

Jamaica's Private Sector: A Strategy For Sustainable Hypercompetition Development



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Jamaica's Private Sector:

A Strategy For Sustainable Hypercompetition Development

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Economic Development Institute

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"The essence of the knowledge is, having it, to apply it; not having it, to confess your ignorance. Ignorance is the night of the mind, but a night without moon or star".

Confucius.

"It is not the degree that makes a great man; it is the man that makes the degree great"

Nicoli Machiavelli.

The Economic Development Institute under the theme **Global Thinking Research And Development** was established in 2001. We are group of past students of the University of the West Indies living in and outside Jamaica. We came to the realization from when we were on the Mona Campus that in the **Information Age** we live in, successful people are those who have access to information. We formed a group to share in this **New Way of Thinking** and found it fruitful to our endeavours . Unfortunately, we had to restrict our information bases in many cases as our lecturers and tutors deemed it fit to remain in a vacuum of limitation with regards to the evolution of the **New Information Paradigm**. We were clearly ahead of our time. We have developed this new product called the **Information Booklet Series (which there is a need for)**, the product provides **information on topical issues** in the areas of Management, Sports, Information Technology, Public Administration,

Information and Communication, Economics, Economic Development, Social Development, Legal Education, Industrial Relations at competitive prices. We have kept it simple so that all can understand and appreciate. As such, we do not regard them as theses on the chosen areas and they do not seek academic recognition, however they do meet WIPO (World Intellectual Property Organization) Standards. We hope you will find the following informative and instructive and as usual your comments would be appreciated.

Peter W. Jones

Executive Director

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Executive Summary

In order for Jamaica to transition from a developed to developing country there needs to be developed in Jamaica a strong knowledge based economy.

The literature speaks to four preconditions that lead to knowledge becoming an effective engine of growth. These are:

- An economic and institutional regime to provide incentives for the efficient use of existing and new knowledge and the flourishing of entrepreneurship.
- An educated and skilled population to create, share, and use knowledge well.
- A dynamic information infrastructure to facilitate the effective communication, dissemination, and processing of information.
- An efficient innovation system of firms, research centers, universities, consultants, and other organizations to tap into the growing stock of global knowledge, assimilates and adapt it to local needs, and create new technology.

Through Government policy and actions this infrastructure will be facilitated. The Jamaican Private Sector however will have to be the engine of growth, to enable the transition in creating sustainable economic development and the final transition for Jamaica to developed country status.

This document is divided in to three (3) sections as follows:

- Section I: The Global Village Scenario;
- Section II: Jamaica's Private Sector Preparation For Hypercompetition Thinking;
- Section III: The Jamaica Hypercompetition Strategy

The document services as a guide to the process for the Jamaican Private Sector. Hence, the title **Jamaica's Private Sector: A Strategy For Sustainable Hypercompetition Development**. It is important that this document be read sequentially, failure to do so could result in challenges that are not desirable, especially from a business point of view.

Section I: The Global Village Scenario

Introduction

Globalization¹ is not a recent phenomenon. Humans were reaching out for new frontiers. Back in the 11th century the Venetian Republic was an early force in globalization. The age of the Portuguese, Spanish, and Dutch voyages of discovery gave further impetus to global integration through rapid advances in maritime technology. The discovery of electricity, the expansion of the railways, and the gold standard in the period from the mid-19th century to 1914 brought about an enormous increase in trade and financial integration. However, it is important to remember that this great wave of economic integration was interrupted in the first half of the 20th century by a phase of aggressive nationalism and protectionism in the aftermath of World War I, leading to the Great Depression of the 1930s and the catastrophe of another world war.

The term "globalization" has acquired considerable emotive force. Some view it as a process that is beneficial—a key to future world economic development—and also inevitable and irreversible. Others regard it with hostility, even fear, believing that it increases inequality within and between nations, threatens employment and living standards and thwarts social progress. This brief offers an overview of some aspects of globalization and aims to identify ways in which countries can tap the gains of this process, while remaining realistic about its potential and its risks.

Globalization offers extensive opportunities for truly worldwide development but it is not progressing evenly. Some countries are becoming

¹ Source: IMF Staff Paper 01/01 2001, International Monetary Fund(IMF)
GLOBAL THINKING RESEARCH & DEVELOPMENT

integrated into the global economy more quickly than others. Countries that have been able to integrate are seeing faster growth and reduced poverty. Outward-oriented policies brought dynamism and greater prosperity to much of East Asia, transforming it from one of the poorest areas of the world 40 years ago. And as living standards rose, it became possible to make progress on democracy and economic issues such as the environment and work standards.

By contrast, in the 1970s and 1980s when many countries in Latin America and Africa pursued inward-oriented policies, their economies stagnated or declined, poverty increased and high inflation became the norm. In many cases, especially Africa, adverse external developments made the problems worse. As these regions changed their policies, their incomes have begun to rise. An important transformation is underway. Encouraging this trend, not reversing it, is the best course for promoting growth, development and poverty reduction.

The crises in the emerging markets in the 1990s have made it quite evident that the opportunities of globalization do not come without risks—risks arising from volatile capital movements and the risks of social, economic, and environmental degradation created by poverty. This is not a reason to reverse direction, but for all concerned—in developing countries, in the advanced countries, and of course investors—to embrace policy changes to build strong economies and a stronger world financial system that will produce more rapid growth and ensure that poverty is reduced.

What Is Globalization?

Globalization means a process of increasing international division of labor and the accompanying integration of national economies through trade in

goods and services, cross-border corporate investments, and financial flows. This integration is boosted by technological progress, in particular in transport and communications. However, there is more to globalization than mere economics: globalization also means the free exchange of thoughts and ideas, and greater mobility of people. This is not something that is imposed upon us, but the result of forces for change that are deeply rooted in human nature: the drive for freedom and a better life, for new discoveries, and for a broader horizon.

Economic "globalization" is a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through trade and financial flows. The term sometimes also refers to the movement of people (labor) and knowledge (technology) across international borders. There are also broader cultural, political and environmental dimensions of globalization that are not covered here.

At its most basic, there is nothing mysterious about globalization. The term has come into common usage since the 1980s, reflecting technological advances that have made it easier and quicker to complete international transactions—both trade and financial flows. It refers to an extension beyond national borders of the same market forces that have operated for centuries at all levels of human economic activity—village markets, urban industries, or financial centers.

Markets promote efficiency through competition and the division of labor—the specialization that allows people and economies to focus on what they do best. Global markets offer greater opportunity for people to tap into more and larger markets around the world. It means that they can have

access to more capital flows, technology, cheaper imports, and larger export markets. But markets do not necessarily ensure that the benefits of increased efficiency are shared by all. Countries must be prepared to embrace the policies needed, and in the case of the poorest countries may need the support of the international community as they do so.

Globalization is not just a recent phenomenon. Some analysts have argued that the world economy was just as globalized 100 years ago as it is today. But today commerce and financial services are far more developed and deeply integrated than they were at that time. The most striking aspect of this has been the integration of financial markets made possible by modern electronic communication.

The 20th century saw unparalleled economic growth, with global per capita GDP increasing almost five-fold. But this growth was not steady—the strongest expansion came during the second half of the century, a period of rapid trade expansion accompanied by trade—and typically somewhat later, financial—liberalization. The century can be broken into four periods. In the inter-war era, the world turned its back on internationalism—or globalization as we now call it—and countries retreated into closed economies, protectionism and pervasive capital controls. This was a major factor in the devastation of this period, when per capita income growth fell to less than 1 percent during 1913-1950. For the rest of the century, even though population grew at an unprecedented pace, per capita income growth was over 2 percent, the fastest pace of all coming during the post-World War boom in the industrial countries.

The story of the 20th century was of remarkable average income growth, but it is also quite obvious that the progress was not evenly dispersed. The

gaps between rich and poor countries, and rich and poor people within countries, have grown. The richest quarter of the world's population saw its per capita GDP increase nearly six-fold during the century, while the poorest quarter experienced less than a three-fold increase. Income inequality has clearly increased. But, as noted below, per capita GDP does not tell the whole story .

Globalization And Developing Countries

Globalization means that world trade and financial markets are becoming more integrated. But just how far have developing countries been involved in this integration? Their experience in catching up with the advanced economies has been mixed. In some countries, especially in Asia, per capita incomes have been moving quickly toward levels in the industrial countries since 1970. A larger number of developing countries have made only slow progress or have lost ground. In particular, per capita incomes in Africa have declined relative to the industrial countries and in some countries have declined in absolute terms. Consider four aspects of globalization:

- **Trade:** Developing countries as a whole have increased their share of world trade—from 19 percent in 1971 to 29 percent in 1999. For instance, the newly industrialized economies (NIEs) of Asia have done well, while Africa as a whole has fared poorly. The composition of what countries export is also important. The strongest rise by far has been in the export of manufactured goods. The share of primary commodities in world exports—such as food and raw materials—that are often produced by the poorest countries, has declined.

- **Capital movements:** What many people associate with globalization sharply increased private capital flows to developing countries during much of the 1990s. It also evident that (a) the increase followed a particularly "dry" period in the 1980s; (b) net official flows of "aid" or development assistance have fallen significantly since the early 1980s; and (c) the composition of private flows has changed dramatically. Direct foreign investment has become the most important category. Both portfolio investment and bank credit rose but they have been more volatile, falling sharply in the wake of the financial crises of the late 1990s.
- **Movement of people:** Workers move from one country to another partly to find better employment opportunities. The numbers involved are still quite small, but in the period 1965-90, the proportion of labor forces round the world that was foreign born increased by about one-half. Most migration occurs between developing countries. But the flow of migrants to advanced economies is likely to provide a means through which global wages converge. There is also the potential for skills to be transferred back to the developing countries and for wages in those countries to rise.
- **Spread of knowledge (and technology):** Information exchange is an integral, often overlooked, aspect of globalization. For instance, direct foreign investment brings not only an expansion of the physical capital stock, but also technical innovation. More generally, knowledge about production methods, management techniques, export markets and economic policies is available at very low cost, and it represents a highly valuable resource for the developing countries.

The special case of the economies in transition from planned to market economies—they too are becoming more integrated with the global economy—is not explored in much depth here. In fact, the term "transition economy" is losing its usefulness. Some countries (e.g. Poland, Hungary) are converging quite rapidly toward the structure and performance of advanced economies. Others (such as most countries of the former Soviet Union) face long-term structural and institutional issues similar to those faced by developing countries.

The Effect Of Globalization On Poverty And Inequality

Growth in living standards springs from the accumulation of physical capital (investment) and human capital (labor), and through advances in technology (what economists call total factor productivity). Many factors can help or hinder these processes. The experience of the countries that have increased output most rapidly shows the importance of creating conditions that are conducive to long-run per capita income growth. Economic stability, institution building, and structural reform are at least as important for long-term development as financial transfers, important as they are. What matters is the whole package of policies, financial and technical assistance, and debt relief if necessary.

