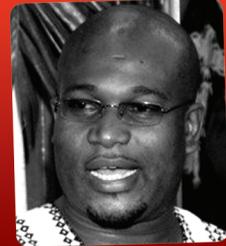


# Incentive, Competitiveness and Corporate Financing

## IMPROVING JAMAICA'S COMPETITIVENESS: Some suggestions



The Global Competitiveness Report makes for uncomfortable reading: Jamaica's competitiveness position has slipped from 63 (in 2006) to 101 (in 2011). This decline is manifested in the weak economic growth and, in some cases, negative growth that the economy has experienced over the last four decades and even more-so over the last five years. If Jamaica does not reverse the negative trend in its competitiveness, its citizens will forever remain poor and its grand vision of being a developed country by 2030 will not be realized. To reverse the trend, there has to be a clear understanding of what competitiveness means.

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**W**hat is competitiveness?

Almost all commentators on public policy have called for an improvement in Jamaica's competitiveness position to help the economy achieve meaningful levels of economic growth and development. However, they disagree on what competitiveness means. To the economist, competitiveness narrows down to critical macro-economic variables such as a stable exchange rate, low interest rates and low inflation. To the private sector, competitiveness is generally confused with competition. For them, competitiveness means winning market share from your competitors and reporting higher profitability over the previous year. However, if we are to develop policies to help to reverse the negative trend in Jamaica's competitiveness position, there has to be some commonality regarding what is meant by the concept.

As a starting point, it is important to note that Paul Krugman and Michael Porter, two renowned commentators on the subject, quipped: for competitiveness, everything matters. This is a profound statement. It shows that economic competitiveness cannot be narrowed down to any single variable. Krugman and Porter are suggesting that the schools, the church, the roads, the family unit, the policies on competition, the institutions on property rights etcetera, all help to drive economic competitiveness. However, one may say that this is idealistic and we cannot have a clear understanding of the concept since too many variables are involved.

To make this idea clear, the World Economic Forum has advanced a working definition of competitiveness which captures the "everything matters" mantra of Krugman and Porter. According to the World Economic Forum, competitiveness refers to: "the set of institutions, policies, and factors that determine the level of productivity of a country."

Put differently, competitiveness really means the level of productivity of a nation. The level of productivity of a nation will determine the return on investments which in turn will drive the growth rates of the economy. It is investments that produce jobs and outputs that will improve the Gross Domestic Product (GDP) of a nation. The economy grows when more outputs are produced and increase the existing stock of outputs over the previous year. If we accept that economic competitiveness narrows

down to the level of productivity of a nation, then to reverse the weak competitiveness position of the Jamaican economy, ways will have to be found to reverse the declining levels of productivity. This is the fundamental challenge that the economic managers in Jamaica face.

## OVERCOMING THE PRODUCTIVITY DILEMMA

If we agree that everything matters for competitiveness, we should also agree that everything matters for productivity as well. It means we will have to tackle the institutions, the policy frameworks in which we operate, and also take stock of the various factors of production in order to reverse the decline in competitiveness of the Jamaican economy.

This task looks overwhelming but with proper planning and a good conceptual understanding of the problem, it is achievable. The first question we should ask is this: *how it is that other economies that have similar circumstances to Jamaica were able to rise to the challenge and become highly competitive?* If we can find examples of these economies, there might be some lessons there for where Jamaica needs to start.

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## LESSONS FROM SINGAPORE

Singapore, a small city state in Asia, can provide some valuable lessons to Jamaica. Like Jamaica, Singapore was a poor economy in the 1960s and also highly uncompetitive by today's global standards. However, through decisive leadership and a strong vision, the economy has become one of the most competitive in the world. Over the last decade, it consistently ranked in the top 10 most competitive economies in the world. A close reading of Singapore's developmental trajectory suggests that some key variables were important in that transformation. Among them are:

**Infrastructure development:** Singapore has some of the most competitive physical infrastructure in the world. Its seaports and airports are generally ranked in the top 10 in the world. This is important as infrastructure helps to open up a small city state that has weak internal demand to the rest of the world. Singapore has become more involved in international business and gained a larger market share for the goods and services that are produced there. Greater access to world market is critical for small economies like Singapore and Jamaica. Internal markets are generally too weak to drive economies of scale in production and distribution needed to make industries and firms internationally competitive.

**Sound macro economic management:** A close reading of the literature on the competitiveness of the Singaporean economy shows that it is ranked in the top 10 as it relates to economic stability. It is ranked 1 for inflation, 10 for fiscal deficit and 5 for credit rating of the 142 countries studied in 2011. Jamaica, on the other hand, is ranked 137 for inflation, 106 for fiscal deficit and 111 for credit rating. Singapore's superior performance has led to significant benefits. With ►►

its strong government balance, Singapore has enjoyed a level of macro-economic stability which has eluded Jamaica. The fiscal stability that Singapore enjoyed has helped it to attract significant amounts of Foreign Direct Investment (FDI) which provide a strong stimulus to economic activities.

**Strong institutions:** On the institutional front, Singapore has shown tremendous improvements. Its business and management schools are ranked in the top 10 most competitive in the world; its fiscal and monetary institutions are ranked highly; its social institutions such as schools and civic institutions are also ranked highly in the overall competitiveness landscape. These strong institutions provide a good foundation for setting the right policies that drive economic competitiveness through improved productivity. Indeed, many commentators on globalization and economic development have shown the significance of institutions in driving economic growth and transformation, especially in small economies where governments are weak and markets do not function efficiently.

**Sound and visionary leadership:** Singapore has consistently ranked number 1 in the Global Competitiveness Report in the area of trust for its political directorate. It is also ranked very highly (a low score) on corruption of public officials. Jamaica on the other hand is ranked 112 in relation to trust of public officials and very low (a high score) on corruption of public officials. The level of trust that Singaporeans have in their public officials cannot be overlooked in the discourse on national competitiveness. It is the leadership that will drive the vision and get people motivated to produce. If the citizenry does not buy into the vision of the leadership, then they will lose the motivation to improve their productivity. Irrespective of the level of technology that is given to workers, if they are not motivated to work, their productivity will not be improved. This softer issue in the competitiveness discourse is often overlooked. However, policymakers cannot afford to ignore the role of leadership in shaping the competitiveness landscape of a nation.

## CONCLUDING THOUGHTS

The lessons from Singapore are instructive but not exhaustive. If Jamaica is to overcome the constraints on its competitiveness, it has to ensure that the basics are in place. These include strong institutions, high quality infrastructure, sound macro-economic management and strong and visionary leadership. At the moment, the Global Competitiveness Report data show that Jamaica's performance in these areas is weak and leaves much to be desired. On the other hand, Singapore, an economy with many similarities to Jamaica, shows impressive performance in these areas and has emerged as one of the most competitive economies in the world.

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Jamaica can also draw valuable lessons from many other small successful economies like Israel, Botswana and Hong Kong; so the task is not as daunting as it looks. The country's competitiveness performance needs urgent attention. Policymakers have to act now or else the decline in competitiveness can lead to further economic dislocation and deprivation of its citizens. ■

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