234	1065	1064	1010	1324
Value (in millions)	$145.3	$121.0	$175.3	$119.3	$180.2	$458.6	$163.5	$162.5	$193.4	$177.9	$275.8
Building Completions:											
Number	915	843	888	971	1,031	1130	1,371	1250	1519	1706	1602
Value (in millions)	$162.1	$129.6	$185.9	$109.9	$156.6	$171.0	$512.5	$247.7	$300.0	$324.0	$304.8

Source: Department of Statistics, *Quarterly Bulletin of Construction Statistics.*

which are foreign owned and produce goods almost exclusively for export. Major establishments include an oil storage facility (owned by Bahamas Oil Refinery Company), a rum factory (owned by Bacardi & Company Ltd.) and a salt mining facility (owned by Morton International, Inc.). In addition, there are small, locally-owned light industries located in the Government's industrial park facilities which produce for the local market. Activities of such businesses include (i) mattress and pillow manufacturing; (ii) paper converting; (iii) ice, soft drink, perfume, clothing and crystal production and (iv) printing and publishing.

Agriculture and Fisheries

The agricultural and fisheries sector, which accounted for an estimated 5% of GDP in The Bahamas and employed an estimated 4% of the workforce in 2002, is dominated by the export of fisheries products; mainly crawfish to Europe and North America (Table 10).

Agricultural production consists mainly of fruit and vegetables directed to the local market, although citrus fruits and seasonal vegetables are also exported. The main producing islands are Abaco, Eleuthera, Andros, Exuma, Grand Bahama, New Providence, Cat Island and Long Island. As measured by total landings, the value of fishing production has most notably grown over the last two years, increasing by 52% from 2001 to 2002. Principal catches are lobster (crawfish), conch, shallow water scale fish (groupers, snappers, jacks, and grunts) and deep water snappers. In 2002, favorable pricing and increased production all contributed to a sizeable gain in the recorded value of fisheries output to $102.7 million from $67.5 million in 2001. Crawfish tails accounted for nearly two-thirds of overall product weight and 90% of the recorded value of fisheries output in 2002. The overall product weight and recorded value for crawfish tails in 2002 increased by an estimated 49.9% and 65.8%, respectively.

Summary and Conclusion

The contribution of each sector of the economy has been stable in percentage terms. Tourism, the major sector, provides 40% of GDP, financial services 15%, construction 8%, agriculture 5% and the government 20%.

In terms of real growth or expansion within the economy, there are three key indicators, tourist stopover arrivals, construction activity and mortgage lending. These variables tend to explain changes within the economy whereas other areas tend to remain more stable.

Indications are that the Bahamian economy grew marginally in 2003, primarily due to the stronger showing in tourism. Estimates show that income earned from tourism rose by slightly more than 1% to approximately $1.78 million during 2003. This has been the result of appreciation in average room prices because although stopover arrivals have a rising share in Family Islands, arrivals have tapered off over each of the previous three years with comparative declines in expenditures. Overall growth in total visitor arrivals slowed to 4.3% in 2003 from 5.3% in 2002. An increased capacity in the hotel infrastructure due to upgrades and expansions supported the additional earnings from tourism. The 183 room-four Season's resort on Exuma leads the recent capacity increases in the Family Island in addition to the contribution of the reopened Club Med property on the island of San Salvador. Meanwhile, planned security upgrades and other physical improvements to major airports throughout the Bahamas are expected to assist in general marketing efforts and give additional leverage to negotiations with foreign airlines for increased seating capacity.

Current estimates continue to place the financial sector's contribution at between 15 to 20 percent of GDP. Preliminary results from the Central Bank of The Bahamas' banking survey for 2003, however, indicate that a further round of consolidation and rationalization of operations, affecting some six major operations, led to some reduction in employment of Bahamians to below 4,000 persons, from slightly over 4,200 individuals in 2002. Total expenditures by banks in the economy stabilized at just under $400 million, as higher administrative outlays cushioned the reduction in salary outlays and capital investments. Another result has been the declines in licensing revenues for the government.

The measures recording the impact of foreign investments on construction were not very significant during 2003 as compared to 2002. Reduced levels of residential and foreign direct investments financed activity within the construction sector. For the year 2003, locally financed projects featured more heavily in overall construction estimates.

Expansions in domestic credit affect both external reserves and bank liquidity and comprise of both a private sector and government component. The government often resorts to the banking sector to fund its expenditure shortfalls whereas credit flows to the private sector usually translate into leakages into the United States for increased imports. In 2003, the Bank continued to maintain the credit ceiling imposed on financial institutions since September 2001 such that total domestic credit expanded by only $50 million or 1% during 2003, compared to an increase of some $263 million or nearly 6% in 2002. Private sector credit was the largest net recipient of new credit last year. Most of this lending was directed towards residential mortgages, as opposed to a sizeable net repayment in consumer credit.

Balance of payments estimates record some strengthening in net foreign investment inflows during 2003, by almost 20 percent to just in excess of $300 million. Declines occurred in net merchandise imports, even as did reductions in domestic credit expansion were offset by private foreign investment inflows, a sizeable proportion of which was channeled into productive enterprises. Investments funded the upturn in demand in the second homes market in The Bahamas. In particular, net property sales to non-Bahamians reached nearly $85 million in 2003 as compared to $50 million in 2002. Investments in the hotel sector are likely to positively influence current and capital account inflows.