Components of such a package might include:

- Macroeconomic stability to create the right conditions for investment and saving;
- Outward oriented policies to promote efficiency through increased trade and investment;
- Structural reform to encourage domestic competition;

- Strong institutions and an effective government to foster good governance;
- Education, training, and research and development to promote productivity;
- External debt management to ensure adequate resources for sustainable development.

All these policies should be focused on country-owned strategies to reduce poverty by promoting pro-poor policies that are properly budgeted—including health, education, and strong social safety nets. A participatory approach, including consultation with civil society, will add greatly to their chances of success.

Advanced economies can make a vital contribution to the low-income countries' efforts to integrate into the global economy:

- By promoting trade. One proposal on the table is to provide unrestricted market access for all exports from the poorest countries. This should help them move beyond specialization on primary commodities to producing processed goods for export.
- By encouraging flows of private capital to the lower-income countries, particularly foreign direct investment, with its twin benefits of steady financial flows and technology transfer.
- By supplementing more rapid debt relief with an increased level of new financial support. Official development assistance (ODA) has fallen to 0.24 percent of GDP (1998) in advanced countries (compared with a UN target of 0.7 percent). As Michel Camdessus, the former Managing Director of the IMF put it: "The excuse of aid fatigue is not credible—indeed it approaches the level of downright

cynicism—at a time when, for the last decade, the advanced countries have had the opportunity to enjoy the benefits of the peace dividend."

Globalization And Developed Countries Workers: A Perspective Form The North

Anxiety about globalization also exists in advanced economies. How real is the perceived threat that competition from "low-wage economies" displaces workers from high-wage jobs and decreases the demand for less skilled workers? Are the changes taking place in these economies and societies a direct result of globalization?

Economies are continually evolving and globalization is one among several other continuing trends. One such trend is that as industrial economies mature, they are becoming more service-oriented to meet the changing demands of their population. Another trend is the shift toward more highly skilled jobs. But all the evidence is that these changes would be taking place—not necessarily at the same pace—with or without globalization. In fact, globalization is actually making this process easier and less costly to the economy as a whole by bringing the benefits of capital flows, technological innovations, and lower import prices. Economic growth, employment and living standards are all higher than they would be in a closed economy.

But the gains are typically distributed unevenly among groups within countries, and some groups may lose out. For instance, workers in declining older industries may not be able to make an easy transition to new industries.

What is the appropriate policy response? Should governments try to protect particular groups, like low-paid workers or old industries, by restricting trade or capital flows? Such an approach might help some in the short-term, but ultimately it is at the expense of the living standards of the population at large. Rather, governments should pursue policies that encourage integration into the global economy while putting in place measures to help those adversely affected by the changes. The economy as a whole will prosper more from policies that embrace globalization by promoting an open economy, and, at the same time, squarely address the need to ensure the benefits are widely shared. Government policy should focus on two important areas:

- education and vocational training, to make sure that workers have the opportunity to acquire the right skills in dynamic changing economies; and
- well-targeted social safety nets to assist people who are displaced.

Globalization And Financial Crises

The succession of crises in the 1990s—Mexico, Thailand, Indonesia, Korea, Russia, and Brazil—suggested to some that financial crises are a direct and inevitable result of globalization. Indeed one question that arises in both advanced and emerging market economies is whether globalization makes economic management more difficult.

Clearly the crises would not have developed as they did without exposure to global capital markets. But nor could these countries have achieved their impressive growth records without those financial flows.

These were complex crises, resulting from an interaction of shortcomings in national policy and the international financial system. Individual governments and the international community as a whole are taking steps to reduce the risk of such crises in future.

At the national level, even though several of the countries had impressive records of economic performance, they were not fully prepared to withstand the potential shocks that could come through the international markets. Macroeconomic stability, financial soundness, open economies, transparency, and good governance are all essential for countries participating in the global markets. Each of the countries came up short in one or more respects.

At the international level, several important lines of defense against crisis were breached. Investors did not appraise risks adequately. Regulators and supervisors in the major financial centers did not monitor developments sufficiently closely. And not enough information was available about some international investors, notably offshore financial institutions. The result was that markets were prone to "herd behavior"—sudden shifts of investor sentiment and the rapid movement of capital, especially short-term finance, into and out of countries.

The international community is responding to the global dimensions of the crisis through a continuing effort to strengthen the architecture of the international monetary and financial system. The broad aim is for markets to operate with more transparency, equity, and efficiency.

Opportunities And Risks Of Globalization

In the industrialized countries, real per capita income more than tripled in the second half of the 20th century. In some developing countries the increase was even more dramatic. In South Korea, for example, per capita income increased more than tenfold, measured in today's prices. Economic growth also brought about medical advances, for example: life expectancy rose by over a decade in industrialized countries and by over 20 years on average in developing countries. Some developing countries that have embarked on the road toward global integration, such as China, India, Malaysia, Brazil, Mexico, South Korea, and Thailand, now no longer export only raw materials, but also finished products, and services. In India, for example, IT exports alone account for nearly 40 percent of export earnings.

There are three major economic challenges:

The Benefits Of Economic Integration Have Primarily Extended To The Industrialized Countries.

Along with, in the last 10 to 20 years, a group of developing countries, admittedly encompassing over 3 billion inhabitants. At the same time, however, according to a World Bank classification, a similar number of people live on less than \$2 a day. Such poverty is the greatest challenge for stability and peace in the 21st century.

The Globalization Of Financial Markets Has Been Accompanied By Devastating Financial Crises In Emerging Market Economies.

The causes of these crises are complex. However, a common feature has often been over-indebtedness and massive reversals in capital flows, leading to severe recession accompanied by a sharp rise in unemployment.

Globalization Exerts Pressure On The Environment

Domestic environmental protection policies alone are no longer sufficient to address this pressure. In economists' language, an environment worth living in has become a global public good that warrants active engagement.

Globalization And The Global Ethic

With the right policy a better globalization is possible — and that also includes not least the elimination of glaring poverty in the world. Nonetheless, the recent financial scandals in the United States and in Europe should remind us that good market economics and good corporate governance are not measured by quarterly profit alone. We also need a corporate code of ethics that fosters sustainable value creation that takes into account shareholders, workers, and the environment. The world cannot survive without a global ethic. This ethic must respect human rights, but should remind us that we have duties as well as rights. It has also been demonstrated that there is a great deal of commonality between the great world religions. In this too there is a basis for optimism, not least for the vital healing process in the Middle East. We must and indeed help in bringing about the ideal of a common civilization living together in peace.

Conclusion

As globalization has progressed, living conditions (particularly when measured by broader indicators of well being) have improved significantly in virtually all countries. However, the strongest gains have been made by the advanced countries and only some of the developing countries.

That the income gap between high-income and low-income countries has grown wider is a matter for concern. And the number of the world's citizens in abject poverty is deeply disturbing. But it is wrong to jump to the conclusion that globalization has caused the divergence, or that nothing can be done to improve the situation. To the contrary: low-income countries have not been able to integrate with the global economy as quickly as others, partly because of their chosen policies and partly because of factors outside their control. No country, least of all the poorest, can afford to remain isolated from the world economy. Every country should seek to reduce poverty. The international community should endeavor—by strengthening the international financial system, through trade, and through aid—to help the poorest countries integrate into the world economy, grow more rapidly, and reduce poverty. That is the way to ensure all people in all countries have access to the benefits of globalization.

Section II: Jamaica's Private Sector Preparation For Hypercompetition Thinking

Jamaican Private Sector And The Knowledge Society

In the past decade or so, much research has been conducted on productivity-led economic growth and its determinants. A major reason is the widespread belief that economic growth due to rapid factor accumulation is subject to diminishing returns, and hence is not sustainable. Recently, there has been a growing interest in the contribution of **knowledge** to total factor productivity growth, and consequently to sustainable long-term economic development (Chen & Dahlman 2004).

The thinking here is nothing new as the Newly Industrialized Countries (NIC's) of S. E. Asia discovered this 15-20 years ago and much of their successes can be accredited to the building of strong Knowledge based economies. In Jamaica, the government speaks to this in a limited way in their **Public Sector Modernisation Vision And Strategy 2002-2012 September 2002**, by outlining their approach over a ten-year period as follows:

In order to achieve good governance the government have set the following strategic objectives: Creation of a Knowledge Society, which is fundamental to informed decision-making and concerted action, by:

- Facilitating access to information through all available media
- Publishing better designed and user-friendly brochures on policy, procedures and government services
- Putting in place systems and structures to effectively implement the requirements of the Access to Information Act
- Appointing dedicated liaison officers to provide information to the public in all departments and other agencies.

However, I am unable to locate any similar commitment from the Private sector In Jamaica. Perhaps they consider it a government initiative and not theirs.

Economic research on knowledge comes in various forms. For example, there has been much research on the importance of human capital, in terms of education and/or skills, to economic growth. Similarly, research has been conducted on innovation and research and development (R&D) that lead to new technology, which ultimately leads to increases in output per capita. In addition, there has been some focus on the effects of information and communication technologies (ICTs) on the flow of knowledge and information and its ultimate effect on economic growth. In view of the above, we look at various aspects of knowledge on economic growth, and by doing so; we highlight the concept of the knowledge economy, an economy in which knowledge acts as the main engine of growth.

The literature speaks to four preconditions that lead to knowledge becoming an effective engine of growth. These are:

- An economic and institutional regime to provide incentives for the efficient use of existing and new knowledge and the flourishing of entrepreneurship.
- An educated and skilled population to create, share, and use knowledge well.
- A dynamic information infrastructure to facilitate the effective communication, dissemination, and processing of information.

- An efficient innovation system of firms, research centers, universities, consultants, and other organizations to tap into the growing stock of global knowledge, assimilates and adapt it to local needs, and create new technology.

The amount of knowledge and how it is used are key determinants of total factor productivity. Strengthening the above four pillars of the knowledge economy will lead to an increase in the quantity and quality of the pool of knowledge available for economic production. This will consequently increase productivity and thus economic growth.

Economic theory postulates that knowledge leads to increases in total factor productivity and hence economic growth. However, unlike traditional factors of production, knowledge is not subject to diminishing returns. The increased creation, use, adoption and flow of knowledge in various forms will significantly improve the prospects of sustainable long-term economic development for many countries.

We argue that knowledge can become the main engine of growth if the economy satisfies certain preconditions. These preconditions as stated above include a sufficiently high level of quality human capital stock, a high intensity of domestic innovation and technological adoption, the information and communications infrastructure is well established, and the overall economic and institutional regime is conducive for knowledge to propagate and become the driving force behind productivity and economic growth.

Chen & Dahlman (2004) using an array of indicators, each of which represents an aspect of knowledge, as independent variables in cross-

section regressions that span 92 countries for the period 1960 to 2000, provides empirical evidence indicating that knowledge is a significant determinant of long-term economic growth. In other words, we find that the stock of human capital, the level of domestic innovation and technological adaptation, and the level of information and communications technologies infrastructure all exert statistically significant positive effects on long-term economic growth.

More specifically with regard to the growth effects of the human capital stock, we find that an increase of 20 percent in the average years of schooling of a population tends to increase the average annual economic growth by 0.15-percentage point.

