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***'Strategic Structural Transformation:
The Case of Jamaica.'***

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ABSTRACT

This paper looks at strategic structural transformation within the context of globalization for the small island state of Jamaica, and the outcomes that can be achieved by pursuing such a strategy. Using a neo-structuralist approach, it starts off by giving definitions of both strategic issues and strategic transformation. Strategic areas or issues are those that when implemented make a big difference or have a macro effect and are cross-cutting, in terms of having multi-sectoral linkages.

The premise of this paper is that within a global environment Jamaica has been trying to transform itself by moving away from a post-colonial commodity-driven, preference-based economy to one whose competitiveness is based on value-added outputs. The main pillars of the strategy are integration into the world economy via investments in transport infrastructure, human resources and knowledge-driven industries. This thrust is in recognition of the fact that structural transformation cannot rely solely on service industries.

The paper also looks at the Jamaican experience by exploring the degree to which the country has been transformed by the processes of reform, globalization, and integration.

The paper concludes by offering an approach on the way forward. The vision that propels Jamaica's structural transformation must be a future where poverty is eliminated. This better future can best be achieved through the conduit of wealth creation driven by an activist state in partnership with private capital focused on driving investment to achieve rapid and sustained growth with a strong emphasis on social cohesion.

1.1. Introduction

Development, by definition, is a dynamic process. However, the process can stagnate when it becomes encumbered by the past. Jamaica, a small, vulnerable Caribbean island state, faces myriad challenges and obstacles to move beyond the post-colonial model of development. When an economy undergoes structural transformation, both the composition of the output and the contribution of each sector to GDP and employment are radically changed over time.¹ Likewise, in the process of dynamic development, there is a very strong interrelationship between strategically selected areas and macroeconomic goals. This is what is known as sectoral dynamism.² One of Jamaica's major developmental challenges is how to accelerate economic growth as a basis for eliminating poverty. Rapid sustained growth has eluded Jamaica in the post-independence period. The paper will partially explore this issue and put forward an approach that has been successful in driving growth in other countries.

Three broad strategic areas have been identified as being critical to the transformation of the present Jamaican economy. These are: transport infrastructure, human resources and new knowledge-driven industries. The collective transformation of these three strategic areas has to be largely state-assisted because of the degree of risk associated with globalization.³ Transformation has to be informed by the global and historical contexts that impinge on the development process.

¹ "Structural Transformation" In *Transforming Africa's Economies*. 2000. Accessed at: http://www.uneca.org/eca_resources/Publications/books/ERA2000/Chapter5.pdf: 33.

² "Structural Transformation" In *Transforming Africa's Economies*. 2000. Accessed at: http://www.uneca.org/eca_resources/Publications/books/ERA2000/Chapter5.pdf: 37.

³ Farkas, Peter. 2002. *Development Theory on Relations Between the State and the Market and on Their Effects on the Peripheries of the World Economy*. Institute for World Economics, Hungary Academy of Sciences, Working Papers; No. 127: 7. Accessed at: <http://www.vki.hu/workingpapers/wp-127.pdf>.

1.2 Jamaica's Post Independence Development

Jamaica's development process represents something of a paradox. The small island state, with an open and externally driven economy, is richly endowed with natural resources, a vibrant culture, creative people, a relatively stable democratic system, along with a good strategic location. The country has, however, failed to take advantage of these features to accelerate growth on a sustained basis in the post-independence period. The country, which gained independence in 1962, had average annual growth rates of over 6 per cent during the period 1955 to 1970 – driven largely by foreign direct investment in the development of the mining and processing of bauxite, hotels and small scale import substituting manufacturing. The success of this model in generating growth was exhausted by the start of the 1970s.

The model had failed to generate sufficient wealth to address the legacy of social deficits generated by colonialism. These include high levels of poverty, unemployment, illiteracy and inequality. By the end of the 1960s, not only were the economic possibilities exhausted but also the system was facing a major social crisis. What was required was a fundamental policy shift away from the import-substitution development model to an export led approach built around strong social cohesion.

