

# Economic analysis of singapore and jamaica

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SINGAPORE Qualitative Economic growth Prior to becoming one of the leading economies in the world, Singapore was at a juncture where it was evident that economic growth was required to catapult the operation of the economy and this would only prove possible within a short time frame if qualified (successful) foreign companies saw the country as a viable hub for business operations. The country was hindered by inaccessibility of overseas markets, lack of domestic resources, shortage of management and entrepreneurial expertise and technological retardation. In order to change the business environment to become investment friendly, the responsible authorities took the decision to adopt a liberal foreign investment policy which involved providing various incentives, including the absence of restrictions with regards to the entry and operations of foreign entities. The elimination of government bureaucracy coupled with dynamic political leadership resulted in direct benefits being derived from Foreign Direct Investment in the form of investments, foreign expertise and the utilization of advanced technologies in the varying operations. This transformation resulted in Singapore becoming a global economic city unfettered by the constraints limited resources. Geographic Location & Workforce - The geographical location is a critical qualitative factor as the country is situated in close proximity to Malaysia and Indonesia. These economies offer viable opportunities for multinational corporations and Singapore serves as the access route to these markets. The prime geographic location is supplemented by the fact that Singapore has an increasingly well educated and disciplined labour force . This social stability is built upon a solid foundation as strategic policies aimed at attracting investment resulted in

the enactment of strict legislation designed to minimize labour-management conflict. Government & Infrastructure – Singapore's economic growth is also attributable to the fact that their government is viewed as transparent with minimal levels of corruption and the country hosts advanced and efficient infrastructure that has attracted investments from more than 3, 000 multinational corporations from the United States, Japan, and Europe. The competitive advantage that Singapore possesses with infrastructure is evident in the Port of Singapore which is strategically developed to ensure that trading activities do not become cumbersome. This has resulted in the port being the busiest in the world as it provides easier access to markets for both importing and exporting. Based on the foregoing, it is evident that Singapore has created a free market economy in which entrepreneurs are allowed the freedom to harness the power of the various resources and channel them into viable economic units that will benefit the Gross Domestic Product of the economy. Quantitative Economic Growth Singapore is the smallest country in Southeast Asia. However, it is ranked the 22nd wealthiest country in Gross Domestic Product (GDP) per capita, attributable to government led industrialization (across the island) and foreign investments. The resulting effect is an economy which thrives on electronics and manufacturing exports in conjunction with financial and entrepot trade. Singapore is characterized as a market based economy and is re-known for its business friendly atmosphere. The economy revolves around trade and relies heavily on exports (equivalent to 243% of GDP in 2005) particularly from the manufacturing sector. Even though Singapore operates a free market economy, it must be noted that the state plays a major role in

ensuring that economic growth is maintained by expanding the economy's growth potential. That is, the country has been experiencing consistently improving economic growth based on increases in aggregate demand. However, while the business friendly environment will continue to attract Foreign Direct Investment (FDI), and the government will continue to channel funds into the requisite infrastructure to foster growth, if there is no expansion of potential output, growth in GDP will eventually come to an end as there will be full employment of labour and other resources. As such Singapore seeks to continuously expand their output capabilities by focusing on developing a skilled workforce through a heavy concentration on the country's education policy as well as creating spare capacity by importing resources that are refined for export. Existing Situation based on policies - The economy in Singapore is managed by a heavy concentration on fiscal policies that utilizes government spending to engender economic growth by stimulating aggregate demand. The government promotes high levels of savings and investment through a mandatory savings scheme known as the Central Provident Fund. As a result, Singapore has built up sizable fiscal reserves over the years, thus giving it a strong degree of flexibility especially with regards to reacting to a slump in growth should the need arise. As indicated by figure 5, Inflationary pressures remained contained with the mix of fiscal and monetary policies utilized. That is, while the operation of the economy is driven primarily by fiscal policies aimed at expanding consumption and investment, exchange rate management is based on the utilization of monetary policies. The underlying basis for this approach is the increasing inflationary risks from supply side and demand side factors as