In terms of innovation, we find that a 20 percent increase in the annual number of patents granted is associated with an increase of 3.8 percentage points in annual economic growth.

Lastly, when the ICT infrastructure is measured by the number of phones per 1,000 persons is increased by 20 percent; we find that annual economic growth tends to increase by 0.11 percentage point.

In line with existing literature, the results also show that the overall health of the economy and quality of institutions are important determinants of economic growth. However, the inclusion of such variables renders many of the human capital and ICT variables to have estimated coefficients that are no longer statistically significant. In contrast, the majority of our innovation variables produce coefficients that retain the positive sign and statistical significance.

The relative robustness of the innovation variables may suggest that innovation and technological adoption may be the dominant facet of knowledge for economic development. However the research was not complete on this point.

Finally, in order for Jamaica to transition from a **Developing Country** to a **Developed Country** whether it be a Jamaica Labour Party Administration or a Peoples National Party administration it will be highly necessary to create a Knowledge based society, the inability to seriously overcome this challenge will mean we will be in transition to a developed country for an infinite number of years.

Can Jamaica Learn From The Asian Economic Experience?

"..... What's more, this impressive growth performance was often achieved against an unpromising backdrop: countries with few natural resources, or small populations, have grown at a pace that has consistently eluded some larger or more resource-rich countries elsewhere."

Anne O. Krueger, First Deputy Managing Director, International Monetary Fund
At the Harvard Project for Asian and International Relations (HPAIR), Business Conference
Shanghai, China, August 21, 2004

Prime Minister P J Patterson is very upbeat about the Jamaican economy and its potential for growth. In numerous speeches to the nation, the prime minister enumerated many positives and entreated members of the private sector, as well as the small business sector, to take advantage of current investment opportunities.

The parties to the Memorandum of Understanding (MOU) between the government and the Jamaica Confederation of Trade Unions (JCTU), which was signed on February 16, 2004 will now have to undertake the challenging task of meeting the commitments that they have made. Through the Monitoring Committee that is being established to track the progress during its implementation, the parties will seek to ensure timely action and the resolution of any differences that may arise.

Keeping the momentum that was generated in the negotiations is always a difficult task, and it will be especially testing in this case, given the differences in the interests of the members of the JCTU and other employee groups that were involved in the negotiation of the agreement.

All this is very interesting but, we need high levels of labour productivity to bring **Sustained Economic Development (SED)** to Jamaica. It is therefore very important to look at what has happened in the past so we

do not make the same mistakes, as we cannot afford the **high cost** of any more mistakes.

Asian policymakers and entrepreneurs have long shown themselves adept at learning from the experience of others. Much of the region's growing prosperity and economic success derives from an understanding of what has bred success elsewhere.

There is an important homegrown element to the often-spectacular economic progress we have seen in many Asian countries.

It is important to focus particularly on those factors that have helped deliver rapidly rising living standards across Asia; and to suggest ways in which other parts of the world could learn from this region's success, such as Jamaica and in particular CARICOM and the upcoming CSME.

The most striking feature of Asia's economic record in the past half-century or so is the pace of **Sustained Economic Growth (SEG)** that we have seen in many countries across the region. The numbers are impressive. The official figures show that China experienced an annual average rate of increase in real per capita GDP of over 8% during the 1990s. Real per capita GDP in Korea, Thailand and Singapore has grown by more than 5% a year, on average, since 1960. India has experienced more rapid growth rates following the reforms program introduced in 1991. **Since 1990, Asian per capita incomes have grown nearly twice as fast as that of the United States.**

What's more, this impressive growth performance was often achieved against an unpromising backdrop: countries with few natural resources, or small populations, have grown at a pace that has consistently eluded some larger or more resource-rich countries elsewhere.

Rapid and sustained growth is the key to rising living standards and falling poverty. The official figures show that the infant mortality rate in China fell by around 83% between 1960 and 2002. Thailand, Indonesia and Sri Lanka saw drops of a similar magnitude. Singapore saw a decline of 90%.

Over the same period, life expectancy for Indonesian men rose by 24 years to around 62 years; for women it rose further, by 26 years to 66 years. In Malaysia, life expectancy for men is now close to 70 and for women it is almost 75.

Literacy rates have seen similar impressive improvements. And the increase in school enrolments ensures that literacy is on the way to becoming universal.

What can Asian economic performance tell us about delivering growth elsewhere in the world—and, indeed, what can the example set by more successful Asian economies teach those economies experienced who less rapid economic expansion?

An open trading system is crucial for economic success. It is possible for closed economies to achieve high growth spurts. But no country—in Asia or elsewhere—has managed rapid growth over a sustained period without opening its economy to the rest of the world.

- 1) Trade brings competition—and this is a powerful force for increased economic efficiency. Protectionists worry about jobs lost to foreign competition. But protection costs jobs. It imposes costs on producers, especially those geared to export production (or who would be without these cost penalties). It raises the cost of protected

intermediate products and thus puts producers competing with exporters in other countries at a cost disadvantage.

- 2) Competition helps increase efficiency and ensures that resources are allocated in the best possible way. It helps eliminate domestic monopolies. And so it drives down prices both for domestic consumers—as well as producers in import-consuming industries—and in the international marketplace. Prices fall because import-competing industries are no longer protected and because more competition forces monopolists to lower prices.
- 3) Trade also helps create employment, especially in emerging market countries. Open economies have an outlet for large pools of unskilled labor: instead of being a drain on resources, unskilled labor becomes an opportunity to benefit from export markets for goods whose production is labor intensive in the early stages of economic growth.
- 4) In general, the more open an economy is to the outside world, the higher are the growth rates that result. A study by Warczarg and Welch of 133 countries between 1950 and 1988 showed that countries that liberalized their trade regimes enjoyed annual growth rates of about one half of one percentage point higher after liberalization. And opening up to international trade seems to have become increasingly important: removal of trade barriers during the 1990s raised growth rates by an estimated 2.5 percentage points a year.

The rewards of openness are widely spread. Even small economies like Vietnam—which had negligible exports in 1980—have seen relatively large increases in their share of global trade as they have opened up.

Countries in other parts of the world, countries that have, for one reason or another, not opened their economies in the way that most Asian countries have, have recorded **markedly inferior growth performance.**

The impressive performance of many Asian economies owes much to the single-minded drive of governments and policymakers who were willing to persevere with their goals and who refused to be deflected. This single-mindedness is especially important once growth starts to accelerate and the temptation to relax or be distracted by other policy concerns can undermine long-term growth objectives.

Single-minded, yes: blinkered, no. Success has come in Asia in part because of the willingness of policymakers to learn from their mistakes—and, perhaps more unusually, from the mistakes of others. Governments and policymakers are like the rest of the human race—typically displaying an instinct for learning the hard way. But an adaptable approach to economic policymaking in many Asian countries has enabled governments to avoid the siege mentality that can often make problems worse, rather than better.

Successful performance was reinforced by policymakers' ability—and willingness—to try to anticipate bottlenecks and potential crisis points. They were arguably successful in this until the 1990s when they failed to anticipate the problems that weaknesses in the financial sector could bring for the wider economy.

The proximate cause of the crisis was the sudden sharp reversal of capital flows to the region. Net inflows to the Asian crisis countries were roughly

6.3% of their GDP in 1995, and 5.8% in 1996. In 1997, net outflows were 2% of GDP, a figure that rose to 5.2% the following year. The economic dislocation caused by the sudden reversal was huge, and would have been so for any country.

In terms of the policy adjustments that rapid recovery from the crisis required, the experience of the Asian economies—and for that matter many of the other countries that experienced capital account crises in the 1990s—has given us useful lessons. It reminded of things we already knew, but perhaps underestimated the importance of:

- 1) The importance of a sound macroeconomic framework. The crisis countries now have better macroeconomic frameworks in place. Monetary policy has become more focused. Fiscal policy reforms are under way in several countries. And flexible exchange rate regimes are now the order of the day in most countries in the region.
- 2) The importance of a healthy financial sector. As economies become more sophisticated, so the role played by a strong, deep, financial sector in allocating resources efficiently becomes ever more important.
- 3) The importance of a healthy corporate sector—and how much this matters for the soundness of the financial sector. A weak financial sector cannot be nursed back to health if corresponding weaknesses in the corporate sector are ignored—any remedy will turn out to be no more than a short-term fix as more corporate loans go bad. A strong, well-regulated financial sector means addressing often-difficult issues such as non-performing loans; capital adequacy; and effective supervision. Financial institutions need the appropriate

incentives to develop the skills required to assess and manage credit risk and returns. Effective bankruptcy laws—that strike the right balance between creditors' and debtors' rights—need to be in place.

- 4) So more effort is needed to deepen financial markets—to extend the number and variety of instruments available, for instance. A more rapid shift towards greater use of equity and bond financing would reduce reliance on the banking sector. It would improve the assessment and management of credit risk.
- 5) Improved corporate governance is a requirement of corporate sector health. As has become clear in all too many countries around the world, lax standards can undermine business performance and, in turn, economic growth prospects when investor confidence is damaged.

The lessons from Asia's experience are clear: persistent application of sound, pro-growth macroeconomic policies. Flexible exchange rates which reduce the risk of severe output shocks. A strong, well-regulated and deep financial sector. And a constant eye on the future—a readiness to learn from mistakes and respond to success.

Why Some Countries Do Better At Job Creation

Growth and no job creation is a problem in Jamaica. The employed labour force increased by 300 persons to total 954,600 in 2003(ESSJ 2003 Pg21.2). Females continued to benefit from increased employment opportunities, as the female employed labour force increased by 700 persons (ESSJ 2003 Pg21.2) to 402,300. On the other hand males had 400 fewer jobs, resulting in the male employed labour force declining to 552,300.

Many studies have attempted to explain why some countries have higher unemployment rates than others, but less attention has been devoted to countries' relative performance in job creation, or net employment growth.

Shifting the focus to job creation has four advantages:

Employment is much easier to measure than unemployment. Measuring unemployment involves subtle distinctions between individuals who are in the labor force and those who are not: those counted as unemployed must say they are actively looking for a job; yet in high-unemployment countries in particular, so-called discouraged workers stop looking for work and remain uncounted. Conversely, many who claim to be looking for work may be half-hearted about it, the more so as their prospects dwindle.

A second reason for trying to understand job creation better is that for any given level of unemployment, faster job creation increases a country's output, and, among other things, raises the ratio of workers to pensioners, thereby lowering the cost of its social safety net.

Third, the insights gained from studying unemployment do not necessarily hold up when the focus shifts to job creation. For example, laws, programs, or labor agreements making it relatively difficult or expensive to lay off workers seem to have no effect one way or the other on the unemployment rate. However, strong systems of job protection appear to have a big effect in holding down job creation.