By the early to mid 1970s, the exhausted economic and social model of development was exacerbated by the crisis in the world economy. Jamaica's policy response at the time to these crises was to vigorously apply the policy levers that re-enforced the import substitution model: trade restrictions, high tariffs, loose fiscal policies as the government sought to protect the poor. This approach to macroeconomic management led to an overvaluation of the currency at a time when capital flight was taking root as a consequence of the internal instability. The attempt to stabilize the situation by imposing higher taxes on the tradable sectors undermined the

competitiveness of the economy as a whole. All these negative trends led to a severe economic and social crisis by the end of the 1970s.

The failure to pursue a fundamental policy shift from low value-added commodity exports, combined with small-scale import substitution based on low wages, had a profound impact on the development trajectory of Jamaica for over a generation. The failure to make this radical shift was partly related to a few episodes of relief provided by temporary increases in commodity prices and increased aid flows in the 1970s and 1980s. In essence, it was a major failure of leadership at a crucial moment. The increased resource flows provided short term policy spaces which were used largely to avoid making the major changes required.

The post independence economic structure was a direct outgrowth of the plantation type economic system in the slavery/colonial era. The entire economic structure after slavery was built on commodity production using cheap and abundant labour. Colonial policies up to the 1950s actively discouraged industrial development. Raw material imports from the colonies into Britain were given preferences and attracted little or no import duties. On the other hand, manufactured imports were very heavily taxed. For example, neither sugar nor cocoa as raw material attracted duties. However, when combined to make chocolate, they attracted British import duties of up to 40% during the 1940s. The same differential was applied to the import of leather as raw material from the colonies, as against shoes manufactured in the colonies. These are just two examples of why, despite significant integration into the world economy, Jamaica, like other colonies, made limited progress in developing a successful industrial base. The context and nature of integration of a country into the world economy is important to understand.

The period of the 1980s and 1990s, which saw Jamaica relying heavily on a reform agenda approved by the International Financial Institutions (IFIs), under the rubric

of the Washington Consensus, was a period of growth stagnation. While the weak performance can also be related to internal policy failures and the impact of globalization, the weakening of the capacity of the state to play its critical developmental role was a major factor. This issue will be explored further, as the role of the state, in an economy like Jamaica's is of crucial importance for achieving rapid growth and development.

1.3 The Neo-Structuralist Framework

The approach employed in this paper is neo-structural in its orientation. It departs from pure structuralism in that there is no reliance on traditional subsistence agriculture to transform the economy into a modern one.⁴ Neo-structuralism is predicated on collaboration between the private sector and the state to improve productivity in the form of value-added output or output with 'high technological content' in order to be able to both compete globally and reduce poverty and inequality.⁵

This model recognizes both "outward and inward-looking" strategies.⁶ It recognizes that sustainable development and growth cannot be attained in a commodity-dependent system but rather in one which emphasizes capital-intensive production.⁷ This necessitates a stable macro-economic framework which is achieved by systematic, deliberate action of the state in collaboration with other non-governmental entities.⁸ A principal role of the state, from the neo-structuralist perspective, is to "mediate between conflicting agents and take care that weak agents' interests are taken into consideration.

⁴ Read Contreras, Ricardo. *Competing Theories of Economic Development*. Accessed at: http://www.uiowa.edu/ifdebook/ebook/contents/PDF_Files/Part_1_3.pdf.

⁵ Kirby, Peadar. 2002. *Resituating the Latin American State*. Centre for International Studies, Dublin City University, Working Paper 3:19. Accessed at: <http://www.dcu.ie/~cis/2002-3.pdf>.

⁶ Farkas 2002: 9.

⁷ Sturm, Linda. *Similarities and differences between neostructuralism and neoliberalism*. Accessed at: http://www.tiss.zdv.uni_tuebingen.de/webroot/sp/barrios/themeA3c.html: 2.

⁸ Sturm: 3.

The government should, if necessary, put through interests of the future against present ones and those of the whole society against particular ones.”⁹ This is a fundamental argument upon which this paper is premised. Poverty eradication and social protection are thus responsibilities of public policy.

In other words, neo-structuralism, as an approach to poverty reduction aims to achieve sustainable development within a rubric of social justice. Therefore, the fight against poverty should be embedded in a strategy of development which is built around social cohesion.