In the last fiscal year (2002/2003), the budget deficit increased to more than 3.5% of GDP, even though we had anticipated that it would have been reduced to less than 3% of GDP. With increased salary payments adding to the expenditure commitments, and revenue growth sluggish, the projection for FY2003/04 is for the deficit to again exceed 3% of GDP.

Incomes derived from the Fisheries sector of the economy rose steadily in addition to employment opportunities particularly within the Family Islands. Estimates given by the Department of Fisheries put earnings from fisheries exports at $108 million in 2003, rising by 10%, and sales of crawfish at some $106 million of this total.

During 2003, approximately $111 million were added to the external reserves, bringing balances to $484 million at the end of last year, and placing the Bahamas in a more comfortable position in terms of the number of months of imports that could be covered by these balances. While the government refinancing added to the position, the public sector is still a net user of foreign exchange during the year. In the Bahamas, some imports are generated from construction activity arising from foreign investment, therefore the import cover ratio can be slightly deceptive.

Average consumer price inflation firmed to 3% from 2.2% in 2002. Persistently high fuel prices are expected to result in rising gasoline costs and fuel surcharges relative to electricity billings. The rising inflation in the United States, which is due to several factors including a weakened dollar, an increase in the price of steel (due to ban on imports) and recovery in the auto industry is likely to affect the Bahamas. For a seven year period, rates have averaged less than 2% in the Bahamas (and United States), but the rise in inflation is inevitable with the United States running a 5% deficit. In terms of local influence on the cost of living index, the increases are visible in educational costs. There is some unease due to the coexistence of a United States depreciating currency and higher import costs.

On average the economy continues to stabilize since September 2001, and growth is expected for 2004. As job opportunities expand, the average rate of unemployment in The Bahamas is expected to decrease. With foreign investments expected to play a stronger role in the recovery, natural revenue growth for the government will not occur to a significant extent up front because import duties will be proportioned on these activities. Of comfort is that an expanded private sector role reduces dependence on the public sector as the employer of last resort, and puts the government in a better position to advance social improvements and to more effectively fund and maintain the enabling infrastructure for private sector growth.

The outlook for the Bahamas will continue to improve to the extent foreign investment projects are realized, increases in construction and job creation can be expected. It is not necessarily stronger tourism figures that influence employment, but it is changes in the construction sector that affect the unemployment rate more. Past experience has shown that one third of the value of projects flowing into the economy spin-off into local businesses or suppliers.

Table 10. Agricultural and Fisheries Production, 1992-2000
Years Ended December 31 (in millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Agricultural production:											
Poultry products	$15.1	$20.3	$20.4	$23.3	$26.3	$27.4	$26.4	$22.5	$24.4	$24.2	$24.5
Fruits & vegetables	$21.3	$15.1	$21.0	$17.3	$25.6	$21.6	$20.2	$15.7	$20.9	$29.2	$21.3
Meat	$0.7	$0.9	$0.9	$1.0	$0.9	$1.0	$1.3	$1.2	$1.3	$1.3	$1.1
Other	$0.2	$0.3	$0.6	$2.4	$2.3	$5.6	$7.0	$6.9	$6.9	$7.4	$7.2
Total	$37.3	$36.6	$42.9	$44.0	$55.1	$55.6	$54.9	$46.3	$53.5	$62.1	$54.1
Fishing production	$59.4	$52.1	$64.5	$66.4	$61.4	$69.5	$65.0	$71.8	$80.8	$67.4	$102.7
Increase (decrease)		-12.3%	23.8%	2.9%	-7.5%	13.2%	-6.5%	10.5%	12.5%	-16.6%	52.4%
Crawfish exports	$53.2	$48.9	$63.2	$59.5	$57.7	$62.2	$61.3	$75.3	$80.6	$72.3	$99.2

Source: Ministry of Agriculture and Fisheries.

The Bahamas: A Different Historical Experience From the Rest of CARICOM

Taimoon Stewart

The Bahamas is unlike other CARICOM countries. While other CARICOM countries had relatively stable plantation economies, the history of the Bahamas is one of boom and bust, capitalising on whatever opportunity presented itself, whether legal or illegal, safe or dangerous.[1] Even today, its economy is very fragile and opportunistic.

The early history is one of piracy, buccaneering and salvaging from shipwrecks. Indeed, the inhabitants were reputed to have lured ships onto the reefs so that they could claim the booty. While the salt and sponge industries provided periods of stable, steady if not generous income, it was the period of blockade-running during the American Civil war (1861-1865) that led to floods of money entering the country: supplying arms, gun powder, boots and all kinds of contrabands, and collecting cotton from Southern States to re-export to Britain.

After a long spell of poverty after the Civil War ended, another boom was experienced with the boot-legging period from 1920-1933, as Bahamians supplied alcohol to liquor thirsty Americans during the Prohibition period.[2] The nearness to the American coast and the sea-faring history of the Bahamas made it a natural base for smuggling liquor into the US. Again, money flooded the Bahamas, though it remained largely in the hands of a few powerful families. In the 1920s, the Bahamas experienced a spill over of the real estate development boom in South Florida as rich Americans began to buy up land and build winter homes in Nassau that were easily reached in a few hours.