Finally, analyzing employment growth instead of experience with unemployment offers richer results. Data on unemployment, for example, tell us nothing about the kinds of jobs available in the workplace, or the terms under which workers hold them, such as whether they are permanent or temporary, or full-time as opposed to part-time. A look at these factors lets us assess, among other things, whether faster job creation in the United States than in Continental Europe comes from historical conditions, such as a much lower proportion of farm jobs or traditional manufacturing jobs, which have been stagnant or declining in all advanced countries. This approach can also examine the effects of women entering the workforce in larger numbers in recent years, and can shed light on important policy questions, such as whether promoting part-time work leads to higher overall job creation or merely cannibalizes full-time jobs.

A legitimate argument against this approach is that over very long periods of time, employment growth should simply equal the growth of the working-age population. However, in the medium term--20 years or so--government policies and institutional differences can have a big impact on the share of the working-age population that decides to participate in the labor market. Furthermore, the pace of job creation affects the growth of

the working-age population itself, since countries adding jobs fastest will tend to attract more immigrants.

A Framework for Community Safety

The first step in co-producing security involves conducting a proper assessment of the problems and challenges in the given community in order to develop the most appropriate strategies for improving public security. A Community Safety Diagnosis is a knowledge tool that serves to better inform and guide actions taken.

How Does The CSD Work?

The Community Safety Diagnosis is a tool used to better identify the issues and challenges involved, to identify the risk factors at the local level, and to determine the measures most likely to be successful given the community's resources. However, a diagnosis must go beyond simple description of issues and resources to also include a needs assessment based on the analysis of various types of data:

- Social indicators of risk such as unemployment and poverty rates, demographic and sociocultural make-up of the community, housing conditions and availability, and cultural and recreational facilities available;
- Data on delinquency, delinquents, and victims, particularly police and court statistics, the rates of cleared offences, incidents reported by community associations, schools, businesses, community-based groups, and public transit authorities. Such data is used to

identify and analyze geospatial variations in security measures between different areas of the city. Use of geo-coding software can be used to produce maps representing geographical areas with concentrations and superimposition of various social and criminal problems. In turn, the use of such data collection and software does raise certain issues to be

considered, both technical (collecting data that will be geo-codable) and ethical (protection of privacy), which a local committee would be best to resolve;

- Data on the demands for security such as issues raised in neighborhood meetings, victimization polls that evaluate the population's feelings of security, other surveys of professionals working on-the-ground in the relevant area, and analysis of data collected by prevention agencies that are already active;
- Data on the supply of security services (e.g., existing resources and on-going interventions) by the various organizations responsible for ensuring safety: police, justice, private security, social services and associations, etc. Many indicators can be used to evaluate the supply of security such as, among others, the allocation of police resources, indictments and convictions, consideration of victims, use of private security firms by businesses, insurance claim rates, security activities carried out by other organizations and institutions (schools, public housing), and the quality of public places.

Correlating these quantitative and qualitative data from multiple sources creates a more comprehensive picture of the demand for security than that provided by police data alone. Next, people's security needs can be better identified by comparing information on the demand for A Safety Diagnosis' purpose is to compare measured and expressed safety needs to existing resources and actions being undertaken. Making this comparison successful involves the collection of various types of data, particularly social, economic, and criminal data. Security with that on the supply of security services (actions and services offered by a plurality of actors). Such comparison allows the identification of non-response zones (where needs

are not being met) as well as areas where services are not in line with the demand (needs inadequately met).

Conclusion

It is this analysis of the adequacy of balance between the supply and demand for security that is at the heart of the Community Safety Diagnosis. When carried out by all local partners collectively, a diagnostic can serve to strengthen a local coalition and contribute to the development of a common vision for all stakeholders. Furthermore, this analysis allows priorities to be identified and assists in preparing action plans that are tailored to local contexts. One challenge to consider is that such a collective effort brings together actors with differing conceptions and interests who, by virtue of their institutional nature, are not always inclined to accept sudden changes.

A strategy for analysing problems and mobilizing energy and resources

This section outlines the major elements of the framework for fostering community safety which are now being used by local governments in many countries. The approach includes:

- recognizing community safety as a right and an issue of the quality of life in healthy communities
- working across jurisdictional boundaries horizontally as well as vertically
- the crucial role of political leadership
- adapting strategies to local needs on the basis of good analysis and targeted plans
- building capacity

Safe and healthy communities

Community safety - like health - is a central aspect of the quality of life of citizens, and one they are entitled to. Protecting communities from crime, or re-establishing levels of safety can be tackled in the same way as public health issues. A preventive public health approach, such as that used to reduce the incidence of heart disease, involves looking for the factors which increase the risks of its development. By looking at the patterns of economic and social problems in a neighborhood or community, and of crime, disorder and victimization, it becomes easier to see how and where to intervene. In the US, The Center for Disease Control and Prevention has been active in demonstrating how crime and violence can be seen as health problems; the Communities That Care program pioneered in Seattle is a good example.

Communities That Care in Seattle, Washington uses a public health approach. Its main goals are to reduce delinquency and drug use by combining knowledge about risk and protective factors and effective interventions, with carefully planned community mobilization. A community board of key local leaders, residents and agencies undertake an assessment of the main risk and protective factors and develop a strategy for intervention.

Similar programs are now being developed in the UK (Nuttall et al., 1998) Scotland and the Netherlands (Junger-Tas, 1997) as well as other states in the US. This type of approach encourages broader responses for victims too. Recognition of the long-term impact of crime on victims' health has resulted in programs which provide ongoing community assistance beyond immediate victim support. An example is the Boston partnership to support youth victims of crime and to prevent re-injury, since it is now well known that the risk of re-victimization is high once someone has been victimized

(see box below). In London, England the local health service is now developing a health strategy which recognizes the links between crime, disorder and victimization and health, and thus the need to take a much broader view of prevention (Crime Concern, 1999).

Horizontal and vertical thinking

A second major theme is the development of collaborative partnerships which “think outside the box”. Working across boundaries is important for

two major reasons. Isolated projects are unlikely to be effective in dealing with the multiple problems facing families living in deprived and high crime areas. In their review of what works in preventing crime, for example, Sherman and his colleagues (1997) concluded that effective crime prevention in high-violence neighborhoods requires intervention in many local institutions at the same time. This applies to small town settings too.

Secondly, in many countries there has been frustration with years of funding, or project development, which does not have long-term or measurable impacts. Effective local government action requires all the municipal services to work together, rather than in isolation. It requires support from higher levels of government and links between national, state, region or province. This has been a major motivation for the policies initiated in England and Wales which stress the importance of working across jurisdictions and developing “joined-up thinking”, and has always been characteristic of the approach in France.

Political leadership - the role of the champion - everyone knows who the mayor is

The third theme relates to experience from many countries which has shown that there needs to be real commitment and leadership from someone at a high level who takes responsibility for putting the issues of community safety on the policy agenda. This has often been the mayor, a Chief Executive of a local authority, a Chief of Police or another key person at the local government level. In some cases a specific body or community safety officer is appointed and given the responsibility of animating and developing partnerships and plans. It is clear that local governments, whether mayors in big or small cities, local boroughs or municipalities are best placed to give citizens a say and a role in the development of their neighborhoods, and they can play a number of major roles:

- preventive in terms of educating the population and the media
- active in terms of providing aid to victims, facilitating mediation and resolution of local disputes and conflicts
- knowledge development and planning
- articulating the internal and external requirements and constraints
- putting in place a permanent local structure with local coordination and the necessary resources

What brings communities together?

The NCPC asked a range of local government-community coalitions what had motivated them to work together. The answers show that it varies considerably, depending on local circumstances and events.

There may have been one or more of six different factors which acted as a catalyst or triggered action (Creating a Blueprint for Community Safety, 1998: 13):

- a pending crisis and a sense that the situation would worsen without immediate action
- community pressure arising from a catalyzing event or tragedy
- success of an existing or related single issue initiative
- support from outside
- realization that single-focus interventions cannot deal with complex issues
- desire to sustain safe neighborhoods and avert a crisis.

Adapting strategies to local needs on the basis of good analysis

The fourth theme to emerge has been the importance of thorough and careful analysis of local problems. This includes melding knowledge about the factors which place people and places most at risk, and effective intervention strategies for reducing those risks, with rigorous analysis of local problems.

A careful analysis of local problems - sometimes called a safety audit or a security diagnosis - requires the collection of detailed information about crime, victimization, disorder and fear of crime in a neighbourhood or across a whole municipality or city (where, when, who). This can include police statistics, census data, as well as the results of local surveys of residents, businesses, schools, transport officials, hospitals. But the analysis needs to go further by looking at the links to a range of other problems such as housing, jobs and unemployment, school drop out, youth facilities and other existing community resources. A good security diagnosis can take between six months and one year to complete. This careful analysis allows for the development of targeted strategies and plans. Once projects have begun, they need to continuously

monitored and evaluated to see if they are working as planned, or need to be modified.

- Neighbourhood management projects are most likely to be successful if they adhere to the following five principles:
 - someone with overall responsibility at the neighborhood level
 - community involvement and leadership
 - the tools to get things done
 - a systematic, planned approach to tackling local problems
 - effective delivery mechanisms
- The more focused the strategy, the more successful it is likely to be. This means, for example, allocating resources to:
 - areas where most crime occurs or hot spots places already victimized
 - families most at risk
 - individuals most at risk
 - individuals who have been victimized
- There may be differences in the types of approaches which can be used in small cities and rural areas compared with large urban areas.

The importance of capacity building

Developing partnerships, getting funding or local security contracts, conducting a security diagnosis or safety audit, developing an action plan, implementing and evaluating, and sustaining the plan are not simple tasks. They require expertise, information and approaches which may be very different from traditional ways of working.

Capacity building includes the development of the skills, practical knowledge, experience and tools required to undertake effective

community-based action. Many countries now recognize the importance of capacity building. A growing range of training programs for community safety personnel, on monitoring and evaluating, training on special issues (eg., drugs, domestic violence, mental health) and the provision of on-going technical assistance, advice and support is now being developed.

In European countries training is being provided by organizations such as the European Forum for Urban Safety, Crime Concern and the London Borough of Brent in England and Wales, and In the US, the CCP's have been provided with technical assistance, as well as budget and program guidelines by the federal funders (BJA). The National Funding Collaborative on Violence Prevention (NFCVP) and the NCPC already provide training for collaboratives and local authority community safety initiatives. The NCPC is also developing a curriculum training program with Kansas University for use over the web.

The press and the media

Building capacity to develop public awareness of community-based prevention, and to utilize the media appropriately is another important area. This includes showing the benefits and successes from well planned strategies, telling stories about how problems have been reduced or solved. Mayors, and councillors, local agency staff, the police, community safety professionals, community members, researchers and evaluators all need training and clear policies, to develop their ability to communicate with the media. It is important to present initiatives as a citizen project to help to ensure community ownership.

It is important to be able to get information across quickly - in sound bites!

Local security contracts and funding

Community projects cost money for start-up, pilot projects, and implementation, as well as needing longterm funding. Resources are needed to sustain action at the local level; to demonstrate the effectiveness and efficiency of projects; and to disseminate information and best practices through transfer and training.