evidenced in figure 7. While inflation has been largely contained, the fact that the economy is small and open with a heavy reliance on trade indicates that inflation can be easily driven up by external shocks such as increases in oil prices. Inflation rose to an average of 1.2% for the first eight months in 2006 in comparison to the 0.5% achieved for the whole year in 2005, thereby reflecting the effects of increases in oil prices. As such, tighter labour market conditions have been brought into effect and strategies have been implemented to lag the effects of commodity price increases to reduce domestic price pressures. One of the primary factors used to mitigate the vulnerability of the economy to shocks on the world market are monetary policies aimed at manipulating the exchange rate to ensure that it operates within a particular band. An undisclosed band is set within which the currency is allowed to fluctuate as disclosed by table 6. This allows the country to not only contain inflation, but also engenders real economic growth by utilizing monetary policies to reduce money supply figure 1 (this stance has been in effect since April 2004) thereby ensuring that imported inputs remain affordable and demand side pressures based on the strong labour market and economic momentum are quelled. It is therefore evident that a mix of both fiscal and monetary policies are employed for the sustainable growth of the economy. However, fiscal policies are the main drivers expected to allow the country to remain close to its potential output trajectory, and therefore the current policy stance is expected to continue into the foreseeable future. RECOMMENDATIONS The economy has been growing significantly over the past few years see figure 4. However, Singapore's high degree of openness and dependence on industries such as

technology and biotechnology exposes it to external shocks such as rising oil prices, and changes in world demand for technology. Thus the country needs to develop new industries through research and development and promote itself as a regional financial, health care, entrepreneurial and financial hub. Singapore is also heavily dependent on the strength of China and surrounding East Asian economies which consume its products. Singapore also needs to diversify its dependence on China and surrounding East Asian economies. This can be achieved by creating strategic alliances with countries that can off-set their importation expenses through preferential arrangements. Given growing fiscal reserves, Singapore should increase targeted social programs aimed at low skilled workers and reduce taxes to stimulate entrepreneurial activity. Further divestment of nonstrategic government linked corporations will reduce structural hindrances. These structural changes to the economy will create a more competitive environment and provide diversified sources of imports which will help to cap price increases as the low levels of inflation is critical to the success of the economy.

**COUNTRY: JAMAICA Qualitative And Quantitative Background**

Jamaica is the third largest Caribbean Island, in close proximity to Latin America and the United States. As a small open economy its geographic location makes it an excellent transshipment point. The country's climatic and ecological conditions make it particularly attractive to tourists, with tourism being the leading economic driver. Remittances and Alumina exports along with tourism are the three main foreign exchange earners. However, given its geographical location within the hurricane belt, Jamaica is susceptible to shocks from natural disasters, mainly hurricanes. Within the

last five years, there have been major infrastructural developments such as the construction of several highways, the expansion of information technology via three fiber optic cable rings, an expanded sewerage and water system and the expansion and modernization sea and air ports. There is also a high level of foreign investor confidence evidenced by the " Spanish Invasion", with ongoing construction to increase the hotel room stock by 40% in three years. Although Jamaica ranks relatively low with respect to human development indicators, the life expectancy and poverty rates are better than most of the other countries in the Caribbean. However, Jamaica has the third highest per capita crime rate in the world, which has negatively impacted GDP growth. Further, Jamaica is faced with chronic mismanagement of public resources which adds to the fiscal pressure. Loss making public sector bodies such as the Sugar Company of Jamaica, the national airline, the National Water Commission and the public transportation system complicate the scarcity of resources. Jamaica's workforce is mostly un-educated and unskilled with approximately 30% of the workforce (unskilled workers) employed in the sugar industry. However this industry, which benefitted from preferential trade agreements during the 1990's are mostly gone, creating the possibility of a social fallout from the sector. The government is looking to divest the remaining sugar companies.

**MONETARY AND FISCAL POLICIES** Jamaica's debt burden is an inheritance from the collapse of its financial sector during the mid 1990's. The government assumed most of the debt from this meltdown to the tune of 40% of GDP, pushing the debt to GDP ratio to the third highest among rated sovereigns at 127% of GDP currently. This overbearing debt ratio resulted in negligible

