

SPEAKING NOTES FOR PRESENTATION BY DOUGLAS ORANE

AT THE FINANCIAL SERVICES COMMISSION PANEL

DISCUSSION – JULY 14, 2010

Port Antonio Suite, Jamaica Pegasus Hotel

The Macro-economic Benefits of Jamaica Debt Exchange

The Jamaica Debt Exchange (JDX) has resulted in lower interest rates on a wide variety of instruments (between December 2009 to the end of June 2010) with beneficial implications in many areas.

The Bank of Jamaica's website provides data which reveals that the benchmark six-month Treasury Bill has declined 754 basis points from 16.80 per cent in December 2009 to 9.26 per cent in June 2010. The rate on the three-month Treasury Bill has declined 686 basis points from 15.38 per cent to 8.52 per cent over the same period. These are the lowest rates on these instruments in 24 years. When the government borrows at lower interest rates, it means that over the medium to longer term, it will borrow less, debt service payments will be reduced, and prime rates and mortgage rates, which are influenced by government benchmarks, will also trend lower.

Improving fiscal deficit

Accumulated fiscal deficit for the first two months of the 2009/10 financial year was – J\$22.3 billion. For the first two months of 2010/11, the fiscal deficit is running at –J\$10.3 billion – a 55 per cent improvement. This is also \$3.4 billion less than the –J\$13.8 billion targeted for the period under the GOJ/IMF agreement.

Loan receipts for the first two months of the financial year 2010/11 totalled J\$35.2 billion, about \$5.6 billion less than the \$43.87 billion targeted for the financial year 2010/11, but \$9.8 billion more than the amounts borrowed for the first two months of 2009/10.

Interest payments of \$13.7 billion for the first two months of the Financial Year 2010/11 on the other hand, are 13.7 per cent lower than the \$15.89 billion targeted for the period, and \$10.6 billion less than the amounts paid out in the comparable period of the financial year 2009/10.

The primary surplus - total revenues minus GOJ non-interest expenditures - is currently running at \$3.2 billion about \$2.17 billion more than the amount recorded in the first two months of the 2009/10 financial year.

To the extent that over US\$2.4 billion in loans from the multi-laterals was contingent on Jamaica's successful implementation of the JDX, then the boost of the Net International Reserves (NIR) to over US\$1.7 billion, or a comfortable 17 weeks of 'goods and services' imports, is also a direct benefit of the JDX. The appreciation of the Jamaican dollar, could in some ways be a reflection of an increase in confidence about the prospects for the Jamaican economy following upon the successful completion of the JDX. And though the revaluation could pose some challenges for exporters, it will benefit persons who earn their income in Jamaican dollars, by making imported goods cheaper. At a time when aggregate demand in the Jamaican economy has been very depressed due to the global recession, and which the GOJ has not been able to affect with stimulating counter-cyclical fiscal policies because of budgetary constraints, this increase in the purchasing power of Jamaican dollar income earners could give a much needed boost to local aggregate demand.

Business Opportunities Post-JDX - Fastest Growing Sectors

On July 13, the Jamaica Chamber of Commerce's Conference Board reported that the Index of Business Confidence was 114.0 in the second quarter of 2010, an increase of 15 points over the first quarter of 2010. This increase in business confidence is said to be the highest it has ever been since the third quarter of 2008.

With this increase in confidence, certain business undertakings which have potential comparative and competitive advantages but had been put on hold, can now be reconsidered for development.

The local agricultural sector presents a great opportunity for local entrepreneurs, existing and new farmers, and businesses to make good returns once the right investments are made and especially when linkages are made with other sectors in the society, for example, the tourism sector. The strategic development of the agricultural sector can lead to enhanced productivity and more competitive pricing.

- **Non-Traditional Produce** -There is a demand for nontraditional produce (for example, broccoli, zucchini, yellow squash, red cabbage, and cilantro,) by high growth end-users such as the tourism sector. A significant portion of these fruits and vegetables are imported for use in the hospitality industry, and as such there is an opportunity to produce some of these crops locally for hotels and restaurants, and for distribution through the retail trade.
- **Agro-Processing**– There is a strong demand throughout the Jamaican Diaspora for sauces, seasonings, fruit flavours, jams and jellies, and non-alcoholic drinks. To satisfy this growing demand, GK Foods will establish a processing facility in Hounslow, St. Elizabeth.

GK Foods also plans to purchase some of the produce for the processing facility from greenhouse farmers in adjacent communities. By doing so, we will be providing a secure market for contracted farmers, at the same time providing the hotel sector with a reliable source of fresh produce vegetables, reduce imports while providing fruits and

vegetables for local consumption. Of course, some of what we produce will be for export as well.