One of the major ways has been through the development of local security or community safety contracts which allow local partnerships to develop and tailor plans to their own needs. In many cases there are requirements that projects are monitored and evaluated.

Apart from specific grants and contracts from state or national organizations, pooling existing funding across local government agencies, with schools, community organizations, private foundations and businesses are all ways in which initiatives can be funded. The NFCVP pools resources from public and private sources to help local community coalitions develop programs to reduce violence.

Quality of Life and Social Safety: Ghent, Belgium

In 1997 a Safety Contract enabled a high-rise “problemestate” to improve its physical conditions and quality of life, reduce drug dealing, car theft and burglaries, and escape from its “problem” image. Over 300 residents, local government and the police developed and carried out the plan.

The Need For Police Reform: A New Structure For Policing In Jamaica.

In a recent interview on NATIONWIDE/POWER106 newscast of May 4, 2004, Minister Peter Phillips, Minister Of National Security said he was seriously concerned about the serious recent increase in the crime rate and he would have to have another look at the National Crime Plan.

In view of the fact that the government has limited funds to right the problem of crime in Jamaica, perhaps, the problem is not the National Crime Plan, but, what is needed is: **A NEW STRUCTURE FOR POLICING IN JAMAICA.**

THE ROLE OF THE MINISTER

The Minister with responsibility for National Security of the Nation must be answerable to the Parliament and the public for the provision of an efficient and effective police service.

MINISTER'S PERFORMANCE

- 1) The Minister will set strategic direction for the service by objectives, or Ministerial Priorities. These Priorities represent the major public concerns, which the service should be tackling nation-wide. They are designed to concentrate efforts to improve performance in these key areas and are selected after consultation with representatives of police authorities and chief officers.
- 2) Monitors performance by means of the Ministerial Priorities and associated performance indicators, policing plans, annual reports.

FUNDING

The Minister is answerable to Parliament for expenditure on the police service.

The Minister will determine the total grant and its allocation to police authorities, using a funding formula.

The police funding formula allocates money to forces on the basis of assessment of the relative needs for policing in their areas. The formula is based on an analysis of the activities carried out by the police and socio-economic data.

Allocated funds are paid directly to police authorities.

Police authorities are responsible for setting the budgets and can raise extra tax should they wish to spend above the level assessed as necessary for their area.

In addition, local councils are free to contribute extra funds to police authorities should they wish to do so.

PARISH POLICE COMMISSIONERS (PPC)

PPC's are operationally independent. The PPC is responsible for the direction and control of the force, including civilian staff, and financial management .

PARISH POLICE COMMISSIONERS (PPC) RESPONSIBILITIES

Prepares a draft annual policing plan, in consultation with the police authority. The annual policing plan is issued by the police authority.

Must have regard to the annual policing plan in management of operational policing, but may depart from it if operationally necessary and may expect to be called upon by the police authority to explain any significant departure.

Produces a report to the police authority at the end of each financial year on the policing of the area during the year.

THE ASSOCIATION OF PARISH POLICE COMMISSIONERS (APPC)

The membership will be comprised of police chiefs and assistant chiefs.

The association will have the role in developing policing policy, carrying out research and publishing guidance for Chief Officers.

The association will be funded by a combination of grants from the Ministry of National Security, Contributions, Subscriptions and Annual Fundraisers.

PARISH POLICE AUTHORITIES (PPA)

Parish Police authorities will be freestanding corporate bodies, independent and separate from local councils.

The composition of the PPA will be as follows:

5 Councillors from the parish, 3 Magistrates and 5 Independent members.

The Minister may increase the size of the police authority if appropriate. Councillor members must always comprise a majority of one, and if an increase is agreed, the number of independent members must also be increased.

The appointment of the members will be for a period of 4 years

Councillor members are appointed by the relevant council.

Appointments must ensure, as far as practicable, that political parties are represented on the police authority so as to reflect the proportion of their members on the council or councils (including independent councillors).

Magistrate members are appointed by the local magistrates panel or Magistrates' Courts Committee.

The role of the Parish Police Authority (PPA) is to maintain an efficient and effective police force for the area.

Specific responsibilities will include but not limited to:

Consulting the local community about their concerns, to identify local objectives

Setting targets to support local objectives and Ministerial priorities.

Publishing an annual policing plan setting out how the community will be policed in the year ahead – including how objectives are to be met and how available resources are to be used. The plan is drafted by the Parish Police Commissioner, who must be consulted about any changes to the draft, but ownership of the plan rests with the police authority.

Reporting back to the community at the end of the year on the extent to which the annual plan has been delivered.

Securing, under Best Value, a continuous improvement in the provision of police services. Producing a Best Value performance plan, incorporated in the annual policing plan, sets out a programme of Best Value reviews by which authorities must review fundamentally the performance of all services over a five-year period.

The Code of Practice on Financial Management to encourage police authorities to delegate financial management to the Parish Police Commissioner.

THE ASSOCIATION OF POLICE AUTHORITIES

The Association of Police Authorities (APA) to be set up to represent police authorities in Jamaica and to strengthen and support the role of police authorities locally.

The APA represents police authorities in consultation on police matters, and supports police authorities in their work by providing training, publications and research.

The APA will be funded by subscription from member authorities.

STANDARDS UNIT

The Standards Unit will exist to deliver the Government's commitment to raise standards and improve operational performance in the police and in crime reduction generally in order to maintain and enhance public satisfaction with policing in their area.

Its core objective will be to identify and disseminate best practice in the prevention, detection and apprehension of crime in all forces in order to reduce crime and disorder as well as the fear of crime.

The Unit will operate as follows:

Work with forces and Command Units to ensure the most effective use of intelligence, detection and successful prosecution procedures.

Identify Units or forces performing below their best, based on reports, statistical information, or particular cases of concern.

Engage directly with the Units or force to establish the nature of the problems, the extent to which best practice may be lacking, and the remedial action required.

Engage similarly with other local agencies to ensure their effective contribution, including through Crime and Disorder Reduction Partnerships, where it is apparent that this is the key to police success in tackling crime and disorder at force level and below.

Identify where in exceptional circumstances combined cross cutting measures engaging other agencies are required to focus on and achieve early change within a specific geographic area or unit boundary.

Have a capacity to provide short term funding to support the remedial action it has identified and which could not otherwise be undertaken.

Identify issues, which raise policy, technical or legal questions for the Ministry of National security to address.

Venture Capital Trusts For Funding Jamaican SMES?

There is a trend in Small –Medium Enterprises in Jamaica not to take in a partner for expansion but rather to go to a bank and mortgage the company's assets for an extended period. The alternative could be venture capital assistance. The United Kingdom has a financial vehicle called a **Venture Capital Trust Scheme**, which was started in 1995. Could this model work in Jamaica for Sustained Small Business Development (SSBD)?

The Venture Capital Trust scheme is designed to encourage individuals to invest indirectly in a range of small higher-risk trading companies whose shares and securities are not listed on a recognised stock exchange, by investing through Venture Capital Trusts (VCTs). So, if you invest in a VCT, you spread the investment risk over a number of companies.

VCTs would be companies listed on the Jamaica Stock Exchange, and are similar to investment trusts. They are run by fund managers who are usually members of larger investment groups. Investors subscribe for, or otherwise acquire, shares in a VCT, which invests in trading companies, providing them with funds to help them develop and grow. VCTs realise their investments and make new ones from time to time.

VCTs must be approved by us for the purpose of the scheme. Approval is given if they meet certain conditions. If you invest in them you may be entitled to various income tax and capital gains tax relief, and VCTs are exempt from corporation tax on any gains arising on the disposal of their investments.

Approval of a VCT means that it currently satisfies the requirements enabling investors to qualify for certain tax reliefs.

Tax reliefs are available only to individuals aged 18 years or over, and not to trustees, companies or others who invest in VCTs.

There are two **income tax reliefs**, they are exemption from income tax on dividends from ordinary shares in VCTs ('dividend relief'), and income tax relief a percentage of the amount subscribed by the individual for **new** ordinary shares which carry no preferential rights or rights of redemption throughout the period of three years from the date on which they were issued. You can get this relief for the tax year in which these 'eligible shares' were issued, provided that you hold the shares for at least three years.

There are also two **capital gains tax** (CGT) reliefs, they are exemption from CGT on gains that arise if you dispose of your ordinary shares in VCTs ('CGT exemption'), and deferral of capital gains where you get income tax relief on an investment in VCT shares ('deferral relief'). You can defer a total amount of gains up to the amount invested in the VCT shares. The VCT shares must be issued in the period beginning 12 months before and ending 12 months after the gain arises.

You can get two of the reliefs, dividend relief and CGT exemption, for newly issued shares and second-hand shares acquired, for example, through the Stock Exchange. But income tax relief and deferral relief can be claimed only if you subscribe for new shares.

You can get VCT tax reliefs if you acquire shares in VCTs up to a pre-determined maximum per tax year. You can claim the reliefs, where applicable, from the Tax Office, which deals with your tax affairs. To claim deferral relief, you must be resident or ordinarily resident in the Jamaica both when you make the disposal-giving rise to the gain and when you invest in the VCT.

In some cases you will not be entitled to income tax relief for a subscription for VCT shares. For example if a loan is made to you or an

associate of yours (such as a business partner, your spouse, or a close relative) on terms which are linked to the share subscription.

To get the tax reliefs offered by the VCT scheme, you must invest in a company, which has been approved as a VCT. The main conditions a company must satisfy for approval as a VCT are that its income for its most recent accounting period must have been wholly or mainly from shares or securities throughout that period, at least 70% (by value) of its investments must have been 'qualifying holdings', that is shares or securities in companies which meet the conditions of the scheme and which were issued to the company and have been held by it ever since throughout that period, at least 30% (by value) of its qualifying holdings must have been holdings of ordinary shares with no preferential rights or rights of redemption at no time in that period must its holding in any company have represented more than 15% (by value) of its investments throughout that period, its ordinary shares must have been listed on the Jamaica Stock Exchange it must not have retained more than 15% of its income in that period from shares or securities.

To retain approval, the company must continue to satisfy all the conditions during each later accounting period.

If a company issues any of its shares or securities to a VCT, it must meet certain conditions if those shares or securities are to form part of the VCT's qualifying holdings. These conditions concern both the type of company and the size and mix of investment. There are, for example, requirements as to the companies

- Unquoted status
- Trading activities

- Gross assets
- Independence, and subsidiaries.

Unquoted status

The company must be an unquoted company for VCT purposes. This means that none of its shares, stocks, debentures or other securities can be listed on a recognised stock exchange.

Trading activities

The company must exist for the purpose of carrying on a 'qualifying trade' or be the parent company of a trading group whose business as a whole meets the scheme's rules. The funds received from the VCT must be used for the purpose of a qualifying trade carried on wholly or mainly in the Jamaica.

