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PROMOTING EXPORTS IN DEVELOPING COUNTRIES: EVALUATING THE JAMACIAN EXPERIENCE

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ABSTRACT

The benefits of an export-oriented economic growth policy for developing countries are analyzed in this paper. A discussion of export marketing policies in their environmental context is illustrated by a description and evaluation of Jamaica's export promotion efforts from 1980-84.

INTRODUCTION

Empirical studies conducted during the seventies indicate that export promotion contributes more significantly to growth than do import substitution policies (see, for example, Chenery 1980, Krueger 1983). The transition from import substitution to export promotion resulted in increased growth in export earnings and subsequent prosperity in Colombia and South Korea, for example. The dramatic economic successes of Taiwan, Hong Kong and Singapore have led other developing countries to re-examine the role of international trade in their developmental processes.

The issue of the best way to implement an export-led economic growth policy is, therefore, an important one. This paper presents an analysis of this issue and evaluates export marketing policies in Jamaica. The first section considers the relationship between export growth and economic development and examines the benefits of an export-oriented economic growth policy. The second section of the paper discusses export marketing policies in their environmental context. Next, historical and economic perspectives on Jamaica are briefly outlined to provide the backgound for a more thorough description and evaluation of Jamaica's export marketing policies.

EXPORT GROWTH AND ECONOMIC DEVELOPMENT

An export promotion trade strategy has several benefits for economic development. Balassa (1980) discusses these benefits. Exporting involves increasing the production of goods in which the country has a comparative advantage, with low domestic resource costs per unit of foreign exchange.

Because exporting also allows increased use of capacity and through exploiting scale economies permits unit cost reduction, it contributes to efficient production for domestic markets as well. Capital-output ratios in export activities are lowered because of resource allocation according to comparative advantage, higher utilization of capacity and economies of scale. The resulting capital savings can be used to increase output and employment elsewhere in the economy in countries where labor is not fully employed. Balassa argues that this will take place through the indirect effects of export expansion, which create demand for domestic inputs and generate higher incomes that are in part spent on domestic goods. These higher incomes will also mean increased savings. Lower capital output ratios and higher savings ratios ease the savings constraint on economic growth.

The benefits also include the establishment of closer links with the world economy which encourages transfer of more advanced technology and nurtures the competitive spirit (Balassa 1978). While the international market places constraints on a country's economic activity under export promotion, it also provides rapid feedback on poor economic policies (Kreuger 1980). Countries pursuing export growth are in a better position than those relying on import substitution to react to changes in external conditions and to lessen the impact of recessions (De Vries 1979). Indeed, as Balassa (1980) points out, the available evidence indicates that the Far Eastern countries following outward-oriented growth strategies weathered the effects of the oil price increases in 1973-74 and the world recession in 1974-75 better than countries that maintained inward-oriented strategies.

Increased foreign revenues from exporting ease balance of payments constraints and allow a country to purchase raw materials, spare parts and capital goods (Balassa 1979). These foreign earnings also ease debt servicing problems and facilitate access to foreign capital markets as the improved balance of payments position enhances the country's credit worthiness.

Despite the clear benefits of export-oriented growth strategies for developing countries, the question must be raised of whether it is possible to generalize such export strategies to different times and places. After presenting an analysis of the reasons for the success of countries such as South Korea, Taiwan, Hong Kong, Singapore and Brazil, Schmitz (1984) argues that there are serious obstacles to the newly industrializing countries maintaining their success in export expansion and even more so for other countries emulating them. He notes the changed conditions of the world economy in the eighties and comments that what works for a limited number of countries does not work if it is adopted by the large majority.

With this in mind, it is useful to identify the circumstances under which a country should pursue an export oriented growth strategy and the specific kinds of export marketing policies that should be adopted.

EXPORT PROMOTION STRATEGIES: THE ENVIRONMENTAL CONTEXT

The effectiveness of any policy aimed at export promotion will depend on what factors constrain export growth (Wilson 1984). There are two groups of factors to consider: the endogenous variables specific to a particular country and the exogenous variables such as world economic conditions.