GDP growth, high interest rates (see Figure 4) erosion of external competitiveness, high inflation and very low fiscal flexibility. Since that time the main policy focus has thus been to attempt to reduce the huge debt burden through fiscal consolidation. Fiscal consolidation is mainly being carried out by reducing the two largest fiscal costs, public sector wages and interest cost on debt, which together account for 90% of tax revenues, giving the authorities very little room for an expansionary fiscal policy to stimulate growth. With regard to wages, the Government has entered into a Memorandum of Understanding (MoU) with the unions aimed at capping the extent of wage increases thus giving the authorities room to consolidate the fiscal accounts. On interest costs, issuing longer dated government debt at lower interest costs as the central bank reduces interest rates have resulted in lower fiscal expenditures over time. Overall, the government is aiming for a balanced budget over the next two fiscal years. Various studies have reported that Jamaica has an informal economy roughly 40% the size of the formal economy. As such, efforts aimed at maximizing revenues include a complete review of the tax system to reduce inefficiencies and broaden the tax base and aggressively pursuing improvements in revenue collection. Given its limited fiscal room due to expenditure constraints the Government has embarked on a prioritization of capital projects in order to stimulate aggregate demand, which has seen a host of capital projects for roads (Highway 2000, North Coast Highway), houses (Low Income Housing), information technology (Fiber Optic Cable Rings) and water and sewerage systems (North Coast Sewerage System). The major thrust of monetary policy is to contain inflation while seeking to reduce interest rates in a



sustainable manner in order to stimulate aggregate demand and GDP growth, which has averaged less than 2% over the past 10 years. Inflation which remained in single digits for 7 consecutive years up to 2003 was at a 30 year low of 5.8% in 2006. A part of this thrust to contain inflation hinges on a stable foreign currency market, as most of Jamaica's consumption is imported. Stability in the foreign currency market has been achieved by robust Net International Reserves (NIR) in excess of US\$2 billion, which helps to drive confidence in local and foreign investors, which in turn reduces the cost of debt issued on the international capital markets, and allows the central bank to reduce interest rates as inflation falls. The NIR is being driven by large remittance inflows (largest foreign exchange earner and 16% of GDP) and massive Foreign Direct investment flows in the form of hotel expansion and the doubling of alumina capacity, which finances Jamaica's large current account deficit of 9.5%. The central bank has been on a path of interest rate reduction since 2003, bringing rates to a record low 12% in 2006, which has reduced the size of the fiscal deficit, and the debt ratio. The lower debt burden stimulates aggregate demand as it reduces the "crowding out" of the private sector from the loan market, as the government has a lower appetite for debt, freeing up scarce resources for private entrepreneurship. Jamaica's fiscal and monetary policy thrust faces severe risks from domestic and external shocks, and have been interrupted on several occasions. Domestic risk arises from convenient lack of fiscal discipline at opportune times such as in 2003 when there was massive unexpected budgetary spending during an election year. The years 2004 and 2005 saw interruptions from record high oil prices and the effects of five

hurricanes passing in close proximity to the island. RECOMMENDATIONS TO POLICY CHALLENGES Jamaica needs to continue its current strong fiscal discipline and monetary policy stance of sustainable interest rate reduction to stimulate aggregate demand and reduce the vicious debt overhang. Accelerating structural reforms will bolster the current fiscal strategy such as reforming of the tax system to eliminate inconsistencies, broadening the tax base and passing legislation to aggressively collect arrears and address the issue of tax evasion and avoidance. Public sector companies which have been significant contributors to the debt burden need to be restructured or divested . Accelerating the process of capitalizing the central bank, which has racked up losses over the years, would reduce the cost of central bank monetary operations. Although the MOU with the Unions is serving its purpose, there is a need for rationalizing inefficiencies within the public sector possibly by downsizing. Jamaica should look to establish new industries such as those based on ethanol production to create value added products from a quickly dying sugar industry to diversify its economic base, which is mainly dependent on tourism. Given the openness of the economy, which is susceptible to shocks, Jamaica's membership in a recently established regional disaster insurance fund is a correct step to take. The use of preferential arrangements such as soft loans from PetroCaribe (under which Venezuela were offering concessional loans for petroleum purchases), should be used to pay down existing expensive debt rather than loosen the fiscal effort via spending on projects. Finally, Jamaica needs to reduce mismanagement of public resources by holding people accountable, and eliminate the bureaucratic impediments to doing business, by creating a

business friendly environment. Stimulating small business investment is the way to stimulate aggregate demand and economic expansion, given the constraint to applying expansionary fiscal policy. DIAGRAMS Figure 1: Jamaica's recorded inflation over the last 10 years Figure 2: Six-month T-Bill yield 2001-2006 DIAGRAMS Figure 3: Exchange rate depreciation Figure 4: Jamaica GDP to Debt Ratio Figure 5: GDP for Singapore 1995 – 2005 Figure 6: Percentage Change in Singapore GDP. Figure 7: Inflation in Singapore Jan 2002 to Jan 2006 Figure 8: Singapore real effective Exchange rate Figure 9: Balance of Payment Summary Figure 10: Effects of decreasing money supply