Most trades qualify, provided that they are conducted on a commercial basis with a view to making profits. A trade will not qualify if one or more excluded activities together make up a 'substantial part' of that trade. This will depend on the relevant facts and circumstances, but we generally consider that they do where they amount to more than 20% of the trade. The main excluded activities are dealing in land, financial instruments, or in goods other than in the course of an ordinary trade of retail or wholesale distribution financial activities, property development, or providing legal or accountancy services leasing (including letting assets on hire, except in the case of certain ship-chartering activities) receiving royalties or licence fees, except where these arise from an intangible asset such as a patent or know-how, most or all of which has been created by the company (or one of its subsidiaries) providing services to another company in certain circumstances where the other company's trade consists to a substantial extent in excluded activities.

GROSS ASSETS

The value of the company's gross assets must not exceed \$15 million immediately before the VCT makes its investment, and \$16 million immediately afterwards.

INDEPENDENCE

The company must not be controlled by another company, or another company and a person connected with that company.

Nor must there be any arrangements for such control. For this purpose a company controls another company if it directly or indirectly possesses, or is entitled to acquire more than 50% of the company's share capital or issued share capital, or more than 50% of the voting power in the company, or enough of the company's issued share capital to entitle it to more than 50% of the company's income if it were all distributed to the company's participators, or more than 50% of the assets of the company that are available for distribution to the company's participators on its winding-up.

For this purpose all loans (except loans convertible into shares) and fixed-rate preference shares that do not carry voting rights are ignored.

SUBSIDIARIES

To meet the rules of the scheme, the only companies that the company may control are qualifying subsidiaries. A qualifying subsidiary must not be controlled by any other person. In addition not less than 75% of its issued share capital and not less than 75% of its voting power must be held by the company, or by another of the company's

subsidiaries, and the company or another of its subsidiaries must be entitled to receive not less than 75% of its profits, or, if it were wound up, 75% of its assets.

If the money raised by the company by issuing its shares or securities to a VCT is to be used by a subsidiary, then the requirements for that subsidiary must be satisfied at the 90% level rather than at 75%.

OTHER REQUIREMENTS

Other rules concerning the investment include rules relating to the maximum size of the investment in any particular company that can count towards a VCT's qualifying holdings how the money invested by a VCT is used and the period within which it must be used, and the need for a minimum proportion of the total investment made by a VCT in any particular company to consist of ordinary shares with no preferential rights or rights of redemption.

This structured approach, clear and transparent, perhaps, just perhaps could be the winning formula that has evaded SMEs in Jamaica.

Trade Unions In Jamaica And The Sword Of Justice

I watched on television recently an officer of the JCTU explaining to the nation about the pending memorandum of understanding between the workers and the government of Jamaica and he emphasized it was not a wage freeze the unions were speaking to but a wage restriction. In hearing this statement I reflected on **The Role Of Labour Unions In A Changing World Environment: A Comparative Analysis.**

Trade unions have always had two faces, sword of justice and vested interest.

The balance between these two features can change over time, however. It seems clear that in many countries, unions have lately come to be widely perceived as conservative institutions, primarily concerned to defend the relative advantages of a minority of the working population. One of the challenges which confront trade unionism in the twenty-first century is therefore to revive, and to redefine, the role as sword of justice. Clearly the JCTU has redefined its role as the sword of justice as to do otherwise is to fall prey to rapid globalization and become an endangered species.

Trade unions have been important institutions of industrial society; they have helped deliver significant outcomes in terms of improved living standards, equity and justice to workers all over the world. However, at the end of the twentieth century, unions faced a situation marked by the universal trend towards greater liberalization of economic and political regimes. The changing environment requires new approaches and strategies on the part of unions if they are to remain major social actors contributing to dynamic and equitable growth. It is argued that

liberalization/globalization, which brings formidable challenges to unions, also provides them with opportunities to play a far more effective and politically important role in society.

There are three sets of issues, which should figure in a discussion of the changing role of trade unions. These are: (i) the traditional role of unions; (ii) the changing environment in the world of work and its impact on unions; and (iii) union responses in terms of new approaches and strategies. The different economic, political and geographic settings of unions around the world are given special attention.

The issues raised have been assembled with the following objectives: (i) to identify the gaps in knowledge concerning the responses of unions in different environments; (ii) to define an agenda for further research highlighting the contribution of labour and unions to society; and (iii) to set the terms for policy debates involving unions and researchers on promising approaches for the future.

The above objectives have been incorporated into a programme on "Organized labour in the 21st century", undertaken by the International Institute for Labour Studies of the International Labour Organization. The issues listed above are being investigated within the framework of studies organized by the Institute in different countries. Based on the findings of these studies, which are at various stages of completion, there are many challenges relevant to the future of labour movements, with special reference to developing countries such as Jamaica.

In the context of Unions Challenge and response, summarized, fall under the following areas:

- 1) Membership Campaigns
- 2) Strategies Towards Traditional Constituents

- 3) Non Traditional Constituents
- 4) Trade Union structures
- 5) Decentralized Bargaining
- 6) Union Structures At The Lower End
- 7) Collective Action And Institutional Benefits
- 8) Correcting Inequalities
- 9) Building Democratic Institutions

Finally for Labour Unions to survive in the 21st Century the following have to be seriously looked at:

1. Union Flexibility
2. Job Security
3. The New Mindset
4. The New Working Environment
5. Old Trade Unions vs. New Trade Unions On The Use Of Community

The Road To Nowhere: A Global Corruption View

In some countries corrupt politicians appear to choose investment projects not on the basis of their intrinsic economic worth, but on the opportunity for bribes and kickbacks these projects present.

This type of corruption increases the number of capital projects undertaken and tends to enlarge their size and complexity. The result is that, paradoxically, some public investment can end up reducing a country's growth because, even though the share of public investment in gross domestic product (the total of all goods and services produced in a country in a given year) may have risen, the average productivity of that investment has dropped.

This conclusion runs counter to the bias of many economists. The conventional wisdom of the economics profession is that countries need capital to grow and, more important, that a direct relation exists between capital spending and growth. In other words, if a country engages in capital spending, growth is likely to follow. As a consequence of this belief, the economics profession has been strongly biased in favor of capital spending by governments. When economists evaluate the allocation of public money between current spending (for recurring, day-to-day expenses) and capital spending in government budgets, they tend to be critical of countries that allot a large share of government expenditure to current spending, but to applaud countries that refuse to stint on capital spending.

This bias is enshrined in the "golden rule" often advocated by economists. The rule states simply that only current expenditure needs to be balanced

by ordinary revenue, but that a country can—within limits—safely run a fiscal deficit (an amount it must borrow from domestic or foreign investors) equal to the capital spending of the government. You should cover the current budget with government revenues, but borrow whatever you can for the capital budget. Thus, it is all right to borrow to finance the building of new roads but not to finance the repair of existing roads, or to borrow for building a new hospital but not for hiring doctors or nurses or for buying medicines. This rule continues to be evoked as a good guide to policy even in the face of much evidence that some current expenditure—such as on operation and maintenance that keeps existing infrastructure in good condition or that contributes to the accumulation of human capital—can promote growth more effectively than capital expenditure.

Politicians have been quick to internalize this bias and have sensibly learned to exploit it. This pro-investment bias bloats the investment budget.

Public investment projects tend to be large and, sometimes, very large. Since their execution is generally contracted out to domestic or foreign enterprises, the first step is choosing a firm to undertake the project. For a private enterprise, getting a contract to execute a project, especially a large one, can be very profitable. Therefore, managers of these enterprises may be willing to offer a "commission" to politicians who help them win the contract. Conversely, in many cases the act of bribery may not start with the enterprise but with the officials who control the decisions—in some countries it is apparently impossible to win a government contract without first paying a bribe. The payment of such a bribe is illegal in very few countries. In fact, the laws of certain major industrial countries regard

commissions paid by domestic enterprises to foreign politicians as not only legal but also tax deductible.

A commission of even a few percentage points on a project that costs millions or even hundreds of millions of dollars can be a large sum, one large enough to exceed the temptation price for many otherwise reputable individuals. When commissions are calculated as a percentage of project costs, the politicians or public officials who receive payment for helping the enterprise win the bid will have a vested interest in increasing the scope or the size of the project so they can get larger commissions. A commission of 2 percent of the cost of a four-lane road is understandably more tempting than 2 percent of the cost of a two-lane road.

The process of approving an investment project can be an irresistible temptation for the unscrupulous. For example, a civil construction project (a road, building, or port) requires decisions related to specification and design issues, issue of tender (limited to a single firm or open to all), tender scrutiny, tender negotiations, and tender approval and contracting process. The completion of the project will require verification that the work has been done according to the contract. It will also require some arbitration about points of disagreement. The writing of contracts for complex projects is difficult and inevitably many areas of uncertainty and eventual disagreement will need to be resolved through negotiation.

In some of these phases, a strategically placed high-level official can manipulate the process to select a particular project. He can also tailor the specifications of the design to favor a given enterprise by, for example, providing inside information to that enterprise at the time of issuance of tender.

The enterprise that pays the commission rarely suffers from the payment of the bribe, since it is usually fairly simple to recover that cost. First, if it is assured by corrupt officials of winning the bidding competition, the enterprise can include the cost of the commission in its bid. Second, it can reach an understanding with the influential official that the initial low bid can be adjusted upward along the way, presumably to reflect modifications to the basic design. Third, it can reduce its spending on the project by the amount of the bribe by skimping on the quality of the work performed and the materials used. Fourth, if the contract is stipulated in a cost-plus fashion, the enterprise can recover the cost of the commission by overpricing.

In all these alternatives that require the collaboration of a corrupt politician or official, the taxpayers will end up with either a more costly project—or a bigger or more complex project than necessary—or a project of inferior quality that will require costly upkeep and repair. Experience with public sector projects, especially in developing countries, is replete with stories about roads that are pocked with potholes soon after completion, power plants that experience regular blackouts, and sewer systems that don't work.

When corruption plays a large role in the selection of projects and contractors, some projects are completed but never used. Others are so poorly built that they will need continuous repair and their output capacity will disappoint. In these circumstances, it is not surprising that capital spending often fails to generate the growth economists expect.

Widespread corruption in the investment budget will not only reduce the rate of return to new investment in a country, but will also affect the rate

of return the country gets from its existing infrastructure. To the extent that corruption has been around for some time, the existing infrastructure has also been contaminated because past investments were also misdirected or distorted by corruption. Moreover, higher spending on capital projects will reduce the resources available for other spending. Of the other spending categories, one not protected by entitlements or implicit commitments is operation and maintenance—the current public spending required to keep the existing physical infrastructure in good working order. Too often, new projects are undertaken while the existing infrastructure is left to deteriorate. In cases of extreme corruption, operation and maintenance on the physical infrastructure of a country are intentionally neglected so that some infrastructure will need to be rebuilt, thus allowing corrupt officials the opportunity to extract additional commissions from new investment projects.

A principal source of assessments of the degree of corruption in various countries is Business International and Political Risk Services, Inc., which publishes an annual index, *International Country Risk Guide*, covering the 1982–95 period for 42 to 128 countries, depending on the year. In this index higher corruption indicates that "high government officials are likely to demand special payments" and "illegal payments are generally expected throughout lower levels of government" in the form of "bribes connected with import and export licenses, exchange controls, tax assessment, police protection, or loans." Data on specific aspects of government spending and revenue collection, meanwhile, may be drawn from the IMF's *Government Financial Statistics*.