1.4 Globalization and Jamaica

Any analysis of the Jamaican economy over the last 20 years has to be within the context of globalization, which is here referred to as the increased flow of trade, capital, information, skills and values across national borders. Globalization is a powerful force that is driven by technological, social and political changes along with the influence of multilateral institutions such as the IMF, the World Bank and the WTO, and powerful governments. These forces have had a significant impact on domestic economies and societies – destroying inefficient industries, weakening national decision making processes and forcing all sectors to face and compete with the rest of the world on terms largely determined in the industrial countries. In the process, old norms and structures are being destroyed, often before new ones can be created. As a result, integration into the world economy by small states is an uneven and difficult process. Global flows and events have a disproportionate impact on small economies, most of which are unable to influence these trends significantly.

Jamaica, like the whole global economy, has undergone profound structural changes over the last two decades with the economy becoming significantly integrated

⁹ Sturm: 4.

into the global economy. In the 1970s and early 1980s, Jamaica's international trade and payments were conducted under severely restricted regimes. Starting in the late 1980s and accelerating in the 1990s, trade and payments have been almost fully liberalized. Jamaica's average tariff levels fell from 29.1 per cent in 1991 to 15.5 per cent at the end of the 1990s. In 1991, capital controls were lifted and by the end of 1992, foreign exchange markets were fully liberalized. Over the period 1991 to 2005, Jamaica's net foreign reserves moved from negative US\$443 million to positive US\$2.1 billion as both private and official capital flows accelerated into the country. With the liberalization of the Jamaican economy, the world economy is likely to increase demand for goods and services that are efficiently produced and which meet international standards. This, by itself, is seen, by the proponents of globalization, as providing significant opportunities for investment and growth. This has yet to take place on a grand scale in Jamaica. The major question then becomes, why hasn't this happened?

The Jamaica Human Development Report 2005 (JHDR2005) points out that "while integration demands a one-time adjustment in the structure of production: continued participation in the global economy constantly demands re-adjustment and redeployment."¹⁰ There is a necessary lag between the release of resources by declining industries and their absorption by the new. As a result, there is a tendency to endure a period of contraction and resource unemployment or under-employment during the adjustment process. The severity of the fall out will be a function of the flexibility of factor markets – land, labour, credit. A most significant determinant of the adjustment process is the efficiency and effectiveness of the state. If the very process of globalization has weakened the state's ability to provide basic infrastructure, an educated labour force and the capacity to facilitate investment, then the adjustment

¹⁰ The Jamaica Human Development Report. 2005: 12.

process will be long and difficult and the country may never realize its full growth potential.

The whole process of realizing the potential growth from integration into the world economy may become stalled if the cyclical turbulence of the global system undermines macroeconomic and social stability. In the case of Jamaica, in addition to these external risks, the country experienced during much of the 1990s a severe banking system crisis which was resolved by significantly raising the public debt. This development, and the way it was resolved, pre-empted resources by the state towards productive investments. Part of the concern about resolving the crisis quickly, and in using the state to resolve the problem was to minimize loss of confidence in the country's external bonds and to prevent capital flight. This was a clear case where domestic policy had to be very aware of the demands of the global market and deliberately fashion policies with high developmental costs over the long term.

While there have been some shifts in the pattern of Jamaica's trade and domestic production, and investment and employment patterns, to reflect the impact of integration into the global economy over the last 20 years, there has not been the total transformation that was expected. Economic growth has been relatively low, and employment generation has been equally weak. There have been some successes in the adjustment process of the economy over the last 20 years, however. The transformation of the telecommunication and information technology sectors and the steady growth of the tourism sector are clear examples of progress resulting from the greater degree of integration. However, the demise of much of manufacturing, particularly the garment sector is an example of the negative impact of globalization. Two major developments have accounted for much of this negative impact on manufacturing: the emergence of the North American Free Trade Area (NAFTA) and the

resultant benefits given to Mexico, and the rise of low cost manufacturing out of China and the Far East.

The main conclusion to be drawn from the impact of globalization on the Jamaican economy is that the process is severe and continuing, and has imparted both positive and negative outcomes. The inflexibility of some domestic factor markets, for example labour and credit, the slowness in the redeployment of assets from uncompetitive to more competitive industries, and the lowered capacity of the state to lead in the investment process, have all resulted in Jamaica reaping very little reward, to date, from the processes of globalization and integration. Given the failure thus far of Jamaica to be transformed by integrating into the global economy, a great deal of soul searching for adequate explanations is underway. With GDP growth averaging about 1 per cent per annum since 1990, poverty levels remaining in the range of 19% and unemployment in the region of 15%, there is a clear need to analyze what has prevented the transformation from occurring.