No two countries have identical environments. Hence the successful policies adopted by successful countries cannot be imposed in other countries which have their own unique problems (Luis 1982). Export expansion involves behavioral and structural change on the part of the private sector (Kashani 1977). It also involves the obtaining of an adequate supply of exportable products through the development of a number of country-specific factors. Efficient economic operations need an adequate transportation and public utility infrastructure, the establishment of a skilled labor force, and the efficient allocation of physical, financial and human resources to productive sectors (Luis 1982). Neither market operations nor government policies can be implemented without proper institutional development which requires not only deliberate private and public efforts but also considerable time, as emphasized by Rhee (1985). He comments that two factors appear common to the success of Hong Kong, Singapore and Korea. These are (i) a stable and efficient government that is committed to an outward-looking development strategy and (ii) a synergistic partnership between the government and the private sector in export development. Any developing country must consciously develop institutional mechanisms that are compatible with the particular conditions of that country, however.

Rhee (1985) argues that the most important function of an export promotion institution is to play the role of a catalyst in undertaking an outward-oriented economic growth strategy. Its function as a marketing organization should not be over-emphasized. Indeed, the choice of what products to export should be left to private initiative because entrepreneurs will export the commodities that correspond to the country's comparative advantage (Balassa 1980). This view differs from Kashani's (1977). He argued that a generalized strategy aimed at promoting exports from all industries and to all markets would fail because the promotional impetus would be diffused over a large number of industries and markets. Kashani emphasized the need to channel resources towards the markets and industries with the highest perceived potential. More recently, however, analysts have recognized the critical importance of a market-oriented strategy (Schmitz 1984), reducing state intervention in the economy, promoting the private sector, removing trade barriers and, in some instances, encouraging foreign investment. The "market principle" should be followed, permitting firms to choose their own export composition and activities in response to changing world market conditions (Balassa 1980).

The exogenous variables that the policy maker in a developing country must accommodate when formulating an export-oriented trade strategy include current world economic and trade conditions, and rapid technological innovation leading to the development of new products and changes in comparative advantages. Griffith-Jones and Rodriguez (1984) even suggest that because of external economic difficulties, developing countries should emphasize relatively more, to the extent that is is feasible, production for the internal market and reliance on national savings. Smaller countries like Jamaica, to be discussed in the next sections, are, however, more limited in the extent to which they can rely on their own internal market. Economic development in these smaller countries is contingent upon their outward-oriented growth strategies. A key factor facilitating export-oriented industrialization is access to the major markets of the countries of the Organization for Economic Cooperation and Development (Kaplinsky 1984). Inherent problems, however, are the "new protectionism" and the technological innovations which are threatening to erode the developing countries' edge in such traditional labor-intensive industries as clothing. Remedies include industrial cooperation among developing countries, the creation of regional markets in the Third World and the expansion of trade in manufactured goods among the developing nations themselves (Balassa 1980, Kaplinsky 1984).

In summary, export marketing policies designed to improve economic development must be formulated taking account of the particular nation's idiosyncracies as well as the current economic, technological and political conditions in the outside world. Within the nation itself, export growth can be stimulated in a number of ways. The next sections consider Jamaica's record of export promotion, given the internal and external environmental conditions faced.

JAMAICA: HISTORICAL AND ECONOMIC PERSPECTIVES

Jamaica is an island of over 4,400 square miles and population approaching 2.3 million in the western Caribbean. Table 1 gives some economic indicators for Jamaica. Until the early seventies Jamaica's economic policies advocated free trade and were highly supportive of Western trade and economic policies. By 1972, however, increasing unemployment, increasing disparity in the division of wealth between the classes and government corruption led to the election of the People's National Party (PNP). A shift in political ideology to Democratic Socialism had occurred which resulted in increased government control over the economy. Jamaica witnessed the flight of capital and skilled labor. By the late seventies there was high unemployment, an increasing cost

Table 1 about here

of living, falling foreign exchange reserves and foreign investment and Western aid had diminished. An early election in 1980 brought the Jamaica Labor Party (JLP) to power. The PNP government (1972-80) had significantly increased state involvement in Jamaica's economy, but it had no clearly developed plan of action to provide the managerial personnel necessary to ensure efficiency (Davies 1984). The first two years of the new JLP government confirmed the need for structural changes in the economy.