An examination of the data from these two sources suggests the formulation of several clear hypotheses concerning the relationship

between corruption on the one hand and (1) public investment, (2) government revenue, (3) operation and maintenance expenditures, and (4) the quality of infrastructure on the other. The authors test the hypotheses against statistical evidence, analyzing cross-country data through the use of a statistical tool called regression analysis to estimate the strength of the relationship between corruption and these four variables. In guarding against spurious regression results, and depending on the regression, the researchers controlled for other variables, such as real per capita GDP, the ratio of government revenue to GDP, and the ratio of public investment to GDP. Their hypotheses follow.

It has been known for some time that corruption is most prevalent in infrastructure projects, usually large civil engineering projects. Current evidence, however, has linked corruption only to the quantity of investment and not its quality. It was argued above that high-level corruption induces countries to increase the quantity of infrastructure because of the bribery potential of new infrastructure investment. In addition, the quality of existing infrastructure will tend to deteriorate if corruption leads to cutbacks on operation and maintenance expenditure.

Finally, for the future we need to keep four points in mind:

1. Corruption can reduce growth by increasing public investment while reducing its productivity.
2. Corruption can reduce growth by increasing public investment that is not adequately supported by nonwage expenditure on operation and maintenance. Evidence also shows that higher corruption is associated with higher total expenditure on wages and salaries. Wages and salaries are a large component of government consumption, and higher government

consumption has been shown to be unambiguously associated with lower growth.

3. Corruption can reduce growth by reducing the quality of the existing infrastructure. A deteriorating infrastructure increases the cost of doing business for both government and the private sector (congestion, power outages, accidents) and thus leads to lower output and growth.

4. Corruption can reduce growth by decreasing the government revenue needed to finance productive spending

How is Corporate Governance Relevant in Developing Countries?

"Low-income countries cannot simply adopt the corporate governance norms of more developed nations."

Tatiana Nenova, Financial Economist in the Corporate Governance group at the World Bank.

Promoting fairness, transparency and accountability in how private corporations are operated is essential to **sustainable economic development**. Regulating the relationship between corporate managers and shareholders can help private-sector growth and improve a country's investment climate.

While the Parmalat and Enron scandals have increased the attention given to corporate governance in developed countries, this prominence is not prevalent.

In fact, there are many challenges to establishing good corporate governance standards in developing countries like the members of CARICOM, such as:

- Minority investor protection isn't available or adequately enforced;
- Costly corporate and securities law reforms are deemed unjustified, or of low priority;
- Few firms are publicly listed and many lack true liquidity; and
- Corporate governance is not seen as applying to non-listed companies.

To ensure that they are effective, corporate governance standards must be tailored to the unique needs of CARICOM countries. For example, there is no need for over-sophisticated legal reforms such as intricate public tender-offer procedures in a country where control changes are rare and friendly. Key concerns include revenue appropriation by controlling shareholders, disclosure, and enforcement. Special attention should be given to ensure simple and transparent rules, thus greatly facilitating enforcement.

1) Which corporate governance mechanisms really matter in CARICOM developing countries?

2) Which corporate governance issues are relevant to large non-listed firms?

What are the pros and cons to creating incentives for large unlisted firms to list?

How should a menu of corporate governance options for low-income countries be customized with priorities for reform, without appearing too broad, vague or over-ambitious?

3) Is protection of small shareholders a luxury in CARICOM countries?

4) How can policymakers ensure fair and credible enforcement?

Corporate governance has been a dominant policy issue in developed market economies for more than a decade, lately particularly in Continental Europe and Japan. In the transition economies it took some time for corporate governance to climb the ladder of policy priorities, but since the mid-'90s it has been one of the most hotly contested issues. In the wake of

the Asian Crisis, corporate governance has also become a catchword in the development debate.

Countries and stock exchanges are competing to produce corporate governance guidelines, and OECD is about to publish its own principles.

But how important is corporate governance? For some, it is among the most important policy issues of all, others claim its effects are second-order. These differences in opinion may reflect the fact that people mean different things when they use the concept. Another explanation could be that corporate governance is not always important, but that it matters very much when it matters; it certainly seems to be more important in some phases of a firm's life cycle than in others. Corporate governance is also likely to matter more in certain contexts or certain phases of economic development than in others.

Ultimately, of course, when and how much corporate governance matters is an empirical question. A recent series of articles has begun to address these issues from a comparative empirical perspective, promising more precise definitions of the corporate governance problem and better measurements of its impact on economic growth (LaPorta et al., 1997, 1998, and 1999a; for simplicity we will refer to their three main articles as LLSV where a more precise reference is not absolutely necessary). The authors - Rafael LaPorta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishny - raise a range of important questions concerning the interaction between law and finance, and more broadly about the role of institutions in economic development. Their articles have already given rise to a cottage industry of research on the interaction between law and finance. Recent contributions analyze the effects of legal rules protecting investors and the general quality of the legal system on, for example, the

development of the financial system (Levine et al., 1998), the impact of macroeconomic shocks (Johnson et al., 1998), the cost of capital (Lombardo and Pagano, 1999), and corporate behavior and industrial growth (LaPorta et al., 1999b; Rajan and Zingales, 1998, Carlin and Mayer, 1998). In many cases the explanatory power of the legal variables is very strong, suggesting that the potential implications for policy are important.

The document statistically and explain theoretically cross-country variations in ownership concentration and financing arrangements. Their main argument is that when the legal framework does not offer sufficient protection for outside investors, entrepreneurs and original owners are forced to maintain large positions themselves to align their incentives with other shareholders (Shleifer and Vishny, 1997). In other words, countries with poor shareholder protection should have more concentrated ownership structures. Support for this hypothesis, and they argue that differences in investor protection have implications for corporate behavior and economic growth.

This literature is based on the premise that the main corporate governance problem is self-interested management and weak, dispersed shareholders. The need to raise external finance determines the structure of the firm and the legal framework in which it operates. In this sense the literature follows a long tradition. However, in their quest to understand the interaction between the legal framework and corporate governance, the contributors have shown that the empirical context from which they derived their worldview is highly unrepresentative when taken beyond the United States and the United Kingdom. A rapidly increasing body of cross-sectional studies and comparable country studies demonstrate clearly that the widely held firm is

a rare phenomenon in most countries (see LLSV (1998b) and Barca and Becht (1999)). Most firms in the world, even listed firms, have a dominant owner.

Moreover, this shareholder is very often involved in the management of the firm. Sometimes, but rarely, a bank will play this role, but in most cases a family or the state holds such a dominant stake. This pattern is strong on the European continent, but it is even more pronounced in developing countries. In the economies in transition, ownership structures are still not well established, but widely held firms are extremely rare, even in countries that opted for early mass privatization through vouchers.

The realization that the closely held firm is the dominant form of governance profoundly affects how we conceive of the corporate governance problem and its policy implications. In the debate about ownership and control, the focus shifts from conflicts between management and shareholders to a three-way conflict between large block holders, managers, and minority investors. Furthermore, the identity of investors comes into play, and it becomes important who monitors them, what their incentives are, and how they are constrained by the legal framework. When the firm is closely held, the emphasis shifts from shareholder-oriented governance institutions such as boards of directors, general shareholders meetings, and takeovers to a broader set of devices for re-designing ownership and control, such as the use of dual class shares, pyramiding of share holdings, cross-ownership, managerial networks, and block trading. And in the analysis of capital market activity, the paradigm of the competitive stock market must be abandoned in favor of models of bilateral negotiations, block holder conflicts, and market design. In particular, with closely held companies, takeover markets operate very differently. Often, outright hostile offers are literally

impossible when one owner controls the majority of the shares, and most control transactions take place outside the official exchanges.

To make policy recommendations we, therefore, need to define the corporate governance problem in a particular country with regard to its prevailing institutions. In particular, the predominant corporate governance problem in a transition country is likely to be different from that of a developing economy, which in turn is different from that of a developed market economy. Corporate governance issues also vary substantially across developed market economies (see, for example, Berglöf, 1997; Gugler, 1998; and Barca and Becht, 1999). These differences will affect the implementation of corporate governance recommendations.

Developing countries probably are an even more heterogeneous group than developed market economies in their basic legal frameworks, corporate ownership, and structure of the financial system. This fact suggests that few general implications can be drawn for these countries, but there are other important considerations when one takes the insights from the literature.

One feature that stands out in most studies of ownership and corporate control in developing countries is the close ties between business interests and government, often called crony capitalism - as Bhagwati (1993) has put it nicely for the case of India, the economy is enmeshed in a "Kafkaesque maze of controls". This is not a corporate governance problem in the traditional strict sense, but it affects corporate governance in our wider notion, because large family owners often use their influence to limit competition, obtain favorable finance from the government and in other ways alter the game in their favor. Soft budget constraints are common in

these arrangements. Crony capitalism can be a strong deterrent to outside investors, in particular when a country is exposed to negative macroeconomic shocks.

Some of indicators concerning the "rule of law" capture elements of this political dimension, but we would argue that this side needs to be developed further. For example, Johnson et al. (1998) demonstrate that the measures used by the literature explain a significant part of the variation across countries in how much they were affected by the Asian crisis. An interesting question worth exploring is why the similar ownership structures that lead to crony capitalism in developing economies do not lead to the same results in Continental Europe.

The answer to this question should be closely related to the issues addressed by the literature. The strength and quality of government is likely to be part of this answer, but features such as competition law and tax law will certainly also play a role. Crony capitalism requires remedies other than investor protection, but it may be that corporate law can help to dismantle some of these unhealthy structures by offering opportunities for a broadening or phasing out of current ownership.

Section III: The Jamaican Hypercompetition Strategy

The Role of Government

In order to successfully integrate into the Global Village and be successful members of the emerging Network Society, Jamaica needs to consider seriously, proactive policy guidelines or as many have in other countries, we will become a statistic of the New Informationalistic Capitalism (NIC).

Research out of the International Monetary Fund (IMF), The World Bank (IBRD) and the Inter American Development Bank (IADB) to name a few, collectively speak to seven (7) guiding principles which can be applied to Jamaica successfully if the mindset in the country moves away from linear thinking to three dimensional thinking ("Out of the Box").

Principle One: Macro Economic Stability

An important **first** element in the policy mix is the need to maintain macroeconomic stability in Jamaica since this would create a business environment free of uncertainty and unanticipated costs. A 'stable' macroeconomic environment would entail low rates of inflation, lower interest rates for loans, low exchange rate variations, a reduced debt service ratio, a low fiscal deficit as a percent of GDP and balance on the balance of payment (BOP).