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1 Most of the information in this historical section was taken from Michael Craton, *A History of the Bahamas*. London: Collins, 1968 (revised edition). The other source was the Report of the Royal Commission appointed on the Recommendation of the Bahamas Government to Review the Hawksbill Creek Agreement. 1970. Vol. 1, Report 1970.

2 In 1919, the Volstead Act was passed prohibiting the manufacture, import or sale of alcohol in the United States.

A few families historically controlled the Colonial Legislature and were prominent among the Bahamian merchant class in the days of Bootlegging in the 1920s. Interestingly, it was precisely the stringent laws governing the investment of foreign capital that provided the opportunity for the local white community to respond to the lucrative business of smuggling liquor into the United States. According to Crayton, "... one of the least happy aspects of the prohibition boom was that it produced an even deeper separation between the 'haves" and "have-nots."[3] Among this Bahamian merchant class were the following prominent families that still largely control the local economy: Bethell, Christie, Collins, Kelly, Sands, and Symonette. The Bahamian blacks, disenfranchised and poor, did not benefit from a trickle down of the wealth.

Once the Prohibition period ended, the Bahamians once again faced starvation. What rescued the Bahamas was foreign direct investment by a few very wealthy North Americans. Harold Christie, a wealthy white Bahamian (a product of the bootlegging period) succeeded in attracting Harry Oaks, a multi-millionaire Canadian. Oaks bought more than 7,000 acres of land in New Providence, built a golf course, paved the first aerodrome in the Bahamas and purchased and renovated the largest and oldest hotel in Nassau. During the 2nd World War, two new airports were built by the Americans, and this opened up the tourist market dramatically. In 1955, the Canadian brewery magnate, E.P. Taylor, bought land at the Western end of New Providence and during the 1960s, developed Lyford Cay, a multi-million dollar exclusive residential area.

The influx of tourists led to another lucrative industry: offshore banking. As businesses became aware of the tax haven in the Bahamas, they began to bring their Euro dollar investments, purely paperwork, through the Bahamas to evade taxes in their home countries.

The Creation of Freeport

The most amazing of all the projects entered into in 1955 was the development of Freeport. The project was initiated by Wallace Groves, a U.S. citizen, who visited Grand Bahama in 1946, and conceived of the idea of developing a free port and industrial centre out of the mangrove swamp around Hawksbill Creek. Prior to the first Agreement, Grand Bahama was little more than a pine barren with less than 5,000 inhabitants. Groves bought the Abaco Lumber Company's Grand Bahama branch for his wife, and thus established himself in the economy.

By the Hawksbill Creek Agreement of 1955, the Bahamian Government granted Grove's newly constituted company, the Grand Bahama Port Authority, 50,000 acres of land, including the sea bed where the port project was to be carried out, at a price of £1 per acre. In addition

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3 Craton, Michael. 1968. *A History of the Bahamas*. London: Collins (Revised edition): 267.

to this, Groves purchased 80 acres from private owners and had an option to purchase a further 1,420 acres. (By 1960 the Port Authority had acquired a total of 138,296.19 acres from the Crown). In return, the Grand Bahama Port Authority would undertake to dredge and construct a deep-water harbour and turning basin at Hawksbill Creek as a precursor to setting up an industrial estate.[4]

In addition to the grant of land at a nominal cost, the Port Authority was given for 30 years (1955-1985) concessions involving no real property taxes; no personal property taxes; no taxes of any kind on the earnings of the Port Authority or its licenses either in Freeport or outside the Bahama Islands; for 99 years (to 2054), no excise taxes of any kind; no export taxes; no stamp or other taxes or levies. The government also undertook to permit, for 99 years, the importation into Freeport, free from all customs duties and emergency taxes or other duties and taxes, basically all imports except for personal consumption (the Agreement provides a detailed list).[5]

According to the Report of the Royal Commission,

> ...the terms and conditions of the first Agreement show plainly that the whole of Freeport was to be the private property of the Port Authority in whom was vested the supreme right to its administration and control. To the Government was accorded administrative authority for certain limited purposes. But, even so, the Port Authority was obligated to reimburse the full cost to the Government and to provide, free of charge, both living and office accommodation for such officers and employees as the Government should assign to Freeport therefore. This suggests that the Government was in effect providing a service for and on behalf and at the expense of the Port Authority rather than exercising what essentially was a government function. Hence the limited authority of the Government to intervene, apart from those specified, "for such other purposes (only) as may be mutually agreed upon from time to time between the Government and the Port Authority": see clause 1(5)(c). Moreover, the Port and all charges for its use, the provision of all educational and medical services and facilities, the operation of wireless telegraph and wireless telephone systems, the supply of electricity and all other public utilities and services and the performance of all aviation activities were all expressly made the exclusive responsibility of the Port Authority. And no one was to be permitted any say as to whom it should award licences, or on what terms and conditions, to carry on business or other undertakings in Freeport. (*Report of Royal Commission,* 1970:16).

4 Report of the Royal Commission appointed on the Recommendation of the Bahamas Government to Review the Hawksbill Creek Agreement. Vol. 1, Report 1970, p. 6.

5 *Ibid.*: 12-16.