This article focuses on a key characteristic of the Jamaican recovery plan, that is, the Government's commitment to pursuing an export-led strategy as a means to restoring economic viability (Business America 1981). The strategy seeks to expand upon non-traditional exports with relatively superior foreign exchange potential and the ability to create employment opportunities. Goals are the strengthening of basic industries (bauxite, sugar, bananas) to improve productivity and the attraction of "fresh" investment (foreign and local) in non-traditional and export-oriented activities.

JAMAICA'S EXPORT PROMOTION POLICY: DESCRIPTION AND EVALUATION

The most widely used instruments for export marketing policies can be categorized as follows: fiscal instruments, financial and credit mechanisms, institutional and technical support, and exchange-rate policy (Luis 1982). In this article, Jamaica's policy evaluation covers the years 1980-84 and is based solely on the fiscal, credit and institutional incentives. The foreign exchange situation in Jamaica is entremely detailed and complex.[1] Table 2 lists the regulations, schemes and institutions designed to promote exports in Jamaica.

Fiscal Incentives

Incentives to reduce exporters' taxable profits are widely used because of their convenience and their acceptance by the international trading community. In Jamaica, such incentives are included in the Industrial and the Agricultural Incentive Acts, the Export Industry Encouragement Law, the Special Export Scheme and the Export Free Zone (see Table 2). Such measures are costly as they involve a revenue loss to the Government. It should be noted that the measures included in the Industrial and Agricultural Incentive Acts do not apply solely to export activities. The non-discriminatory approach adopted by Jamaica creates a drain upon an economy already faced with considerable budgetary constraints. Nonetheless, it is a trade-off action by which the Government can ensure relative domestic stability. The provision of equal incentives to domestic and export producers is necessary for the exploitation of economies of scale and the contribution to technical progress. It is the application of the "market principle" which ensures the growth of efficient activities at the expense of inefficient ones (Balassa 1980).

Table 2 about here

The drawbacks to the incentives include the following. Tax concessions reduce an entity's cost of capital but the incentive measure is biased in favor of capital intensive industries and activities which may not be supportive of other national policy objectives such as the creation of employment opportunities. Luis (1982) stresses the problems arising from such conflicting macroeconomic objectives. For example, input subsidies which reduce an exporter's costs have a tendency to result in the overutilization of subsidized inputs. In addition, they discriminate in favor of activities subject to higher rates of profit tax. Schemes can be implemented to prevent the import of goods with domestic substitutes to overcome this problem. Examples are the Brazilian Law of National Similars and the Philippine tax deduction scheme for the use of local input. Exemptions from customs duties raise the problem of how to determine which inputs are actually used in the export process. The Jamaican Government established the Kingston Export Free Zone to house companies utilizing all imported equipment and inputs in their production of exports -- the Zone is economically isolated from domestic activities.

Jamaica's fiscal incentives were not fully enforced until 1981 when a shift in foreign trade policy took place. Such incentives should be continuously monitored and altered when required and no longer deemed beneficial to national objectives. Jamaican schemes were under review in 1984. Revision procedures should assess incentives to ensure that economic development is not being restrained by the support of inefficient activities.

Financial and Credit Incentives

Export financing and credit insurance are crucial elements of an export promotion program that is to improve the competitiveness of a nation's exports in a fiercely competitive global market. Access by Jamaican exporters to international credit resources is limited because of the nation's balance of payments difficulties. By the standards of most developing countries, however, Jamaica's financing scheme is relatively comprehensive. Despite this comprehensiveness, exporters are faced with considerable hardships which are deterrents to development.

Jamaica is currently faced with developmentally restrictive foreign exchange shortages which have serious ramifications for the Government's policies. The variability of the foreign reserves must be carefully monitored and controlled. The prioritized allocation of foreign exchange does not allow the nation's financial and credit systems sufficient leeway to offer services in the intensity deemed developmentally sufficient.

Another shortcoming of the export financing procedures is the lack of support provided by the domestic financial system. The attitudes of Jamaica's commercial banking sector are conservative. The sector applies strict rules concerning liquidity, eligibility and profitability and is therefore reluctant to grant financing to risky non-traditional trade activities. The sector orients itself toward the short-term profitability of traditional businesses of established clients. The purpose, however, is to expand exports by stimulating exports that would otherwise not occur, not to create an extra bonus for already existing exports. Rhee (1985) argues that guaranteeing automatic access to financing at uniform interest rates for all activities that generate export value added is critical. This is particularly important in Jamaica where small businesses (less than twenty-five workers) accounted for nearly forty percent of the total employed by the manufacturing sector in 1978 (Davies 1984). Other financing related problems facing Jamaican producers are (OICD/USDA 1981): the shortage of large local currency loans (over J $10 million); limited access by foreign investors to Jamaican financing; and the unavailability of long-term loans.

