

SUMMARY

1. Jamaica's economy, which is dependent on alumina, tourism, remittances, and its large informal sector, is highly trade-oriented. Exports and imports of goods and services have represented on average over 90% of GDP since 2005. During the review period, Jamaica has continued to struggle with a narrow production structure and vulnerability to external climatic and economic shocks. These shortcomings were exposed starkly during the recent global economic slowdown, which severely impacted the Jamaican economy, resulting in declines of real GDP of 1.7% in fiscal year 2008/09 and 2.5% during 2009/10 as well as marked decreases in earnings from the export of goods and services and from remittances.

(1) TRADE POLICY CONTEXT

2. The merchandise trade deficit averaged over 26% of GDP during the period under review. Jamaica has a relatively limited export base comprising mainly alumina/bauxite and some non-traditional exports, and is highly dependent on imported raw materials, oil, and capital goods. The trade imbalance is only partially offset by a surplus in services exports – mainly tourism – and substantial inflows of remittances from Jamaicans abroad.

3. Jamaica imposes no taxes or quantitative restrictions on exports and has a number of tax incentives that attempt to encourage exportation. The four export subsidy programmes, which currently benefit from an extension of the transition period for developing countries under WTO rules, are scheduled to be phased out by 2015. Jamaican exports have continued to stagnate indicating that there are long-standing structural problems in the economy, which the incentive programmes can only partially alleviate.

4. For most of the past decade, real GDP growth has been low, at an annual average of under 1%. Underlying Jamaica's weak economic and export performance are significant structural disadvantages. These

include the excessive cost of electricity, which adversely affects the economy's competitiveness; the high debt ratio, which hinders the Government's ability to provide quality services and foster development; the high cost of capital; relatively high security costs for business, related to negative social factors; low labour productivity and limited productive capacity; and inadequate economic and trade-related infrastructure. However, Jamaica has been making progress, for example in simplifying regulations and procedures to create a more investment-friendly business environment. Jamaica's investment regime continues to be open to foreign investors, who can benefit from a number of incentives, including duty and tax concessions.

5. Broad trade policy and development goals are set within a number of policy frameworks, notably regional trade policies in the context of CARICOM, the 2001 New Trade Policy, the current national development plan (Vision 2030-Jamaica), and the 2009 National Export Strategy, as well as in the WTO framework. Jamaica is an original and active Member of the WTO and is a strong supporter of special and differential treatment for developing countries within the WTO and the DDA negotiations. Jamaica grants at least MFN treatment to all trading partners.

6. Over 90% of Jamaica's merchandise exports go to the United States, Canada, and the EU. Jamaica is in the process of redefining relations with its main trading partners as evidenced by the recently signed Economic Partnership Agreement with the EU, in which the non-reciprocal element of previous preferential agreements has been abandoned. Jamaica and its CARICOM partners have started trade negotiations with Canada, and are also moving from unilateral to reciprocal arrangements. A critical area is the adjustment and revenue implications arising from the implementation of such trade agreements. Jamaica continues to enjoy preferential access to the United States market under the Caribbean Basin Initiative, which covers over 90% of Jamaican exports to the United States.

At the same time, Jamaica is closely involved in the process of regional trade integration with the on-going implementation of the Caribbean Single Market and Economy and, through its participation in CARICOM, implements a number of preferential trade agreements with regional neighbours.

(2) MAIN TRADE MEASURES

7. Tariffs and other duties and charges remain Jamaica's main trade policy instrument. The Government generates a substantial share of its central revenue – averaging between 27% and 28% of total tax revenues – from tariffs and other charges on imports, which are seen as critical in the light of the country's structural fiscal deficit. The Government is committed to scaling back the system of waivers and exemptions on customs duties, with a freeze in granting discretionary waivers on duties and taxes constituting a first step in this process. Data from the Jamaican authorities suggest that the cost of various exemptions and waivers amounted to more than half of trade tax revenue in 2007, and over one quarter in 2009.