In 1959, a British family and an American banker injected capital into the Port Authority and acquired 25 percent of the total shareholdings each, leaving the Authority with 50 percent. The Agreement was amended in 1960 to allow Groves to provide amenities that would attract to Freeport executive and technically skilled personnel, as well as tourists and settlers: resort hotel, the lay out of residential and shopping areas, golf courses and appropriate church, school, health and amusement facilities (*Report of the Royal Commission,* 1970:7). In 1961, Groves teamed up with a Canadian, Chesler, who had a majority holding in a development company in Florida, and who, according to the report, was a compulsive gambler.

The Grand Bahama Development Company Limited (Devco) was created, with 50 percent shares going to the Port Authority and the other fifty to Chesler and companies in which he had a majority shareholding. In return for the shares, the Port Authority provided 102,000 acres of land for tourist and residential development. By 1964, the Lucayan Beach Hotel and the Monte Carlo Casino were opened. Subsidies were provided by Devco Ltd. (out of the profits paid to it by the Bahamas Amusements Limited set up to manage the Casino) to hoteliers to build in Freeport, to Bahamas Airways Ltd. to encourage adding flights from South Florida to Freeport, to cruise ships to encourage them to include Freeport in their itineraries; investments were made in advertising, golf courses were assisted and golf tournaments promoted. An International Bazaar with some 60 shops, restaurants and other businesses was built on 10 acres of barren waste (*ibid.*:25). By 1970, there were 17 hotels operating, offering some 3,750 rooms. The Hotels Encouragement Act of 1966 provided for refund of customs duties paid in respect of all materials, equipment and furnishings required to complete the hotel.

Development of Freeport was not haphazard. Cornell University was engaged in 1960 to do an economic, geological and hydrological survey of Freeport and the study became the master plan for the progressive development of Freeport. Further, a leading firm of United States community planners was hired to plan the development. Marketing was done by two foreign real estate companies, one registered in the Bahamas and responsible for marketing in the whole world except the U.S., and the other registered in the U.S. and responsible for the U.S. marketing. Not less than 99 percent of buyers were foreigners whose interests were leisure, gambling, golf and retirement. Many were holiday or winter homes for the rich. Most of those engaged in the construction industry servicing this boom were non-Bahamian. In 1968, 83 construction undertakings held licences from the Port Authority of which only 15 were Bahamian. Indeed, by 1970, Freeport had become predominantly non-Bahamian. According to the Report, "In a democratic society, no Government could view this without apprehension" (*ibid.*:31). [emphasis mine]

The Port Authority required that anyone who wished to engage in business in Freeport must obtain a licence from that Authority. It restricted the grant of licences to the needs for that service in the community, and required a minimum investment of $50,000. Stringent checks were made into the backgrounds of the applicants. A yearly fee was payable.

Businesses in Freeport were therefore protected from inordinate competition. Prior to 1968, 1,902 licences were granted, of which 506 were cancelled and of the 1,396 left, only 155 were held by Bahamians (*ibid.*:33).

Business activities in Freeport included a cement plant, a pharmaceutical company, an oil refinery, a Bunker company to fuel ships and a host of retail and service industries to supply the tourist and expatriate population. Initially, the Port Authority had difficulty in attracting people. By the 1960s however, there was an explosion in population level in Freeport, as workers were recruited from Jamaica, Turks and Caicos Islands, Barbados, Trinidad and Tobago and Guyana, and expatriates came seeking opportunities for entrepreneurial activities or to use Freeport as a winter home. Because of the rapid expansion of the population with the introduction of hotels and entertainment industries, the Port Authority initiated negotiations with the Government in 1964 to amend the agreement, allowing the government to take over some of the essential services required. As such, by the 1966 Amendment, arrangements were made for the Port Authority to provide infrastructure for services (schools, medical clinic, accommodation for officers and employees of the government, water and low cost housing). Thereafter, the government took over the responsibility of managing and up-keeping the services. By the mid-1960s, some 50 per cent of the population was Bahamian.

Impasse with Government and Fall-out

The impasse between the newly elected Pindling government (1968) and the licensees operating in Freeport is instructive, as illustrative of how sacrosanct the Agreement is considered, and how difficult it would be to effect change or to be seen to be in anyway in breach of the Agreement. In 1969, the Government was approached by Groves for permission to amalgamate the Port Authority with Benguet Consolidated Ins., a company that traded stock both in the Philippines and New York. As a condition of this transfer, the government required a tightening of immigration security by bringing Freeport in line with the rest of the Bahamas in respect of work permits for expatriate workers. A bitter struggle ensued, with ultimately a notice of legal action against the government initiated by the licensees. Arbitration was pre-empted when the government used its legislative power to enact a law requiring work permits for foreigners wanting to work in Freeport, and administered by the Government and not the Port Authority. There was further resentment at this use of the government's legislative power.

From the early 1970s, there was an exodus of capital from Freeport with the imposition of duties on consumerables. Investors felt that they had been treated unfairly, and that the government had changed the Agreement. Of a population of 60,000, some 15,000 left to find jobs and opportunities elsewhere, but they were the capital holders and skilled people. There was a severe brain drain. The economy virtually came to a stand still. By 1975, the new mangers of the GBPA realised that there was no point in keeping bad relations with the government and began moving towards co-operation.

The vacuum created provided opportunities for Bahamians who brought properties from departing expatriates, and developed businesses, though at the lower end of the scale. The problem did not end there, however. In 1983 the government passed the Immovable Property Act, the intent of which was to stop non-Bahamians from purchasing land. This brought a standstill in the sale of land. This, together with exchange control regulations, restrictive Foreign Direct Investment rules, and government's control of licenses, proved to be serious disincentives to investors. Licenses approval, and in many cases, responses were not given in a timely manner on work permits and renewals. People continued to leave.

