

## 1977 May Be Boom Year for Jamaica

Believe it or not, the Jamaican economy may be heading into a boom year. No doubt this will startle readers of the doom and gloom commentary on Jamaica which has filled the pages of business journals for the last year.

Admittedly, 1976 was a disaster. Bauxite, sugar and tourism earnings, Jamaica's sources of foreign exchange, all plummeted. The Jamaican trade deficit went up \$30 million for the first six months despite considerable reductions in imports. The nation's foreign debt edged over the \$1 billion mark; and disgruntled Jamaicans smuggled more than \$200 million in foreign exchange out of the country, sending foreign reserves which were at \$142 million in April 1975 into deficit.

But while the soothsayers of Wall Street were still busy predicting Jamaica's demise, Prime Minister Manley stunned his detractors with the announcement last week of sweeping plans to open up new markets for expanded production of Jamaica's exports, and acquire new sources of cheap credits for food and capital goods

through trade with the Council of Mutual Economic Assistance (Comecon).

The result is that Jamaica is unlikely to be the sinking ship the International Monetary Fund would like to think, although the same could not be said of the IMF itself. Its standard bailout package of internal austerity, import cuts and currency devaluation was greeted in Jamaica like an offer to tie a rock to a drowning man. Prime Minister Manley has made it clear that he will neither cut the social welfare programs he considers vital to the future expansion of the semi-skilled and skilled labor force, nor will he devalue the Jamaican currency and plunge the nation into a new round of inflation. Moreover, reliable sources in New York have it that Jamaica has privately requested a moratorium on its debt payments from the Canadian and New York banks which hold the majority of Jamaica debts.

At the same time Manley has imposed a wage and price freeze and set import quotas. He has nationalized several banks and imposed tight currency controls,

### Jamaican Patterns Of Trade

JANUARY-JULY 1975  
(VALUE OF TRADE IN MILLIONS OF U.S. DOLLARS)

	EXPORTS	% OF TOTAL	IMPORTS	% OF TOTAL
NORTH AMERICA	190.518	41	273.910	41
U.S.A.	169.383	36	231.272	34
WESTERN EUROPE	181.583	39	157.318	23
UNITED KINGDOM	113.551	24	95.498	14
OIL EXPORTING COUNTRIES	41.424	9	137.747	20
LATIN AMERICA & CARIBBEAN	16.579	4	46.140	7
ASIA	2.161	.5	37.141	6
COMECON AND CHINA	19.908	4	1.256	.2
AFRICA	9.941	2	.584	.1
TOTAL	462.924		672.603	

(SOURCE: IMF)

particularly designed to prevent further illegal drain on foreign exchange.

Despite the poor showing of the last two years — real growth was down 2 per cent in 1975 and was at least as bad for 1976 — the Jamaican economy has potential strengths which Manley's announced plans can turn into real growth. Its most important strength lies in Manley's labor policy — upgrading the productive capacity of the Jamaican labor force through capital investment in education and social infrastructure such as health and housing. Its greatest weaknesses now lie in its agricultural sector and its dependency on U.S. markets. In his speech announcing his economic program, Manley emphasized that sales of Jamaica's exports to the Comecon would be based on expanded production and not at the cost of Jamaica's present trading partners. This will broadly diversify the patterns of Jamaica's trade, which shifted toward the U.S. after World War II from its traditional 60 per cent dependency on Great Britain. Today 40 per cent of Jamaica's trade is with Great

Britain and Canada (see chart page 59). The new trade with the Comecon will provide revenue for the industrial development of the Jamaican Economy.

#### Bauxite

The real backbone of Jamaica's economy, now and for the immediate future, is its bauxite and alumina industries. Jamaica is the world's second largest producer of bauxite, supplying nearly 60 per cent of U.S. bauxite imports. Jamaica's 1975 bauxite production was 11.4 million metric tons, down one-quarter from 1974 because of a fall-off in U.S. aluminum orders. From January through August 1976 exports to the U.S. totalled 4.5 million metric tons which was off 10.4 per cent compared with the first eight months of 1975. In the same period Jamaica's alumina supplies to the U.S. were off 38.6 per cent from 1975.