A great deal of attention has been placed on the failure to complete all the necessary market reforms and the need for fiscal consolidation and removing obstacles to private sector growth.¹¹ Attention has also been placed on the need to improve the education system as well as on the need to reduce the level of crime. Ironically, the decline in the education system and the steady rise in the homicide rate in Jamaica over the last 20 years have coincided with the period of implementing the Washington Consensus and the integration of the Jamaican economy into the global economy. There is real doubt about being able to transform the economy by simply carrying out the limited reforms recommended by the World Bank, and the strict adherence to the macroeconomic stability agenda. While these may be necessary conditions, there appears to be more that is needed to achieve the transformation. The role of the state

¹¹ See The World Bank. 2003. *The Road to Sustained Growth in Jamaica*.

becomes central in the debate. This is critical, as an important feature of the globalization process, to date, is the minimization of the role of the state in the economy.

2.1 Broad-based Approaches Towards Sustained Growth: The Role Of The State

The experience of development over the last fifty years suggests that there are two very broad approaches in the quest for development. These approaches revolve around the role of the state. The first approach outlines a very clear role for an activist state as the “Asian Tigers” demonstrated. The case of Singapore was typical of a central and dynamic role for the state working in concert with markets to achieve rapid growth. The example of the second approach is to be found in many Caribbean states where a more organic process evolved. Here the state played a less dynamic economic role, focusing on getting some of the developmental fundamentals in place, such as the necessary infrastructure, while leaving the private sector to carry out the non-infrastructure investment. Barbados is usually cited as the successful case of this organic approach.

The Jamaican case over the last 40 years is an interesting one. In a sense, the Jamaican development model combines elements of the two broad approaches without the success achieved by either Singapore or Barbados, despite starting off with more advantages and much earlier than either. There was significant early progress in the case of Jamaica from the mid 1950s to the late 1960s. The explanations for Jamaica’s inability to sustain the growth momentum are quite voluminous but not definitive. The answer, discussed earlier, must lie partly in the policy choices, and their consequences, which took place in the post independence period.

There was a major policy shift towards an activist state in the 1970s with an emphasis on social policy and issues of equity. The state was not seen as a driver of the investment process of the private sector. The economic role of the state was largely limited to owning the “commanding heights of the economy.” The private sector reacted

very negatively to the approach. As a result, GDP growth and investment declined quite significantly during the period and social conditions deteriorated. In contrast, the experience of the successful activist states in South East Asia is that they all placed emphasis on the rapid expansion of investment and technological innovation working in conjunction with the private sector and the market.

Broadly speaking, since the 1980s, the Jamaican state has returned to the more traditional role of facilitator in the development process. The emphasis has been on the private sector playing the lead role in the economy. Despite some interventions in the economy, the state has concentrated on (1) reforming the economy to allow for its integration into the world economy; and (2) creating the infrastructure and policy framework to stimulate private sector investment. Despite this shift, the GDP growth performance over the period has remained anaemic. A major question that arises is whether or not the local private sector has the capacity and the innovative drive to quickly transform the economy? This question is usually answered from the neo-liberal perspective by suggesting that what is needed is the removal of all impediments to markets working efficiently and then the private sector will grow the economy. This approach takes no account of the disproportionate impact of globalization on the domestic economy and society. Globalization affects not just the capacity of governments, but that of the domestic private sector as well.

The “organic” bottom-up approach to development which relies on the private sector taking advantage of incentives is, by experience, very slow, but can be successful if there is a long term national commitment to the model. What typically happens is that while the policy reforms are underway and the state is putting in place the necessary building blocks, the private sector will be reluctant to take significant risks because of the high degree of uncertainty about the sustainability of policy. This is especially pronounced in cases where social capital (trust and confidence) is weak, and where

there is no agreed national consensus on the long term strategy. This has been the experience of Jamaica. However, if the reforms remain in place long enough and the policy framework and incentive structures are adequate, then private sector investment (local and foreign) will eventually flow.