In the early 1990s, in a collaborative exercise, several associations got together to discuss the poor state of the economy and to develop recommendations on how to jumpstart the economy. One such recommendation was the establishment of a one-stop shop agency to deal with FDI requests and provide quick answers. The other was to ameliorate the absolute prohibition of foreigners to acquire land. It was argued that while in the vest of the Bahamas, land acquired by foreigners in many instances remained unused, in Freeport the land was developed. In response, the government passed the International Land Holdings Act, which granted a permit to foreigners to purchase land of five acres and under. A ban was still maintained on foreigners owning land of more than five contiguous acres.

Since the repeal of the Immovable Property Act, there has been a remarkable increase in land sales, but this was more controlled than in the 1960s. The GBPA no longer have high pressured international marketing as they did in the 1960s, and sales are primarily to persons wanting to build a home. If land is requested for a commercial property, there are thorough checks of the legal or natural person's background history and source of funds.

Some interviewees felt that the International Persons Landholding Act should be repealed, as well as other controls, except foreign exchange rules. The view was that if government removes the restrictions on FDI, Freeport would boom. Further, expatriates should be encouraged to stay and become part of the community, rather than have a transient mentality. However this was one view, and there are others who would oppose re-opening the economy.

The Current Situation

There is still not a clear allocation of responsibilities between the GBPA and the Government in terms of dealing with investors, and this leads to inefficiencies. The government foreign investment policy is now applied in Freeport, in the interest of Co-operation rather than a legal obligation. As such, sectors reserved for Bahamians under the FDI policy are respected. The GBPA still has a monopoly on the decision as to who is granted a license, but the government processes work permits. However, if a foreigner applies for a license, the GBPA notifies the office of the Prime Minister, in keeping with the FDI policy. There is a co-operative spirit, and good communication between the two bodies.

Despite this, government's exclusive Acts do not apply in Freeport, such as The Architects Acts and The Real Estate Act and the Public Utilities Commission and Securities Commission have no authority in Freeport.

The GBPA does not attempt any more to restrict market entry. All applications for licenses are granted from as far back as twenty years ago, because the government found it unacceptable when restrictions were imposed. The majority of applications are from Bahamians and refusal was politically unacceptable. The license does not give the holder the right to operate elsewhere in the Bahamas, for which separate application to the government is required. Fees are applied on a case by case basis for larger investors, while the standard fee is B$2,500, and the license is renewable annually. The fee could be increased each year linked to the cost of living index. One interviewee at the GBPA felt that the fee structure was not equitable since firms which started there at the beginning have very low fees. The original licenses are still in effect and fees are built into the license. Some professional firms pay only B$250 per annum.

The GBPA no longer grants monopolies. Rather, large investors are granted a window of opportunity of 5-7 years. Monopolies granted in the early period (1960s) are entrenched in the licenses granted by the GBPA under the Hawksbill Creek agreement and are valid until 2054. Existing monopolise are: Freeport Oil Company – petroleum and propane distribution; The Container Port; The Ship Care Company; Windixie; the airport; Electricity; Water; Waste Management.

Management of Freeport

The GBPA provides some services while the government is responsible for others. Under the 1960 Amendment of the Agreement, the government took over responsibility for managing schools, medical clinics, accommodation for officers and employees of the government and low-cost housing. The GBPA manages the utilities, the hospital, and maintains the roads. They recently invested US$110 million in the hospital and regained $4 million last year. The airport is privately owned. The arrangement is that the government works out what is the cost of individuals working to supply the necessary services for which it is responsible, and the Port pays 125 per cent of the cost, unless the government collects more than that in revenues from licences fees, duties on cars, driver's licences, fuel tax etc. The GBPA has never had to pay the government. According to the interviewee at the GBPA, the lowest net profit collected by the government in a year was US$60 million, and the average revenue collected annually has been US$100 million. The point was made that the government collects on fuel and cars but does not contribute from it for the maintenance of roads. The price of gas and oil is regulated by the Price Commission for all of the Bahamas, and applies in Freeport.

The interviewee at the GBPA was proud to point out that under the management of the GBPA, the utilities were functioning efficiently and at a profit. The water company is owned by the GBPA, and water rates are 25 per cent cheaper than in Nassau, even though they provide service outside of Freeport, all the way to West End to serve 300 people. In his view, the expense of supplying distance settlement argument of the government does not hold.

The electricity company is privately owned of which Bahamians own 25 per cent of shares. The salaries paid are similar to those paid by the Bahamas Electricity Corporation (BEC), but residents of Freeport pay 75% of the cost for electricity as those in Nassau. Their customer base is smaller, at 70,000 compared to the customer base in Nassau of 200,000 (This comparison does not, however, take into account the service provided by BEC to the Family Islands). The electricity supply is efficiently run and the company is profitable.

There is great determination on the part of the GBPA to not to allow the PUC to supervise their utilities. In their view, the utilities are being managed extremely well, are profitable and provide good service. The GBPA is reluctant to relinquish management control because they have little confidence in the PUC. In their view it lacks skilled staff and is trapped in the inefficiency of bureaucracy, lacks transparency and accountability, and serves the interests of the political party in power, rather than the people. They claimed that the PUC does not have the legislative right to deal with anything but telecommunications in Freeport. They are willing to sign a Protocol with the PUC with respect to telecommunications.