8. In the context of CARICOM's Common External Tariff, Jamaica's average MFN tariff was 9.4% in 2010, up from 8.6% in 2004, which reflects the increase of tariff rates for luxury goods. Protection is higher for agricultural products than for industrial products and the tariff structure shows escalation. The tariff has eleven tiers, compared with nine tiers at the time of the previous Review. No seasonal tariffs or tariff quotas are used. Jamaica has bound all its tariff lines, thereby increasing the predictability of its trade regime, although the gap between applied and bound tariffs remains wide and applied rates are above their bound levels for a small number of products.

9. Numerous other taxes and fees on imports raise border protection markedly and raise the question of whether excessive import taxation may be hindering competitiveness. All imports entering Jamaica are subject to a basic stamp duty, and an additional stamp duty

is payable on certain items. While Jamaica does not apply fees on containers imported or exported or port security fees, it imposes fees for providing specific services, including a Customs User Fee, a Standard Compliance Fee (collected on behalf of the Bureau of Standards), an Import Entry Processing Fee, and an Environmental Levy. Domestic taxes, notably the general consumption tax levied at a standard rate of 17.5%, are levied on imports and domestically produced goods.

10. Jamaica has modern customs and trade-facilitation facilities and is working to improve customs procedures including in the area of customs valuation where. However, problems of false and under-invoicing persist. There has been no policy change concerning Jamaica's import licensing regime during the review period. Import prohibitions are applied for health, security, moral or environmental considerations, or under international conventions. The Trade Board issues import licences for items that require close monitoring, with motor vehicle imports accounting for the bulk of import licence applications.

11. The Anti-Dumping and Subsidies Commission is Jamaica's trade remedy authority. Between 2004 and November 2009 no new investigations were opened. The Commission attributes the dearth of open cases to the need for greater understanding of how to access remedies. Government procurement policy has improved although there appears to be a need for more transparency of procurement performance and for better statistics. Jamaica is not a party to the Plurilateral Agreement on Government Procurement.

12. Limited ability to meet international quality standards is a significant challenge for exporters, in particular in the agri-processing subsector. Jamaica has the relevant legislative and institutional framework for quality, standards, and other requirements but the timeliness and consistency of the service delivery is hampered by, *inter alia*: high costs and variable quality of some basic services,

such as product testing and certification, by the private sector; high costs of implementation of international standards; and the need for food exporters to contend with a range of testing and laboratory services that reside in multiple agencies. Jamaica currently has 348 domestic standards, which are based on international (primarily ISO and Codex Alimentarius) standards.

13. The Import/Export Inspection Centre, established in 2009, houses the regulatory agencies having responsibility for human health and safety, animal health, and plant health. The Centre is designed to significantly reduce the time taken to complete inspection processes, which had been negatively affected by the hitherto scattered arrangement of regulatory agencies.

14. The authorities consider that, given the resources available, Jamaica has achieved results in enforcement of intellectual property protection since 2005. They note that the number of criminal prosecutions has increased, as has vigilance in carrying out raids and seizures of pirated products, including CDs and DVDs, although no statistics were provided in this regard.

(3) SECTORAL DEVELOPMENTS

15. Since 2005, the economy has continued to shift away from primary activities (mainly agriculture and mining) and manufacturing. Goods production now accounts for a little under one quarter of GDP while services have become the main economic activity and the main earner of foreign exchange. The Government remains involved in several commercial activities in, *inter alia*, agriculture, mining, utilities, banking, and transport through a number of publicly-owned companies that operate on a commercial basis. During the review period, the Government has taken steps to restructure some of these enterprises including through divestment and liquidation. It has focused on the bigger loss makers, namely Air Jamaica and the Sugar Company of Jamaica although significant losses have also been recorded by

the Airports Authority of Jamaica, Clarendon Alumina Partners, and others.