- **Use of Modern Technology** - By investing in modern agricultural technology, such as hydroponics and greenhouse cultivation, farmers can increase the yields and quality of their crops, and generate profitable returns on their investments.
- **Niche markets** – Local producers can gain an edge, not necessarily in mass production but through the smaller scale supply of products for the gourmet market or to satisfy the demand for produce that is organically grown in a designated region. Organic produce can be readily marketed to hotels, restaurants and supermarkets. The purchase of eco-friendly/organic products is a growing consumer trend, and one from which local farmers can benefit.
- **Creating Linkages** - By creating linkages with the farming community, hoteliers can brand their hotels as supporting local farmers – which can significantly and positively impact their business. Tourists are becoming increasingly aware of how their decisions can impact communities and, more and more, they are choosing entities that support sustainable community development. Farmers, on the other hand, can ensure a ready market for their produce through linkages with the hospitality industry.

One of the key risks which will need to be addressed is praedial larceny, which is a deterrent to many who are considering entering this sector.

- **Seafood and Shellfish.**
Jamaica's most important fishing grounds – the Pedro Bank - supplies 95 per cent of the conch for export, and the majority of our domestic fish products, at an estimated value of US\$24 million per annum. We need to protect this most important asset by creating fish and bird sanctuaries for breeding purposes to ensure sustainable marine and bird life population.
- **Mining** There are opportunities for the mining of limestone aggregates, and river aggregates for use in the local building construction industry, road construction and maintenance, and for export. There is a demand by the USA as well as other Caribbean

countries such as the Turks & Caicos, Barbados, Cayman Islands for high quality material for use in their road construction and resurfacing.

Entertainment – Music & Film Industry

- Live concerts, such as Reggae Sunfest, attract huge crowds and provide spin-offs for the hospitality industry. There are still major opportunities to create a properly packaged sustainable product to take Jamaican music to the world. The best examples of this are an-MTV style reggae station or a reggae version of the American Idol show which could have major global appeal.
- Our local film industry has potential for growth. There is a growing demand, especially in the Diaspora for Jamaican content for broadcast on cable stations. There is also the opportunity to use the Jamaican landscape for filming major motion pictures.

Small & Medium Enterprises (SMEs)

- Financial Institutions in Jamaica have either developed or are developing segments of their business that will focus on the Small & Medium Enterprises (SMEs). In fact, international financing is being made available for them to invest in this infrastructure.
- According to the International Finance Corporation, SMEs typically make up more than 90 per cent of the registered businesses in any country.
- Where are some of the opportunities? A host of franchise opportunities are available online including computer sales, restaurants – fast foods, coffee shops, health food; house-keeping services, beauty care, and accounting. You may have noticed the launch of ORKIN last week; this a franchise operation for pest control. Other SME's considerations for the retail trade are shoes and clothing, sports and recreation services, technology-based service providers, repairs and maintenance services, security services, farming, financial consultants, bakeries, and restaurants.
- Obtaining adequate funding is a sore point for many businesses, especially the SME's. More companies should explore listing on the Stock Exchange/ Junior Stock

Exchange as a source of low cost funding to expand their business. All recent equity issues have been oversubscribed.

Call Centre Industry

- The benefits of outsourcing Call Centres are well-known, and include lower costs, less reliance on technical skills, and fewer staff retention issues. Global statistics show that over 50 per cent of corporations already outsource some or all of their contact centre or business process functions.
- North America definitely has the largest share of the Call Centre Outsource market, followed closely by Europe, Asia Pacific and Central and Latin America, Middle East and Africa, according to an Avaya research. Interestingly, many of these markets that outsource services also are home to expanding outsourcing industries.

The share of India's IT industry (which is where Call Centres are measured) to the country's GDP increased from 4.8 per cent in 2005-06 to 7 per cent in 2008. In 2009, seven Indian firms were listed among the top 15 technology outsourcing companies in the world. In March 2009, annual revenues from outsourcing operations in India amounted to US\$60 billion and this is expected to increase to US\$225 billion by 2020.

The Philippines is also considered as a location of choice due to its less expensive operational and labour costs. In 2007, The Philippines was a top Business Process Outsource destination for the estimated \$150-billion business process outsourcing industry.

The governments of these countries are working with their entrepreneurs to help them set up their operations, thereby providing employment. While cost is certainly the biggest factor, there are some significant benefits in terms of the education level of the typical call centre worker that is supplied in these markets versus those that would be hired in the home countries.

While there are some that predicted that call centres would diminish in size due to the Internet and websites, we haven't seen that being played out as yet. The rate of growth of phone calls has dropped off some, but it is still growing. And in addition, many call

centres now handle the added workload of e-mails and web chats that are growing at a high rate.

Some of the major factors influencing Call Centre site selections include available human resources – with the prerequisite language options, technical skills and soft skills; size of the cost base, availability of real estate. Of course, as always, location is key. Taken also into account are business continuity capabilities and the availability of modern communication technology and government regulations especially as this relates to foreign investment.

The identifiable business risks for this kind of undertaking include confidentiality of information and the effective management of outsourced resources.

Jamaica now has a new claim to fame as the Caribbean's top choice for US investors looking to establish near-shore call centre operations. The government has made vigorous efforts to promote the country as a reasonable, low-cost outsourcing alternative to Asia. To date, there are over 25 Call Centres in the island with 20 per cent offering services to off-shore companies.