All in all, then, there has been much change between the situation in Freeport in the 1970s which led to the government's assertion of authority and what exists now. The population of Freeport (50,000) is now Bahamian in the majority, and so are the businesses. In the opinion of the interviewee, the polarisation of the society into Black and White which existed thirty years ago is no longer the reality. In the Bahamas, as a whole, there is now a small group of black merchants with money who are intermarrying and consolidating their wealth. There are many small entrepreneurs. The control of the liquor industry by Tiger Ferguson is an example. This reality is also reflected in Freeport.

There are continuing problems in Freeport, however. There is a huge infrastructure, but not a sufficient revenue base to sustain it. There are still problems with the interpretation of the duty free concession granted under the Hawksbill Creek Agreement. There is inconsistency in the interpretation of duty free bonded goods – do landscaping materials like plants and grass quality? There was a judicial review in the UNEXCO case, where by UNEXCO, a diving company, brought in engines duty free under bond but customs would not allow free entry and the company was charged US$50,000. UNEXCO took it to court, and won the case against customs, which has appealed the decision. Because of the unrestrained granting of licenses, the economy has become saturated in certain sectors, leading to closure of businesses, such as hairdressing. Market forces are therefore working.

There is now a view, however, that there should be more discrimination in the granting of licenses. The Chamber of Commerce complained that it is not easy to exit a business in Freeport by selling because of the ease with which one can get a license.

The Economy of Freeport

Freeport is organised as a Free Economic Zone not a Free Trade Zone and the major economic activities are fuelled by the Container Port. It is a major transhipment port, accommodating ocean liners from Europe, the Eastern traffic through the Panama Canal and South America. It has the deepest harbour south of Virginia, and has an advantage over harbours in the US since they are generally at the mouth of rivers and have a silting problem. Freeport's harbour is cut into limestone and the aggregate was sold, so the cutting was at no cost. The turn around time for ships is 3 hours, as opposed to 24 hours in Miami. The Port employs 200 people.

Besides the Port, there are some manufacturing firms. POLYMERS manufacture plastic products and there is a Chemical Industry, Honeywell Processing, producing pharmaceuticals. Freeport Oil distributes petrol and propane throughout the Freeport area. We were informed that the major shareholder in Freeport Oil is the head of the Port Authority. The price of petrol is fixed by government and applies nation-wide. The Chamber of Commerce felt that by the island's standards, the service was efficient. However, the physical buildings were in a state of disrepair until recently.

Bahamian businesses are generally small, and in the services sector, they generally are lacking in capital and know-how. It was the view of the interviewee at the Chamber of Commerce that most of the Bahamian entrepreneurs lack business acumen, with a tendency to copy successful businesses without recognising the saturation point. There was criticism of the GBPA's discrimination against foreigners, whereby they are limited in their business activities but the same does not apply to Bahamians. Reverse discrimination is meted out by banks which lend to foreigners in US dollars at far lower rates than they do to Bahamians, who can only borrow in Bahamian dollars. There was great concern about the need to even the playing field for Bahamians through training in entrepreneurial skills, equal access to capital, and other concessions given to FDI. It was felt that the import duty for businesses should be higher than that for individuals.

The Legal Status of Freeport and its Monopolies

Lawyers interviewed were firm that any changes to the rules that apply to Freeport must be done according to the terms of the Hawksbill Creek Agreement which is enshrined in an Act of Parliament. By these terms, there must be consent by four-fifths of the licenses. The fact that the licensees are in the majority Bahamians makes it no easier for the government.

Some lawyers held the view that the agreement could be interpreted narrowly in that the licensor's power is already circumscribed by the common law principles relating to the doctrine of restraint of trade. In this lawyer's view, by that doctrine, competition law already exists in Freeport. However, others disagree, and point to judgements in several cases that re-affirm the 'fiefdom' status of Freeport carved out by the Hawksbill Creek Agreement (HCA). In one such case, Commonwealth Brewery received an exclusive licence to supply all of the Bahamas while Bahamas Brewery was licenced by the GBPA. The decision was that the GBPA was empowered to grant an exclusive licence in Freeport. According to this lawyer, any narrow interpretation of the HCA will spell economic disaster and a repetition of the 1970s.

Monopolies granted by the Port Authority under the HCA are entrenched for the time span of the licenses, that is, until 2054, unless four-fifths of licences decide otherwise. It was the view of lawyers who were interviewed that a competition law in the Bahamas would have to grandfather in the exclusivity of legal monopolies that exists until 2054 under the HCA. These firms have a legal right which could not be taken away without compensation, adequate, prompt or equitable. Any tampering of the licence would be considered a breach, and would be disastrous.

Interviews revealed that food supply is the only area controlled by a monopoly in which there was serious discontent. Windixie was given an exclusive monopoly in the 1960s, as a way to encourage it to locate in Freeport, given the urgent need to have a reliable source of supply of food for the growing population. There were universal complaints about the quality, price and choice of food, which was much worse than Nassau, despite the fact that the same duties and restrictions apply in both places. A similar comparison was made with Hawaii, where food is much cheaper and of better quality, despite the long distance away from the US. Because of the exclusive licence held by Windixie, the GBPA cannot allow another supermarket to do business in Freeport.