16. Agriculture's contribution to the overall economy has declined steadily but because of its role in poverty reduction and importance for employment, it is considered a sensitive sector. As such, it benefits from a range of support measures, including high import duties. In the Doha negotiations, Jamaica is keen to protect its right to implement effective domestic support measures for its farmers, including the freedom to increase tariffs within bindings and to use the revenue to provide agricultural support within the scope allowed by the WTO. Jamaica's vulnerability to natural disasters means that it regularly experiences direct hits by hurricanes and storms, resulting in heavy damage to its agriculture sector.

17. Jamaica is one of the world's leading producers of bauxite and alumina, and mining is the largest non-service export activity. The sector is internationally competitive and benefited from rising world mineral prices until 2009 when the industry collapsed in the face of the global economic downturn and the reduced international demand for alumina. A national minerals policy is under preparation to guide the sustainable development of the minerals industry.

18. The services sector accounted for over three quarters of GDP in 2009 and employed around two thirds of the labour force. The size of its main service industry, tourism, makes Jamaica an important exporter of services. There is currently little government involvement in telecommunications and financial services, and market access is relatively open in those sectors. Under the GATS, Jamaica participated in the extended negotiations on basic telecommunications and financial services, and presented offers in both negotiations. Insurance, where foreign ownership was limited, was liberalized in the WTO Negotiations on Financial Services but as of mid 2010 Jamaica had not yet ratified the Fifth Protocol to the GATS.

19. The level of competition in the communications subsector has increased significantly since the liberalization of telecommunications and has led to a large increase in the number of providers, a decrease in the cost of international telephone calls and a strong increase in Jamaica's teledensity. Mobile telephone penetration increased from 14 persons per 100 in 2000 to 108 in 2009, reflecting the prevalence of more than one cell phone per person due to high cross-network connection charges. The telecommunications infrastructure has also enabled and facilitated the growth of an active information technology enabled services sub-sector, comprising, *inter alia*, contact centres, business process outsourcing, and information technology providers, which has been identified by the Government as a strategic industry for support and development.

20. Tourism is a significant contributor to the economy and government tax revenue and is the main source of foreign exchange earnings. The 2009 financial crisis negatively affected tourism receipts, although tourism has proven to be more resilient than in the rest of the Caribbean. The Government promotes the development of tourism by encouraging investments in the sector, supporting product development with physical infrastructure (including airports, cruise ports, and highways), services (such as security and labour force training), and destination marketing. Investments in the tourism sector have been promoted mainly through generous incentive schemes, which provide income tax relief and import duty concessions. In an effort to diversify the tourism industry, the Government has enacted legislation to support the establishment of casino gaming facilities within the context of integrated resort development schemes. As Jamaica is an island

state and a tourist destination, air transport has a significant role in the nation's economy. In March 2010, the Government adopted an open skies policy, which calls for Jamaica to pursue more liberalized air services agreements with as many states as possible.

(4) OUTLOOK

21. Jamaica's vulnerability to natural disasters has been compounded by the global economic crisis and long-standing structural issues. The crisis has seriously affected Jamaica, although the rate of decline in the economy is expected to slow appreciably in 2010 compared with 2009, due mainly to continued growth in agriculture and mining, and the recovery in the economies of Jamaica's major tourist markets in North America. Real GDP is projected to increase by 0.5% between April 2010 and March 2011. The main downside risks concern external factors, such as shocks to international commodity prices, higher than anticipated oil prices, a slower than expected recovery in the world economy, and adverse weather, which could temper gains in the agriculture sector.

22. The longer term outlook is of gradual recovery depending on global market conditions and the Government's continued commitment to macroeconomic stabilization, fiscal reforms, and addressing the economy's main structural challenges. Jamaica's strategy for meeting these challenges is based on its national development plan, Vision 2030, which aims to take the country to OECD standards of living. In this process, it is important to address Jamaica's aid-for-trade needs arising from the changing trading environment, not least in the context of preference erosion and the need for measures to facilitate export diversification.