But the two-year decline in the aluminum industry may be about to reverse. Jamaica's 1976 third quarter exports of bauxite and alumina were up a startling 61 per cent over the second quarter. More importantly, because

### Jamaican Exports And Imports

(VOLUME: 1970=100)

(VALUE: IN MILLIONS OF JAMAICAN DOLLARS; )

	1972	1973	1974	1975	1976*
<b>EXPORTS</b>					
<u>ALUMINA</u>					
VOLUME	120	137	159	136	87
VALUE**	\$119.9	\$147.8	\$315.7	\$294.8	\$170.2
<u>BAUXITE</u>					
VOLUME	93	96	104	72	79
VALUE	\$ 68.4	\$ 79.5	\$133.2	\$ 89.3	\$ 90.1
<u>SUGAR</u>					
VOLUME	92	87	90	81	76
VALUE	\$ 35.4	\$ 35.4	\$ 79.4	\$139.7	\$ 41.1
<u>TOTAL</u>					
VOLUME	106	113	126	103	82
VALUE	\$300.8	\$354.7	\$664.5	\$712.7	\$399.7
<b>IMPORTS</b>					
<u>TOTAL</u>					
VALUE	\$493.2	\$604.5	\$850.8	\$1021.4	\$637.1

\*THRU 3RD QUARTER

\*\*1.1 US DOLLARS

PER JAMAICAN DOLLAR

aluminum is second only to steel in importance among world metals, and has been second only to oil in post-war growth of demand among industrial resources, aluminum development has figured prominently in the recent series of trade deals among Western Europe, the OPEC nations and the Comecon. In addition to the markets opening up as a result of these triangular trade deals, Manley has recently discussed with Venezuelan President Carlos Andres Perez the sale of Jamaica's bauxite in exchange for Venezuelan oil. Venezuela plans to increase its 54,000 ton production of aluminum to 350,000 tons over the next five years. Regional expansion of the aluminum industry also includes Jamaican plans to build an alumina smelter with Mexican and Venezuelan capital. Jamaica will have a minority interest in a Mexican smelter, and smelters are being planned through the Caribbean regional development organization, Caricom, in Trinidad and Guyana.

The plans for these smelters cap Manley's three year effort to rationalize the industry and create a true market price for bauxite. Bauxite has never had a market price. The aluminum industry has been dominated by six multinationals led by Alcoa, Reynolds and Kaiser. Bauxite is sold wholly "inside" the multinationals from one subsidiary to another, with the price determined within the firms. Until recently, most producing countries did not even know the extent of their own reserves or their position relative to other producers. In early 1974 Manley was instrumental in founding the International Bauxite Association and pegged a 7.5 per cent production levy on bauxite to the price of aluminum ingots instead of the nebulous bauxite price.

Manley's new taxes have earned Jamaica \$455 million since their introduction. Initially the aluminum companies were far from pleased. But the aluminum companies are not behind the U.S. rancor toward Manley which continues to be reflected in the press. They are apparently able to see what the IMF cannot. Admittedly, their production networks are geared to specific bauxites but they have long since recognized that Manley has no intention of preventing foreign investors from making profits. In fact, the companies are increasingly willing to work with the Manley government on new ventures. All of them are involved in negotiations for Jamaica's purchase of 51 per cent of their island operations. Alcoa

has already signed a partial agreement and Kaiser is expected to finalize its agreement with Jamaica Feb. 2.

On the other hand C. Fred Bergsten, Carter's appointee as Treasury Department Assistant Secretary for International Affairs, during his days as a director of the Brookings Institution accused Manley of "price leadership," a far worse sin than "pure cartel action." However, neither Bergsten's nor any other inquisition can fully cover up that Manley is not at odds with his chief international business partners and has the support of a sizable portion of Jamaica's industrial leaders for his nationalist policies.

#### Tourism

Jamaica's tourist trade is linked subjectively to the U.S. as well as economically. Tourism was an important diversification of the Jamaican economy when it was first developed in the 1950s, and spurred a sizeable growth in Jamaica's construction industry. It began to fall significantly in 1975 as a result of the recession in the United States. The harping of the U.S. press on political violence in Jamaica exacerbated the decline in 1976. Tourism revenue dropped more than \$11 million from the already low 1975 figures to \$110 million for 1976. This does represent a sizeable part of Jamaica's foreign exchange. But it is generally unrecognized in estimates of its importance that the tourism industry absorbs up to 40 per cent, according to one estimate, of its own foreign exchange earnings in support of its own luxury trade.

#### Agriculture

The most important problem in the Jamaican economy is the agricultural sector. The problems here are twofold: the first is that the market for Jamaica's chief cash crop, sugar, has totally collapsed; the second is the need for an efficient reorganization of sugar production and of the small subsistence level farms being worked by unskilled labor.

The roots of the crisis hitting Jamaica's sugar industry are in the surge into commodity speculation in the early months of 1974, when speculators fled the unstable paper markets into more tangible commodity trading. The price of sugar rose from a ten-year 1963-1973 average of 7.3 cents a pound to a peak of 65 cents a pound in November 1974, the highest jump recorded since just prior to the onset of the 1930s depression.