Consumers have been getting around this by shopping in Miami. Indeed, all retailers in Freeport face fierce competition from suppliers in Miami because flying to Miami for the weekend is common place for the consumers. Indeed, it is estimated that Bahamians spend US$1 billion per annum in South Florida. There has also been a challenge by a local businessman who brings in food supplies and sell wholesale, in warehouse fashion. Customers are required to buy in twos and threes. The monopoly is for a supermarket, and Solomon's, the wholesaler, does not classify as a supermarket. Small shops are also allowed and Windixie has protested on occasions, but it has to be careful not to be seen as depriving Bahamians of entrepreneurial opportunities, since this is not politically acceptable.

The Symbolism of the Freeport Experience

The purpose of providing this historical background is to give context to the many regulations in place in the Bahamas, designed to protect parts of the economy for Bahamians only. One has to understand that, unlike in industrialised countries, and even in most developing countries, the entire economic development of that country depended on foreign capital and foreign personnel. Moreover, this development took place in a period when the white wealthy minority controlled the economy and society, ensuring that the constitution and franchise served their interests. The Report of the Royal Commission (1970:35) commented on the stranglehold which the "Bay Street Boys', as they were called, held over the Black population through constitutional provisions which allowed property and privilege to become entrenched in both legislative chambers, in the Executive Council and in the body politic generally.

A few families historically controlled the Colonial Legislature and were prominent among the Bahamian merchant class in the days of Bootlegging in the 1920s. Interestingly, it was precisely the stringent laws governing the investment of foreign capital that provided the opportunity for the local white community to respond to the lucrative business of smuggling liquor into the United States.

In the late 1950s to 1967, there was a struggle for power between the entrenched white ruling class and emerging aspirant young black professionals, leading to several important changes. Up to1958, there were property qualifications and plural voting which automatically disenfranchised most blacks.[6] In that year, after a serious labour strike which crippled the island for several weeks and caused a severe downturn in tourism, the Secretary of State for the Colonies intervened, abolished the discriminatory voting rules and provided four more seats for Nassau in the House of Assembly. All four seats were won by the black party in 1960. Women were given the right to vote in 1960. In 1967, the white community's control of government ended when Lynden Pindling was invited by the Governor to form the government. But the white families, the "Bay Street Boys" continue to control the economy.

This ownership structure is still evident, with the same prominent families controlling prime real estate and the key businesses in the economy today. For instance, two families control the wholesale food supply while three others control the retail supermarkets: Supervalue, City Market and Abaco Markets, the only supermarket in Abaco. As a result, there is high concentration in the food sector (import, distribution and retail). There are two main supermarkets, City Market and Super Value/Portion Control. City Market has ten outlets in Nassau and two in Freeport. It is partly owned by Winn Dixie, a big supermarket chain in the United States. Super Value has ten outlets in Nassau and none in Freeport. The

6 Plural voting was a system which allowed an individual to vote twice if he owned a business that was located outside the constituency where he lived. Of course, businesses were owned by whites.

remaining food stores are in either only one location, or if more than one location, small in size. According to the Business Establishments Survey for 1999, there are 35 registered businesses for wholesale, food, beverages and tobacco, and 147 businesses in the retail of good, beverages and tobacco (convenient food stores included) in New Providence. In Grand Bahama, there are 14 wholesale and 44 retail establishments. Despite the seemingly large number of establishments in the food sector, though, City Market and Super Value dominate the food market, and ownership is concentrated in the hands of the "Bay Street Boys".

One family controls building supplies, CBC Commonwealth Building Supplies and Bahamian Lumber. According to the Survey of Businesses, 1999, there are only two businesses in New Providence that wholesales construction materials, hardware, plumbing and heating equipment and supplies. This same family is part owner of Marathon Mall, and together with the family that dominates the buildings supplies sector, owns the docks and Tropical Shipping. Another white family has an interest in these enterprises and also owns Simonette Ship yard. There are 8-10 shipping companies, all owned by members of the white community. Tour operators, Play Tours and Majestic Tours are owned by a member of the White community.[7]

Craton expressed the view that there was good potential for developing agriculture and fishing in the Family Islands, claiming that "the giant farms of Andros and Abaco have shown that the Bahamas will grow practically anything in any season, given only the support of investment capital and a well-planned distribution system; but at least until 1964 the Agricultural and Marine Products Board was the poorest department in a poor government. The explanation given was that "the commercial interests dominant in the Legislature were no more willing to foster a flourishing farming economy than they were to support advanced education for Bahamian Negroes. The "Bay Street Boys" were held unwilling to subsidise agriculture while rich profits were to be had from importing fruits and vegetables from the United States" (Crafton 1968:289).

Current policies are geared towards containing the massive influx of foreigners into the country, and in the interest of socio-economic survival of the Bahamian population, reserving sectors of the economy for Bahamians only. The Bahamas has the third highest per capita GDP in the hemisphere (after the U.S. and Canada). Unlike the rest of the CARICOM, therefore, the Bahamas is extremely attractive to foreigners from industrialised countries because of the high income levels, the tax free concession, and the good standard of living in an atmosphere of fun, leisure and relaxation. Hence, there has to be stringent policies to stem the inflow of foreigners and to secure job and entrepreneurial opportunities for Bahamians. This explains why Black Bahamians and their government are fiercely protective of their economy and their society.