After a decade and a half of reforms, building a policy environment to integrate Jamaica into the new global economy, and putting in some of the needed infrastructure, we are beginning to see an increase in the flow of investment. Foreign direct investment into Jamaica over the last 5 years, are at levels not seen since independence in 1962. But, given the significant social deficit that has emerged over the years as indicated by the levels of poverty and unemployment, there is clearly need for greater acceleration in growth and employment creation. The fundamental question that arises then is: Can the current approach to development deliver faster growth and employment creation?

2.2 Accelerating Development

The present global environment has made the model of development based on the activist state of the 1960s and 70s, less acceptable. In the context of the social deficits, the long term “organic” process of the state being the facilitator and leaving the investment drive solely to the private sector is a gamble. This gamble is likely to be great in the context of a domestic private sector that is risk averse and dominated by small family firms. Slow growth will not allow the economy and society to address the social deficits and could cause the society to implode. Consequently, a third approach, aimed at accelerating growth and the development process in Jamaica seems urgent.

Jamaica has undertaken much of the needed reforms to integrate into the world economy. It is improving the infrastructure base; the macro-economy is relatively stable (even while undergoing profound adjustments); and the range of incentives for investors is significant. These conditions are beginning to lead to increased investment flows. But

the process needs to be accelerated. Jamaica, at this stage, is positioned to integrate the two broad approaches: the top down interventionist model with the bottom-up organic growth model.

Over the past 40 years, the country has built up a fair degree of valuable assets that support development and this process is continuing. Jamaica has a vitally important asset: it is culturally vibrant and well known globally. It has a global image. What is needed is an energetic strategic thrust in a specific direction with a focused goal.

What should be that goal? The goal should be to transform Jamaica into the preferred location for citizens, tourists, skilled workers, investors and corporations from around the world based on world class facilities, infrastructure and way of life. The ideal way of life must be based on tolerance, order, security and social peace.

Sampler and Eigner (2003) in their strategic trajectory model demonstrated how to effect structural transformation using the case study of Dubai. The starting point of the model of development is asset creation in which resources are made available and assets, such as technology systems, intellectual property, and physical infrastructure, are created on an on-going basis. Of course, this process has been in place for a long time, but on its own it does not explain growth. It is only when one places this phase into the context of a development model that its strategic value emerges.

The value of an asset, once created, will either increase or fall depending on its output and the complex of external factors. It is only through asset acceleration that we can fully realize greater value from outputs than would ordinarily be dictated by market forces. The pent-up demand may be achieved by anything from infrastructural development to the accumulation of know-how or experience. These in turn will make further asset creation even easier. For example, if all the Jamaicans working on the Highway 2000 project were to develop their new expertise based on the knowledge and experience gained, they could go on to help transform the road building process in the