Principle Two: Human Resources Development

A **second** area of policy focus is in the area of human resources development (HRD) through education and training in new or frontier skills. In a dynamic business environment, enterprises need to stay competitive by boosting the productivity of their workforce through re-training and

education. Surveys of Jamaican enterprises and interviews with key informants emphasized the critical role of HRD in boosting productivity and hence competitiveness. Some efforts are being made to promote HRD in Jamaica. The HEART/NTA has been at the forefront of technical and vocational training in Jamaica. It has made information technology and entrepreneurship training mandatory in its programs. In addition, it has sought to provide a positive work attitude in its graduates and encourage them to be more entrepreneurial. While Jamaica has universal primary level education, there are still fundamental problems at the secondary and tertiary levels. The Government has introduced a reform program to enhance the quality of secondary level education and move towards its universality. At the tertiary level a recent UNDP study seriously conflicts with government's thinking and that of the hierarchy of the University Of The West Indies. Both need to converge and the starting point must be a radical curriculum change to meet the demands of the 21st century especially in the Faculty of Social Sciences.

Principle Three: Productivity Incentive Schemes

A **third** policy aspect is the development of Productivity Incentive Schemes (PIS), which would link compensation (i.e., workers' pay) to organizational productivity/performance. These schemes have been used to boost productivity/performance in organizations since they permit the distribution of any gains achieved from exceeding expected targets. The members of the Joint Confederation of Trade Unions Of Jamaica (JCTU) have been speaking to this issue for sometime now, however, there seems to be a lack of political will to seriously implement, As such, only a few exist.

Principle Four: Social Partnership

A **fourth** policy area is the promotion of productivity and competitiveness through the establishment of social partnership involving the Government, employers and workers through their representatives.

The successful implementation of this in an evolving plantation economy like Jamaica will depend only on ALL partners pulling their weight. As such, one cannot be asking workers to freeze wages when on the other hand companies are given rate increases at three times the inflation rate, there has to be a level playing field and the promotion of the concept of the Hyper Plantation Philosophy either integrated or re organized.

Principle Five: Public Sector Reform

A **fifth** policy area is related to the reduction of bureaucratic red tape, which increases 'transaction costs' (i.e., the costs of doing business in Jamaica). The objective would be achieved through a renewed attempt at public sector reform aimed at developing new operational procedures for the approval of requests – Customs, Town and Country Planning, Ministries and the coordinating of the activities of various ministries. There has been some progress in this area but the mindset of the civil servant's resistance to the use of Information Communication Technologies (ICT) on one hand and on the other hand the attempt by the Public in some cases to beat the system as a result of the ingrained practice of corruption are in serious conflict and need to be resolved rapidly.

Principle Six: Technological Modernization

A **sixth** policy direction is the need to provide financial and technical support for enterprises to retool and modernize their operations. Such retooling and modernization would involve the use of information

technology and new machines/equipment in the production process along with the employment of bio-technological methods in the agro-processing and agricultural sector. Trinidad did this in 1970's when we were using development money for non-productive purposes, to put it euphemistically. This support would have to be carefully monitored, as past experiences in Jamaica have not been favorable.

Principle Seven: Export Marketing

A **seventh** area of policy formulation is export marketing in the context of a liberalized trading environment. Several enterprises need technical and financial assistance with the marketing of their goods and services in extra-regional markets. Such marketing actions must be formulated in the context of a new trade policy framework, which includes targeting non-traditional markets for Jamaican products. In 2005 with the advent of the Free Trade Area of the Americas (FTAA), Jamaican enterprises would have greater access to Latin American markets.

A further strengthening of Jamaica Promotions (JAMPRO) with an additional focus on South-South Trade (SST) is very important now to prepare us to take advantage of this opportunity.

Finally, a recent IDB (2002) report points to the benefits of regional integration in promoting productivity. The formation of the Caribbean Single Market and Economy can offer Jamaican firms the opportunity to realize such gains. The Government can work with enterprises in the export sector – agriculture, manufacturing, tourism – to develop a marketing strategy focusing on a selection of the key elements of competitiveness: quality, volume, product flow, price and reliability.

The Strategy

The Competitiveness Strategy included in this document has as its objective to promote the sustainable development of economic activities and enhance productivity in order to attain inclusive growth.

The priority lines of action proposed by the strategy focus on correcting or compensating failures in the functioning of relevant markets for the competitiveness of all firms, and includes specific actions targeted towards micro, small and medium enterprises.

Activities to support improvements in competitiveness seek to achieve the following:

- The efficient mobilization of capital and financial resources;
- The improvement of human capital;
- The efficient provision of infrastructure services;
- The creation and assimilation of new knowledge and technologies;
- The creation of more effective institutions to support private productive activities;
- And the productive and sustainable management of natural resources.

The Government's Competitiveness Strategy should establish a framework to make improvements in their economic and institutional environments in order to promote the sustainable development of productive economic activities and increase productivity. Increases in productivity are key to economic growth and poverty reduction. In addition, progress in productivity is sustainable only if it also contributes to environmental improvements and conservation. The actions proposed by the strategy focus on correcting or compensating defects in the functioning of relevant markets for the competitiveness of all firms and include specific actions for micro and small enterprises.

LESSONS LEARNED

The following are important lessons learned in formulating National Competitiveness Strategies and should be noted carefully:

- (i) The need to adopt a comprehensive focus that takes into account the multitude of factors that affect and inhibit productive activities,
- (ii) The need to have a sound and stable macroeconomic environment,
- (iii) The need to convey economic and institutional signals to stimulate innovation and productivity improvements, instead of rent-seeking activities or inefficient investment,
- (iv) The importance of improving the supervision and legal frameworks of the financial sector,
- (v) The importance of strengthening reforms in the infrastructure sector to improve efficiency and coverage in the supply of services,
- (vi) The need to promote the assimilation and generation of technology and knowledge through a system of incentives that allows individuals, entities and businesses to benefit from their innovations,
- (vii) The need to have adequate regulatory and tax structures to encourage productive activities and competition,
- (viii) The importance of effective institutions for labor protection,
- (ix) The need to have an institutional structure to guarantee the respect and compliance of legal and regulatory frameworks,

- (x) The importance of having a supportive institutional framework for international trade opportunities,
- (xi) The importance of incorporating the private sector in the design of productive programs, and the need to take into consideration environmental aspects in competitiveness efforts.

A Jamaican Private Sector Business Strategy For Hypercompetition Development

Introduction

Each company in Jamaica will have a Competitive Business Strategy (CBS), which in its opinion has served it well, has made profits and /or super normal profits as such there is no need to change it. However, the following questions need to be answered:

- 1) Is the strategy being used by the average business in Jamaica is what is required to compete in an environment of Hypercompetition?
- 2) What is Hypercompetition and its consequences?
- 3) Will most Jamaican businesses be able to face the challenges of Hypercompetition?

If you as a Chief Executive Officer/General Manager/Manager of a Large, Medium or SME can not answer these questions expect to be seriously marginalized by **Real Time Information (RTI)** and become a statistic of the **New Informationalistic Society (NIS)** as your present business strategy is a **Static Competitive Strategy (SCS)** and not a **Dynamic Competitive Strategy (DCS)**.

While major players such as the banks and blue chip companies in Jamaica are using this strategy and doing so successfully the majority are still in the 20th century.

The Strategy

We are heavily influenced by the thinking of **Richard D'Aveni** who offers a powerful model that addresses the emerging realities of competing in intense and dynamic environments, what he describes as Hypercompetition.

Revolutionary technology, globalization, new business methods, radically new communication and information processing techniques, flexible manufacturing equipment, and low cost foreign labour.

The strategy draws on the knowledge of many brilliant strategy researchers and thinkers who laid the foundation Ian C Macmillan, James Brian Quinn, Michael Porter, Peter Drucker, Karl Von Clausewitz, Sun Tzu and many others. It builds upon the insights of researchers who have pointed out the weaknesses of static approach to strategy.

It is important to note that this strategy is over ten (10) years old.

What is Hypercompetition?

Hypercompetition results from the dynamics of strategic maneuvering among global and innovative combatants. It is a condition of rapidly escalating competition based on price equality positioning, competition to create new know how and establish first mover advantage, competition to protect or invade established product or geographic markets and competition based on deep pockets and the creation of even deeper pocketed alliances.

What is required for coping with Hypercompetition?

Strategic concepts such as

- Fit,
- Sustainable advantage,
- Barriers to entry,
- Long range planning,
- The use of financial goals to control strategy implementation,
- And SWOT analysis

All fall apart when the dynamics of Hypercompetition is considered.

The strategy provides insight into the process of the destruction of traditional advantages and the building of an entirely new set of advantages.

These dynamic strategic interactions are examined in four (4) arenas of competition:

- 1) Cost and Quality Competition
- 2) Training And Know How Competition
- 3) Competition For The Creation And Destruction of Strongholds
- 4) Competition For The Accumulation And Neutralization of Deep Pockets.

When operating in the above four arenas success depends on the manipulation of 7 new S' strategy (this improves on Mckinseys 7-S framework):

- 1) **S**uperior Stakeholder Satisfaction
- 2) **S**trategic Soothsaying (Predicting And/Or Creating The Future)
- 3) **S**peed, Positioning For
- 4) **S**urprise, Positioning For
- 5) **S**hifting The Rules of Competition
- 6) **S**ignaling Strategic Intent
- 7) **S**imultaneous And Strategic Thrusts

The first two S's provide vision and core competencies for disruption. They define the source of new advantages and ways to achieve them.

To quickly take advantage of the vision identified by the first two(2) S's the company needs to develop capability for disruption through the next two S's **Speed and Surprise**. The final Three(3) S's are concerned with tactics or punch/counterpunches used in a hypercompetitive environment.

Implications For Management

- 1) Sustainable Advantage Becomes An Anachronism
- 2) Chivalry Is Dead
- 3) An Age Of Cunning Speed and Surprise
- 4) An age Of Shifting Borders
- 5) The Age Of The Nouveau Riche
- 6) Firms Can Not Afford To Be Left Behind
- 7) Capitalism Redefined By Changing Technology

Jamaican Private Sector Hypercompetition Strategy Think!

Spend a minimum of two (2) hours and reflect on the following in Jamaica:

- 1) Bank Of Nova Scotia (BNS) vs. National Commercial Bank (NCB).**
- 2) Air Jamaica vs. American Airlines (1994-2004) on the Miami route.**
- 3) Kentucky Fried Chicken vs. Wendy's vs. MacDonald's vs. Burger King**
- 4) Hilo Supermarket vs. Super Plus Supermarket**
- 5) Cable & Wireless vs. Digicel**
- 6) Singer vs. Courts.**

7) Supreme Ventures vs. Jamaica Lottery Company (prior to merger)

Finally, compare your company to your competitors

Conclusion

It may be hard for some to hang up the chain mail of sustainable advantage after it has appeared to serve so well through the years of competitive battles. But, Hypercompetition is a state where sustainable advantages are no longer possible and is the only level of competition that can occur.

Firms are now forced to race up the ladders of the four arenas at nano second speeds.

Competition has changed since the 1990's and will continue to do so. Whether Jamaican firms like it or not they are now in the world of **Hypercompetition.**