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7 Information provided during interview with the Real Estate Association.

The historical experience was of an economy developed by foreigners, in collaboration with the dominating white elites of the society. The physical landscape of the Bahamas bears the stamp of the economic and leisure activities of the foreigners. Moreover, there is a large expatriate presence in the white collared workforce. Further, local wealth and business establishments are concentrated in the hands of a minority white population, with a great divide between them and the black population. It is in this context that the government had to introduce policies to protect parts of the economy from foreign penetration, in order to give Bahamians, and black Bahamians in particular, opportunities for entrepreneurial development and white collared and professional jobs.

The Current Reality

There is no doubt that the memory of racism meted out during the colonial period endures in all CARICOM countries. However, there is a qualitative difference in the Bahamas. It is the only CARICOM country where up to the late 1960s, blacks were segregated, not allowed to enter restaurants and the cinema, not provided with opportunities for education, and endured the type of racism that existed in the Southern States of the United States. It was the Pindling government, the first black government, that began the process of rolling back these discriminatory laws, regulations and practices, that built schools in the late 1960s, imported teachers to staff the schools and took teenagers off the streets and put them into schools. It is therefore not surprising that there is a tremendous sensitivity in the Bahamian people to issues of racial discrimination. This was further fuelled by the influx of American tourists into the country. Therefore, on the one hand they depend on the tourists for economic growth and employment generation, but on the other have to cope with the emotional issues that linger.

This situation has led to socio-political issues that any government in power cannot ignore. For instance, the ground transport sector provides employment for many poor black families. While there are many inefficiencies in this sector, and opening the sector to competition could lead to greater efficiencies, this could lead to social implosion.

While ground transport is a small part of the economy, it is a very contested and contentious sector. There are three types of transport: taxis, tour operators, and jitneys. The taxis service the airport to hotel route and the needs of hotel guests. Taxi rates are fixed by the government, but the taxi association does attempt to influence the government's decision on rates. Tour Operators have made incursions into this niche by also now providing the same service from the airport. Tour operators are linked to hotels in all inclusive packages of airfares, room rate and ground transportation. Prices are set by comparing prices in competitors' markets. Tour operators and taxis also compete for the cruise ship passengers. Taxi owners are also facing competition from water taxis which operate from hotels to Paradise Island, or other locations. The jitney operators service the local population. Prices are controlled, and routes are allocated. All jitney services are privately owned.

The Bahamas Taxi Association is a long established and highly politicized body, very protective of what they consider to be their turf. Indeed, as far back as 1958 (remembering that tourism in the Bahamas dates back to the late 19th - early 20th century), the then Taxicab Union, which objected to airline passengers being carried by tour company cars, blockaded the approaches to the airport on the day that the new airport was scheduled to open. In sympathy with the Taxis Union, there was a general strike which shut down the economy for 19 days and it took months for the tourism industry to recover (Crafton 1962:287). The manifesto of the newly elected government (the PLP) promises to devise a fair system to prevent tour operators and water taxis from encroaching on the business of taxi drivers and depriving them of their livelihood, but also allowing water taxis and tour operators to earn a living. This is clearly a political issue, and one that would not allow free competition within the sector, be it even only amongst Bahamians. But more than that, it is an issue that goes back to deep seated resentments and concerns, since the two largest tour operator companies, Play Tours and Majestic Tours, are owned by Bill Saunders, a white Bahamian, who is seen to be elbowing out the small black entrepreneurs with their privately owned taxis.

The case of liquor is very interesting. The main wholesale and retail liquor distributors are Burns House Ltd./Butler and Sands Co. Ltd. And William Brewer Co. Ltd./Bristol Cellars Ltd. Bacardi and Company Ltd. bottle rum. There are 70 retail liquor stores in New Providence and 52 in Grand Bahama. A year ago, the majority ownership (about 90%) of the liquor wholesale and retail industry was bought out by a Black Bahamian from the white family that owned the business for generations. The Licensing Board objected, stating that no application was made to transfer the existing license. The case was taken to Court and the Licensing Board lost. Reports are that it is very difficult for new entrants to get into the bar or pub business. There are also complaints that liquor prices are excessive. However, one view, and a very valid one, given the culture of the Bahamas, is that the Church may have problems with the lowering of liquor prices. Another view gleaned during an interview of a Bahamian business person, was that 'the Whites controlled for "300" years, so why can't a Black man have a monopoly now." The memory of racial discrimination experienced by Black Bahamians still informs perception of justice in the society.

Conclusion

This brief foray into history was for the purpose of illustrating that the current views and aspirations of the Bahamian peoples are derived from a totally different historical experience from other CARICOM countries, and that there is therefore less commonalities between The Bahamas and the rest of the Community than there is amongst the other countries. There is little trade between The Bahamas and the rest of CARICOM, their imports coming largely from the United States. The Bahamas exports little by way of goods, and their main economic activities are tourism, off-shore banking, and construction activities. There are therefore few economic linkages with the rest of CARICOM. The real commonality lies in the experience of British colonialism, but this is not sufficient to generate closer economic ties. It is therefore not surprising that The Bahamas opted to stay out of the CARICOM Single Market and Economy.

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