A word of warning - Jamaica may soon be eclipsed by the much larger Dominican Republic, home to tens of thousands of people who speak fluent English in addition to their native Spanish. At present, no fewer than 12,000 Dominicans are working at 35 call centre companies.

How Jamaica can tap into the World's fastest growing economies

- Deepen trade relations with countries such as China, India, South Korea and Brazil. Many local companies are now developing trade relations with China. These companies not only import goods for distribution within Jamaica, but they also export products originating in China to other countries in the Caribbean and Latin America, thus using Jamaica as a transshipment point.
- The creation of a distribution hub in Jamaica will no doubt lead to an increase in demand for warehousing space. GraceKennedy has invested approximately J\$2 billion

in our new distribution centre at Bernard Lodge Estate in St. Catherine, which operates not only for domestic distribution, but also as a bonded warehouse for exports

- Our Grace brand was launched in India two years ago. Among our products currently being exported to that country are Grace Tropical Rhythms, Grace Coconut Water, Grace Coconut Milk and a variety of canned meats and beans, sauces and spices.
- Individuals and companies looking for guidance and exposure to these fast growing markets should forge alliances with organisations such as Jamaica Trade & Invest/JAMPRO.
- At the government level, establish diplomatic missions in the target countries, where none exist.
- Participate in international trade expos such as the current Expo Shanghai 2010 (May 1 to October 31). According to Dr. Dana Morris, Jamaica's National Coordinator for Expo Shanghai 2010 and Manager of JTI's Caribbean, Latin America & Emerging Markets Regional Office, JTI will be providing local exporters with as much assistance as possible to allow them to showcase their products and services in China. Based on research conducted by JTI, products such as spices, rums, beers, condiments, art and crafts, apparel and coffee are likely to do well in China.
- Take the time and effort to learn the language and become familiar with the cultural norms of these new markets.

How to Promote Brand Jamaica

- In order to promote Brand Jamaica, we should capitalise on the goodwill and the international recognition obtained through our achievements in sports and music, taking every precaution to protect our intellectual property rights.
- The creative use of Brand Jamaica offers manufacturers the opportunity to position their products in higher value niche markets, an advantage which may help to

compensate for smaller scale production. However, care should be taken that quality is entrenched in our products.

Factors that are integral to our success

In closing, there are two critical areas that I would highlight which are essential for growth in our economy. They go beyond the typical macro economic issues. The first is the level of productivity in our society. Jamaica is in the unique position of being one of the few countries in the world where productivity has declined over the last few decades. I will share with you information that I received from Dr. Charles Douglas of the Jamaica Productivity Centre. It is a startling and sobering revelation. "Today, it takes one and a half Jamaicans to do what it took one Jamaican to do twenty-five years ago." This means that the way we have organised our society has actually caused a decline in the output of our employed adult population. We now need to make increasing productivity at both the firm level and at the macro level of the highest priority. There is a great deal of discussion about using monetary and fiscal policies to control inflation. However, the most fundamental means of controlling inflation is to be more productive, that is, to produce more with less effort. I am proposing that we bring to the fore for public information the measure of productivity, or valued added per worker, and that we determine how to increase this in the same way we use other economic measures. Before I leave this topic, let me just share with you for the period 2000 to 2008 labour productivity in Jamaica was 16% of that in the United States; for the period 1970 to 1979 that figure was 30%, which further confirms the steady and pernicious decline in our productivity. However, behind every cloud is a silver lining. For entrepreneurs, these figures mean that any individual or company that produces goods and services that helps to increase productivity will find a ready market. This applies from companies that provide equipment to make employees more productive at the workplace which includes more modern machinery and new information technology through to services that focus on improving practical work knowledge and the building of teamwork.

The second critical area is that we must begin to develop a culture of trust. The evidence is clear that social capital is as important if not more important than other inputs in building our national economy to the levels that we aspire.

The University of the West Indies' Centre for Leadership and Governance has conducted a series of surveys over three successive years (2006 to 2008) which has revealed that between 83 and 84 per cent of Jamaicans do not trust other people generally.

Even more alarming is the fact only a minority (14 per cent) of the participants in the surveys responded that "most people can be trusted to keep their promises."

On the other end of the spectrum from developing and maintaining trust are the painful statistics relating to our homicide rate. A 2007 World Bank study concluded that if Jamaica were to contain its homicide rate to 8.1/100,000 instead of our current rate of above 60/100,000 we would be able to grow our economy by an additional 5.8% per year.

Interestingly, we have been able to reduce our murder rate by 50% in the last month. Who would have thought that this would have been possible up to two months ago? In a similar vein, our society developed the collective will to act on debt restructuring, which we were consequently able to carry out at the beginning of this year in a very prompt and effective manner, I believe that recent events in our society which were initiated by an attack on the state by armed thugs in May of this year, has created a defining moment, a window of opportunity for us to transform our country to what we as decent, law-abiding, honest Jamaicans would like it to be.

I recall that prior to late 2009, the thought of a debt exchange programme was considered a topic which could only be whispered about privately, much less acted on. However, as a society, we found a way to develop a consensus to make it happen. We can do the same with all the other social issues that we face at this time. Let's get on with it!