The negative poise of the banking system can enhance the unattractiveness of the exporting process to traders. It can undermine the export marketing policy objectives of the Government. The viability of an export promotion strategy is dependent upon the harmonization of all sectoral policies. No nation can expect to achieve economic development without first striving to accomplish an integrative economic structure. In an effort to create a more integrated and flexible export financing system, the Jamaican government should encourage commercial banks to act as intermediaries in export transactions. For example, banks could handle both the insurance and financing aspects of the export activity. Exporters might expand their productive capacity more readily if fast, inexpensive and relatively simple financing procedures were available to them. This is especially so in the case of small and medium sized firms unable to afford the additional expenses involved in financing exports. If finance and insurance facilities were handled by the same agency administrative expenses and delays would be reduced.

In the short run, to ensure long run profitability from increased exports, financing support schemes should be implemented to assure easily accessible export financing; and to give assistance by providing the collateral required by banks in giving credit to exporters. The government financing institutions (JECIC and the EDF; see Table 2) should establish closer contacts with local commercial banks, development banks, the Bank of Jamaica and the appropriate government agencies to ensure coordination of the Government's financial and economic policies. Increased interaction between the Government and local manufacturers and traders, with the help of the Jamaica Exporters Association and the Private Sector Organization of Jamaica, is essential to nurture a viable relationship that will reduce the discrepancy between policy objectives and achievements. This action will create, in the long run, greater participation by all essential elements in the development process. The end result should be increased investment and operational expansion and an increase in the national physical supply capacity.

Institutional Incentives

The export development effort in Jamaica has included the establishment of organizations such as the JNIP (see Table 2) and the improvement of the JNEC. Such institutional incentives are designed to stimulate national production capacity by providing operationally vital information and technical assistance services. These services themselves are designed to influence positively the attitudes and behavior of the private sector regarding production expansion and diversification for export.

The institutions are the interface between government policy and the private sector. It is essential that they be staffed with a high caliber management team to ensure institutional effectiveness. The promotion of export development through production expansion and diversification demands expertise. Davies (1984) discusses the critical shortage of skilled manpower which worsened in the late seventies because of recruitment by private sector organizations, migration by trained personnel to the U.S. and no clear governmental policy on the allocation of scarce human resources. To attract and maintain the needed human resources it is essential that the Government offer salaries comparable to those of the private sector. Taking into consideration governmental and institutional budgetary constraints, however, it is doubtful whether sufficient resources are available to attract the necessary quality of personnel. The short run costs would, however, produce long term benefits in the form of economic development.

In evaluating Nigerian efforts at export promotion, Onah (1983/84) notes that in many countries there are separate ministries for trade, commerce, industries and economic planning. Hence, there seems to be confusion in terms of supervisory control over firms involved in manufacturing and trade. Onah suggests that organizing for export promotion should begin with the organization of governmental ministries concerned with trade and commerce. In Jamaica one problem is that all incentives are not administered through a single agency. Much red tape is involved in the establishment of projects, especially with respect to securing eligibility for the benefits under the various incentive schemes. For example, in order to qualify for the incentives, Jamaican producers and exporters are required to register with the authorized government ministries -- the Ministry of Industry and Commerce (the Industrial Incentives Act, the Export Industry Encouragement Law and the Special Export Scheme), the JNEC (the Export Incentive Grant Scheme), the Ministry of Agriculture (the Agricultural Incentives Act), and the Ministry of Public Utilities (the Kingston Export Free Zone).

Inefficiencies and discrepancies are also apparent within the Jamaican organizations. For example, the JNEC does not appear to have promotional strategies that distinguish between and cater to the needs of business entities in various stages of development. Bilkey (1978) and others have argued that segmentation strategies are required to stimulate action and participation by business establishments at different evolutionary levels. In the case of Jamaica one broad distinction can be made between non-export producers, domestic and export producers, and export only producers. These groups have differing attitudes, needs and perceived obstacles to exporting and each must be treated differently to achieve optimal growth performance. The JNIP was hurriedly established in 1981 to take advantage of the surge in investment interest in Jamaica. Consequently it experienced "growing pains" from its rapid growth and thinly spread resources. The agency was, however, undergoing revision in 1984, in an attempt to improve its effectiveness in promoting investment.