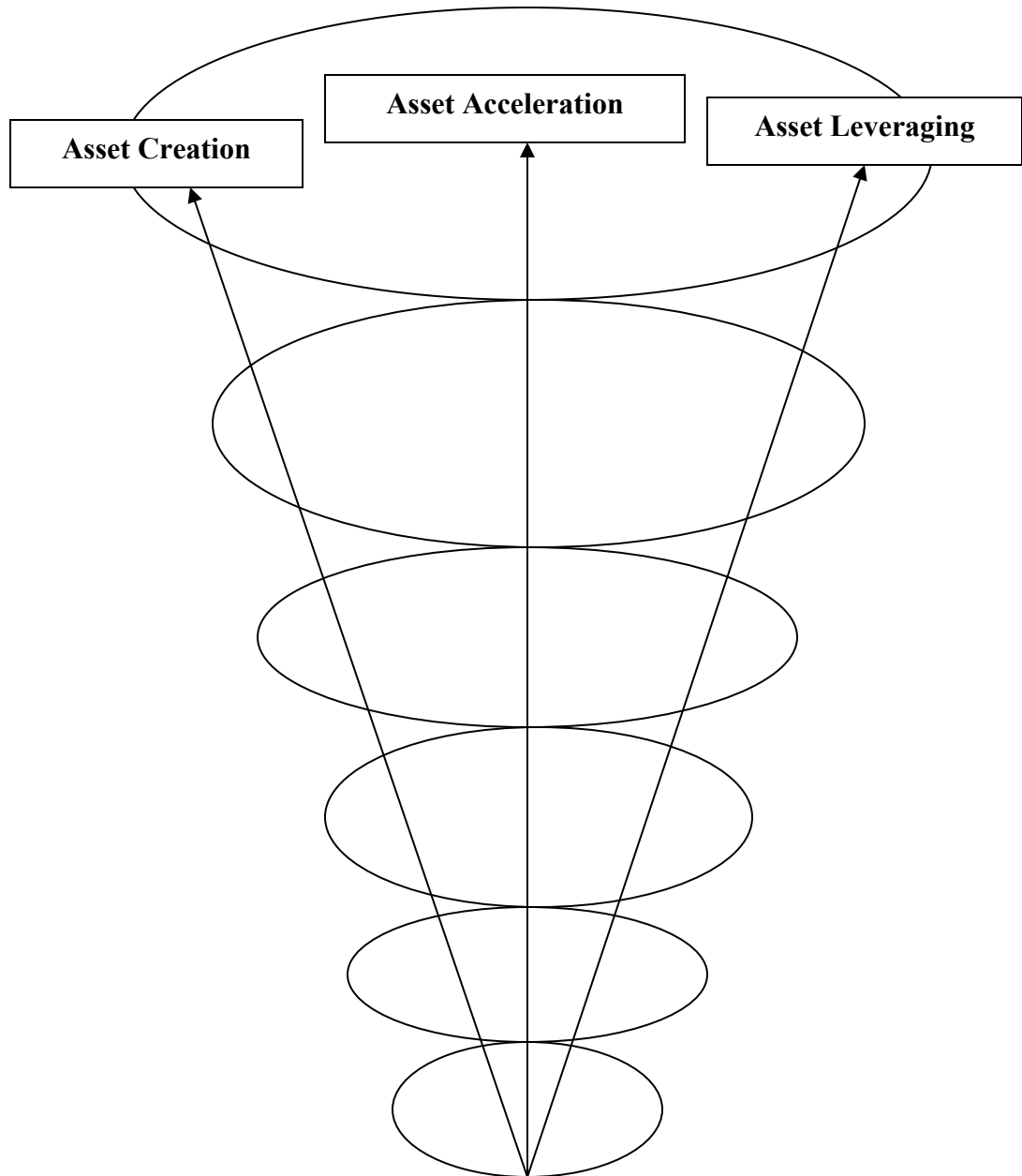
country and the region. Jamaica could become a centre for highway building expertise in the Caribbean. A similar model exists in Cuba which has created significant expertise in the medical field. The state, through its support for science and technology, the education system, its own procurement processes along with its control of the policy for incentives, is, naturally, in a position to significantly influence the asset acceleration process.

Linked to asset acceleration is asset leverage, the next phase in the model. This is where the pent-up demand for and the unreleased value of the asset is realized. Expertise and knowledge developed the first time round can be leveraged, and network economies begin to exhibit rapid value creation. In many cases this stage is not reached, and any pent-up value is dissipated either because of management failure or because of market conditions. This underscores the need for excellent leadership and management. In the final stage of the model, there are three possibilities for the assets: harvesting, reinvestment or reinvention. A mature asset can be redeployed or retired. Reinvestment is always needed for an asset that has a productive future. Reinvention is possible if alternative or additional applications are discovered.

As each of the three strategic areas undergoes structural transformation, asset creation, acceleration, leverage and reinvention will be occurring simultaneously. As the strategic trajectory is realized at each level, the strategic vortex which facilitates sectoral dynamism, in terms of competition, collaboration and innovation, will be initiated.

2.3 The Strategic Vortex

Once the cycle has been completed and started again, the effect of multiple iteration and ever-increasing speed and momentum create a strategic vortex resulting in large-scale rapid growth. As additional assets are added to the portfolio and existing assets are iterated, several things happen. Momentum increases, allowing speed to be maintained and minimizing any slowing effects from external forces. As the asset base increases and risk is reduced, the portfolio is expanded and diversified.