As a result of the increased export revenues, major

Jamaican Trade With U.S.			
(IN MILLIONS OF U.S. DOLLARS)			
	1974	1975	1976
TOTAL IMPORTS FROM U.S.	327	381	188
AGRICULTURAL IMPORTS	81.4	75.5	
EXPORTS TO U.S.		335	209

sugar producing countries built up sizeable foreign exchange earnings and improved international credit ratings. For the first time, in many cases, these nations could seek loans in the world's major money markets. The boom did not last the year, however, before prices nose-dived. By year-end 1975, prices had plunged 70 per cent, and by the third-quarter of 1976 sugar prices dented the pre-boom level of 7 cents a pound. During the collapse sugar producers were forced to increasingly draw on their foreign reserve holdings to meet the debt obligations incurred during the short-lived boom. Jamaica is not the only sugar producer whose foreign reserves went into the negative as a result.

The answer to this crisis does not lie merely in rationalizing the markets. Manley has already begun reorganizing sugar production. Mechanization, utilizing the new Cuban M-2 cane cutter, would go a long way toward releasing a large sector of the unskilled work force for training as semi-skilled and skilled labor.

Manley's social welfare policies are aimed toward that sort of upgrading of the Jamaican population. Here is his own description of his policies, given in reply to his detractors, in a recent speech:

"...I will not admit, though it costs us money, that it a mistake for us to begin the literacy programme which has so far taught over 150,000 persons to read and write. I will not admit that it was a mistake for this government to have built, upgraded and re-located some 30,000 houses for poor people over the period 1972-1976. It cost money. I will not admit that it was a mistake for us to begin the Pioneer Corps, and to introduce free education.

It cost money. I cannot admit that it was a mistake for this Government to have introduced the Minimum Wage Law.

"I will not admit that it was a mistake for this Government to have originated Project Land Lease under which, so far, over 22,000 small farmers have been provided with over 40,000 extra acres of land. I don't believe it was a mistake for this Government to start the Impact Programme which provides work for many thousands of men and women who have never worked before in their lives and can now, for the first time, begin to earn an independent livelihood.

I cannot admit that it was a mistake for our Government to have reclaimed over 200,000 acres of bauxite land for the people of Jamaica.

"...I cannot admit that it was wrong for this Government to have assisted in the financing of almost 800 basic schools for young children.

"I cannot admit that it was a mistake for this Government to have established some 20 Sugar Workers' Cooperatives involving 43,000 acres of land farmed by approximately 4,500 former sugar estate workers.

"I cannot admit that it was a mistake for this country to widen the scope of its foreign policy relations to include closer ties with our brothers and sisters in the Third World of Afro-Asia, Cuba, Venezuela, and Mexico.

"And finally, Mr. Speaker, I cannot admit that it was or is a mistake for this Government to pledge itself to the creation of a society based on the principle of equal justice and equal rights for all of our people."

## Brazil is Dying

Brazil, in the vanguard of Latin American austerity programs is today facing an ecological holocaust. Both drought and floods ravage huge regions of the country, **destroying crops and beef herds, and unleashing epidemics among the malnourished populations which spill over into neighboring countries.** Floods in Argentina, Bolivia and Paraguay, drought in Colombia and in the Caribbean, and both floods and drought in Peru are rapidly reducing those nations' "triaged" economies to Brazilian levels. What this will mean is indicated by the following review of developments in Brazil during the last month. The facts come from the Brazilian press:

\*\*\*Hundreds of families living on the islands of the Paraná River, which flows through southeastern Brazil into Argentina, are being evacuated as the river swells, producing the worst flooding seen in ten years. Rice, banana, corn and manioc crops are lost throughout the area. The mayor of one region in the area comments on the unexpectedness of the flooding: "Normally, the maximum flow of water in the Paraná occurs in the end of February and beginning of March. When we entered January this year the river had already reached seven meters above its normal level... if it continues raining, as it has now, we will have a repetition of the 1974 floods which had catastrophic effects for the entire region."

\*\*\*States along the entire northeastern coastal zone are struck by severe drought, including the state of Bahia, where two consecutive bean crops and two consecutive corn crops were lost. In Minas Gerais, cotton losses from drought are estimated at 70 per cent and milk production has fallen by 60 per cent. Almost 50 per cent of the sugar cane harvest is lost. In Ceara, 50 per cent of the cotton crop is estimated lost and the entirety of the corn and bean crops. Rio Grande do Norte has lost 90 per cent of its bean and corn subsistence crops and in Piaui, 60-90 per cent of the basic crops—rice, beans, corn and cotton—are destroyed. Portable water resources there are almost gone. In Rio, rice production has fallen 40 per cent, sugar 55 per cent, manioc is down 25 per cent. Nationally, bean production is down 50 per cent. Meteorological projections for the entire northeast indicate that 1977 will be a much worse drought year than the last.

\*\*\*Deforestation of the Paraná region has left the entire area with only 11.8 per cent green-area and primitive forest left, according to an investment banker who warned of the future (draught) problems this portends.

\*\*\*Floods in the Pantanal zone along the Paraná and Paraguay Rivers bordering Bolivia are described by the