Over a thousand public entities operate in Jamaica today. The Jamaican Government must seriously consider the rampant bureaucracy which undermines government policy objectives and private sector confidence in the system. On many occasions, a reduction in the role of the State in Jamaica has been an explicit component of International Monetary Fund conditionality (Girvan, Bernal and Hughes 1980). Perhaps the merger of agencies or the creation of a coordinating agency to act as an effective private sector advisory group should be assessed as possible future government action. Positive attitudes on the part of the private sector towards export promotion efforts must be maintained if government policies are to succeed.

CONCLUSIONS AND IMPLICATIONS

This study has considered the economic benefits of promoting exports and the environmental context of export marketing policies, and has examined the case of Jamaica from 1980-84. For this rather brief time period considered, it is difficult to pass definitive judgements on the success of Jamaica's efforts to increase and diversify exports. It was emphasized early in the paper that as no two countries are the same and world economic conditions are dynamic, export marketing policies must be tailored to a specific country at a specific point in time. Nevertheless, from the foregoing analysis, general comments can be made which are relevant to other countries' economic development efforts.

The formulation of an export-led development strategy must take into account internal (supply-related) factors and external (demand-related) factors. For example, exogenous variables, such as protectionist forces and technological change, that must be accommodated by Jamaican policymakers must also be considered by most other countries' policymakers. Some external changes such as export marketing agreements are more localized, for instance, the United States' Caribbean Basin Initiative.

A wide range of tools and action mechanisms is available to promote exports. The composition chosen is dependent upon national policy objectives, the nature of external markets and the repercussions on the domestic economy. It is essential during the formulation process of the export strategy that the objectives are well defined along with the structure, frequency, duration and intensity of the incentive measure. The export promotion strategy must be consistent with existing industrial and employment policies. All economic activities seen as contributing directly to the overall national development process must be assessed and evaluated to avoid the danger of haphazard strategy implementation and the isolated development of the export sector. The export development program cannot be developed in a vacuum.

Internally, the Jamaican Government appears to have chosen to apply the market principle in its export marketing policies. Yet, in the implementation of these policies, for example, by the banking sector, discrimination in favor of larger firms and more traditional activities occurs. The implication of this for Jamaica and for other countries in which similar situations exist may be to include more extensive or different training for the personnel in the institutions carrying out foreign trade policies. Change occurs slowly, but the institutions must develop as catalysts for the change. Related to this issue and a major dilemma faced by developing countries is political instability. Frequent changes in government structure and philosophy delay the progress of developmental programs. Jamaica has suffered from this dilemma. The Jamaican export marketing policies, as do those in many other developing countries, suffer from two further handicaps: extensive bureaucracy and shortage of human resources.

The Jamaican Government's export drive is "young" and subsequently is ambiguous in several aspects. The major issues, however, have been encompassed in its comprehensive program. The existing inconsistencies and inefficiencies must be removed in the near future to prevent them from becoming larger obstacles to the national export process. For long term survival, government actions with respect to export marketing policies need to be primarily "offensive" (rather than defensive), consistent, committed, flexible, efficient, coordinated and pragmatic.

ENDNOTES

1. Over the past decade the Jamaican dollar has been subject to rapid and successive devaluations in accordance with International Monetary Fund regulations and the country's ailing economy. In 1981 the Government introduced a free market for commercial banks known as the "Parallel Market" where demand and supply would determine the exchange rate. Non-essential imported goods were brought in at the higher rate determined by the commercial banks and imported essential items were allowed in at the official rate (through the Bank of Jamaica). 1983 saw the replacement

of this dual exchange rate with a new rate of parity between the Jamaican and U.S. dollars. Under the new program the import quota and licensing system has been dismantled for most imports. The new exchange rate is set on a daily basis by the commercial banks and fluctuates according to supply and demand.