This process can only work successfully if we have quick and effective decision-making based on real time information and the ability of leaders to step back, when appropriate. Managers and leaders must choose which assets to introduce, monitor their development through the acceleration and leverage stages and then decide whether to reinvest, reinvent or harvest. Of critical importance is knowing when to step back and let market forces take over. The governance structure must allow for fast decisions to be made. The leader of the process or major project must be bold, decisive and someone who is willing to eschew recognized limitations in order to create. By extension, the starting phase must be based on bold moves. If we want rapid growth, it is crucial to start with a bang – a strategic venture. There isn't time to wait and see what the market will do. This is especially the case for a developing country coming from behind and which has huge social and developmental deficits. The process must not be deterred by potential constraints; rather, these must be acknowledged and overcome.

2.4 Choosing Key Assets

The initial endowment of assets or those chosen to initiate the development process underpin everything else that comes after. The initial choice must be the right one. The choice must not be whimsical or random or merely to take advantage of a short term opportunity. The choice must be truly strategic and must be linked to the vision of the society and economy we set out to build. Timing is crucial. For example, let us say that the Caribbean Single Market and Economy (CSME) is central to Jamaica's future, then it may be of great importance that a Caribbean Financial Centre be built. Jamaica, with the most advanced and robust financial regulations in the region could become such a centre. If such a decision were taken, it could mean transforming the old downtown sections of Kingston. Such a project would be strategic and could possibly initiate the

vortex described above. The state would have to take the lead in attracting the necessary investment. The initial risks are too great for domestic private sector to take on. Most of the country's domestic firms, as mentioned before, are family owned and are too risk-averse. There is a legitimate role for the government to build high quality infrastructure solely, or in partnership with the private sector, if development is going to be accelerated.

The high level of the national debt is not an insurmountable obstacle to attracting large-scale investment for infrastructure. This has happened with Highway 2000, a private sector led toll road operation. The country needs to put in place the institutional arrangement and leadership to drive the vision for success. Bold vision and leadership, strategic asset choices, rapid decision making based on real time information are critical elements of the strategy.

This rapid growth model carries risks. Some failures will occur. But it does not mean living on the edge always. As a portfolio of assets grows, the risk profile of the portfolio stabilizes, and new assets can be created with reduced risks. For example, after the investment in Highway 2000, the risks for the collateral investments that will flow will decline.

The government has identified transport infrastructure and tourism development as two strategic choices for asset creation. The two have natural synergies which can be exploited to accelerate the pace of development. For example, significant investment is taking place in the development of the north coast main road linking all the main tourism regions. This is helping in the attraction of new hotels on the north coast. At the same time, Highway 2000 is moving apace. What is required urgently is the leg of Highway 2000 linking the two major national highways. This development would open vast new areas for development. It would make the agricultural land in the St. Catherine and

Clarendon regions more attractive for production to support the tourism sector. It would make housing stocks in the region more accessible to the north coast tourism region.

3.1 Conclusions

In a global economy, governments have to encourage the abandonment of ideas, structures and methods that are obsolete. They have to seek to be ahead of the development curve in putting in place the institutions, infrastructure, human resources and policies to transform the economy and society. All this has to be done within the context of what is feasible globally. Reforms and integration within the world economy are necessary but not sufficient bases for transformation. Jamaica's experience demonstrates that globalization, while presenting opportunities, carries enormous risks and obstacles to development. These have to be overcome by deliberate policies, led by the state.

The old agrarian based economy cannot be seen as the means to structural transformation. Experience has shown that the pivotal driving force behind structural transformation in Asian countries was not due to improvements in the total factor productivity (TFP) of agriculture but rather the total factor productivity of non-agricultural sectors such as services.¹²

In Jamaica, commodity production (sugar, bananas, cocoa) based on low skill low wages is on the decline. Average wages for the agricultural sector is declining in Jamaica because the long term world price for commodities is falling. Brandt *et al.* (2005), in the case of China, attribute this to the differential in human resource development between the two sectors.¹³ In fact, a case study of Africa revealed:

¹² Brandt, Loren, Chang-Tai Hsieh and Xiaodong Zhu. 2005. *China's Structural Transformation*. Accessed at: <http://emlab.berkeley.edu/users/webfac/groland/e261-f05/hsieh.pdf>: 12.