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Table 1

Jamaica: Economic Indicators

Inflation rate:	31.4% (1984)
Gross Domestic Product:	US $3.5 billion (1983)
Foreign Debt:	US $1.9 billion (1983)
Debt Service Ratio:	50% (1985)
Export earnings:	US $670.2 million (1983 estimated)
Export destinations:	US 38%, UK 19%, Norway 9%, Canada 9%
Import costs:	US $1152.7 million (1983 estimated)
Import sources:	US 38%, Venezuela 13%, Netherlands Antilles 15%, UK 7%, Canada 5%
Trade deficit:	US $482.5 million (1983 estimated)
Present employment pattern:	Agriculture 35% Industry 18% Services 47% Unemployment 27.3%

Sources: South October 1984, South January 1986

Table 2

Policy measures to implement Jamaica's export promotion strategy

I. FISCAL INCENTIVES

*Industrial Incentives Act (under review, 1984)
-fiscal incentives for existing and potential manufacturers interested in the domestic market as well as Caricom markets. Includes tax holidays, duty exemptions, etc.

*Export Industry Encouragement Law (under review, 1984)
-incentives to investors producing for export.

*Special Export Scheme
-to provide companies not qualifying for tax holidays with tax relief on profits earned from the export of non-traditional products sold outside of the Caricom region.

*Kingston Export Free Zone (established 1976)
-export center for manufacturing, warehousing and distribution of export products. Investments must be financed solely with foreign exchange. Various exemptions from tax and foreign exchange regulations.

*Agricultural Incentives Act
-to encourage production of non-traditional export products. Tax and non-tax incentives.

*Consumption Duty Order
-across-the-board exemption policy on raw materials

*Investment Allowances
-for basic industries (manufacturing, construction, etc) allowances of 20% are granted on capital expenditures on plant and equipment. For agricultural sectors including the sugar industry allowances of 40% are granted.

*Certified Exporters Scheme
-Gives bona-fide exporters preferential treatment in securing import licenses.

*Export Incentives Grant Scheme
-financial grants to assist in the marketing of certain non-traditional export products.

II. FINANCIAL AND CREDIT INCENTIVES

*Deposit Advice Scheme
-allocates foreign exchange for imports to the companies which deposit local funds with the Bank of Jamaica in advance of export transactions.

*Retained Foreign Exchange Accounts
-to assist exporters in meeting their foreign exchange operating requirements for importing raw materials, spare parts, capital goods, marketing and travel. Allows exporters to maintain U.S. dollar accounts with the Bank of Jamaica.

*Jamaica Export Credit Insurance Corporation, Ltd. (JECIC)
-a governmental financing institution whose mandate is to provide ancillary financing functions to exporters to insure them against risks involved in foreign trade activities. Also, JECIC discounts the exporter's receivables in order to finance his export transaction.

*Export Development Fund (EDF)
-a revolving hard currency foreign exchange fund owned by the Bank of Jamaica and managed by JECIC. Extends short-term loans to exporters using sales orders as collateral. Priority financing given to manufacturers of non-traditional products who have been given Certified Export Status.

III. INSTITUTIONAL INCENTIVES

*Jamaica National Investment Promotion, Ltd. (JNIP)
-established in 1981 to promote investment in all sectors of the economy and to simplify and accelerate the investment process by evaluating investment proposals. Several specialized service units such as Industrial Services unit (assists new and old investments in strengthening their operations but concentrates more specifically on projects in production); Special Services Portfolio Unit (monitors and expedites applications). Also has Parish Investment Programme, Small Business Rural Outreach Programme and a Training Unit. Overseas offices in New York and Miami and a representative in Washington D.C.

Jamaica National Export Corporation (JNEC)
-established in 1969 to facilitate and encourage export trade. Includes Jamaica Marketing Company (JAMCO), Jamaica Export Trading Company (JETCO) and JETCO (UK) Ltd. JETCO specifically aids small firms unable to obtain export financing and those who have no interest in being involved in the actual export process by assisting with locating raw material supplies, documentation, warehousing, financing, etc. Once the produce has been shipped its marketing responsibility is assumed by JAMCO. JNEC offers a Trade Information Service, and Export Training Program; coordinates the Trade Commissioner Service of Jamaica; acts as the certifying agency for duty free treatment of exports under Jamaica's various trade agreements. JNEC was appointed Secretariat to the Inter-Ministerial Commission on International Trade (IMCIT) in 1983. The Commission is to formulate an international trade policy.

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