¹³ Brandt *et al.* 2005: 11-12.

The growth of total factor productivity in the selected African economies during their high growth periods shows that human capital accumulation was critical. This is partly explained by low initial levels of human capital accumulation in Sub-Saharan countries. Human capital contributed significantly to total factor productivity growth. Reallocation of labour from agriculture to the (more productive) non-agricultural sectors also has contributed significantly to the growth of total factor productivity.¹⁴

As such, targeting agricultural commodities as the means by which the economy will be transformed is not likely to be successful. Wages cannot exceed the marginal productivity of the agricultural sector, especially when the income to the sector is not rising to offset such wage demands. The economy has to be driven by a vision which seeks to accelerate higher level skills and higher wages.

Pure structuralism relies on traditional subsistence agriculture to transform the economy into a modern one. Neo-structuralism, in contrast, supports internal expansion of the local economy in terms of diversification away from agriculture into other areas which can be better harnessed and catalyzed to effect sustainable development. Neo-structuralism is a pro-active and strategic approach; thus the activist role of the state which supports strategic investments in line with the market, which the paper supports.

Lessons from Africa and Hong Kong, in particular, have shown that structural transformation can be undermined if there is excessive growth in one sector and negative growth in another. “Unsustainable growth in one sector threatens the long-term sustainable pattern of an economy.”¹⁵ In Hong Kong, for example, “structural transformation towards a services-sector economy reached the point that the goods producing sector began to contract by the early 1990s.”¹⁶ So, although growth in the

¹⁴ “Structural Transformation” In *Transforming Africa’s Economies*. 2000. Accessed at: http://www.uneca.org/eca_resources/Publications/books/ERA2000/Chapter5.pdf: 41.

¹⁵ “Structural Transformation” In *Transforming Africa’s Economies*. 2000. Accessed at: http://www.uneca.org/eca_resources/Publications/books/ERA2000/Chapter5.pdf: 34.

¹⁶ Imai, Hiroyuki. 2002. *Hong Kong’s high Inflation Under the US Dollar Peg: The Balassa-Samuelson Effect or the Dutch Disease?* Center for Research on Economic Development and Policy Reform. Working Paper No. 126: 6.

services sector provides the opportunity for greater employment and higher wages in Jamaica, this sector must not be isolated. Other sectors must be developed once the strategic areas have been actualized. If other sectors are ignored, Jamaica runs the risk of having a services sector that has reached its saturation point.¹⁷ At this point, the multiplier effects that I have spoken of are minimized. This is where “the ratio of service sector output to total products . . . is similar to that in the advanced economies.”¹⁸ When this situation occurs, there are no further benefits to be accrued from the services sector vis-à-vis the developed world. There is, therefore, a danger of the services sector not contributing all that it is expected to contribute to structural transformation. To avoid this quagmire, other strategic areas will have to be identified and developed.

The way forward for Jamaica, then, is one in which the state strategically selects priority areas for development and partners with the private sector to minimize its aversion to risk. The state cannot play an organic role and expect both wealth creation and poverty reduction to occur, simultaneously. Neither can the state expect one strategic area to create all the wealth. Poverty reduction will only occur in an environment where the government clearly sees its role in the development process and actively sets out to create, accelerate, and leverage assets for the resultant sustainability. This process is an integrated one which cannot occur in the absence of social cohesion. So, within the neo-functional framework, the state must see itself as an active participant in the process of wealth creation but also as a redistributor in terms of ensuring that wealth creation is dissipated throughout the economy. This is the third approach, which was introduced earlier, an integration of the top down interventionist model with the bottom-up organic growth model. If the State does not recognize the

¹⁷ “Structural Transformation” In *Transforming Africa’s Economies*. 2000. Accessed at: http://www.uneca.org/eca_resources/Publications/books/ERA2000/Chapter5.pdf: 43.

¹⁸ “Structural Transformation” In *Transforming Africa’s Economies*. 2000. Accessed at: http://www.uneca.org/eca_resources/Publications/books/ERA2000/Chapter5.pdf: 43.

duality of its role, wealth creation will occur concomitant with the exacerbation of poverty. It is, therefore, the role of the state to ensure balance in its role as facilitator of development if both outcomes are to be achieved.

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