Agglomeration Economies: A Model for the West

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The Jamaican Economy

- **The Current State**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014f</th>
<th>2015f</th>
<th>2016f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP- US$</td>
<td>12.1</td>
<td>13.2</td>
<td>14.4</td>
<td>14.8</td>
<td>14.2</td>
<td>13.9</td>
<td>14.2</td>
<td>14.6</td>
</tr>
<tr>
<td>GDP/ capita-US$</td>
<td>4437</td>
<td>4817</td>
<td>5234</td>
<td>5339</td>
<td>5100</td>
<td>4974</td>
<td>5043</td>
<td>5151</td>
</tr>
<tr>
<td>GDP Growth %- yoy</td>
<td>-3.4</td>
<td>-1.5</td>
<td>1.4</td>
<td>0.5</td>
<td>0.2</td>
<td>1.1</td>
<td>1.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Inflation % - yoy</td>
<td>10.2</td>
<td>11.7</td>
<td>6</td>
<td>8</td>
<td>9.5</td>
<td>8.1</td>
<td>7.8</td>
<td>7.5</td>
</tr>
<tr>
<td>FX rate</td>
<td>89.4</td>
<td>85.2</td>
<td>86.4</td>
<td>92.4</td>
<td>106</td>
<td>113</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiscal balance</td>
<td>-11.1</td>
<td>-6.3</td>
<td>-6.4</td>
<td>-4.1</td>
<td>0.1</td>
<td>-0.7</td>
<td>-0.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Primary balance</td>
<td>6.2</td>
<td>4.6</td>
<td>3.2</td>
<td>5.4</td>
<td>7.6</td>
<td>7.6</td>
<td>7.5</td>
<td>7.5</td>
</tr>
<tr>
<td>Current A/c</td>
<td>-11</td>
<td>-8.7</td>
<td>-13.4</td>
<td>-13</td>
<td>-11.1</td>
<td>-8.3</td>
<td>-6.5</td>
<td>-5.6</td>
</tr>
<tr>
<td>Debt</td>
<td>141.9</td>
<td>143.4</td>
<td>141.7</td>
<td>146.5</td>
<td>141.6</td>
<td>139.9</td>
<td>131.5</td>
<td>125.5</td>
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</table>

*Source: Oppenheimer & Co. Inc; IMF, Bloomberg*
Moving from the current to the future

Vision 2030

• “Jamaica, the place of choice to live, work, raise families and do business.”

• This envisages a major transformation from a middle income developing country to one which affords its citizens the highest quality of life and world class standards in some absolutely critical elements including education, health care, nutritional status, basic amenities, access to environmental goods and services, civility and social order
Moving from the current to the future

The Central Challenge

• Build an Internationally Competitive Economy

  – I.e. Enterprises and Institutions must operate at world standards and be able to compete effectively with the best in the world
Moving from the current to the future

Overcoming the challenge

• Sustainable macro-economic stability

• Internationally competitive industry structure
  – Banish Bureaucracy
  – Engender competition
Moving from the current to the future

– Strong anti-trust frameworks to prevent collusion and monopoly behaviour

– State support for industries that have strategic importance to the economy (N.B. Not old fashioned protectionism)

– Creation of economic clusters
Moving from the current to the future

- The role of the West
Moving from the current to the future

Population Size

<table>
<thead>
<tr>
<th>Region</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Westmoreland</td>
<td>144817</td>
</tr>
<tr>
<td>Hanover</td>
<td>69874</td>
</tr>
<tr>
<td>St. James</td>
<td>184662</td>
</tr>
<tr>
<td>Trelawny</td>
<td>75558</td>
</tr>
<tr>
<td>Total</td>
<td>474911</td>
</tr>
</tbody>
</table>

% of Jamaica's population | 17%

Source: Statin
Moving from the current to the future

The role of the West

- Consideration for Special Economic Zones

Special economic zones have played a significant role in the development of many economies:

- Costa Rica- SEZ generated 32000 jobs, accounted for 21 out of 34 FDIs in 2011

- China, SEZ generated over 5.4 mill jobs in 2001, accounted for over 25% of FDI

- Honduras generated 134,000 jobs in their SEZ

- Dom Rep, FDI in their SEZ was over 23 % of the total FDI stock
Moving from the current to the future

The role of the West

• Evolution of SEZ
  – Michael Porter main proponent

• 1979- Competitive Strategy
  – How to build competitive industries?
  – Five Forces model of competition
Moving from the current to the future

The role of the West

Rivalry Among Existing Firms

Threat of New Entrants

Bargaining Power of Suppliers

Bargaining Power of Buyers

Threat of Substitute Products or Services
Moving from the current to the future

The role of the West

• Evolution of SEZ

• 1980- Competitive Advantage
  – How firms should position in competitive industries?
  – Cost Leadership of Differentiation
Moving from the current to the future

The role of the West

Strategic Advantage

- BROAD (Industry Wide)
  - LOW COST
  - Cost Leadership
- NARROW (Particular Segment)
  - DIFFERENTIATION (Uniqueness)
  - Differentiation
  - Focused Differentiation

Strategic Target
Moving from the current to the future

The role of the West

• Evolution of SEZ

• 1990- Competitive advantage of nations
  – Which countries firms should locate in order to achieve their corporate goals?
  – Diamond of National Advantage
Moving from the current to the future

The role of the West

Porter’s Diamond of National Advantage

- Factor Conditions
- Firm Strategy, Structure, and Rivalry
- Related and Supporting Industries
- Demand Conditions
Moving from the current to the future

The role of the West

• Evolution of SEZ

• 2000 and beyond- Agglomeration Economies
  – Where in the country should the firms be located in order to better achieve their corporate goals?
  – Special Economic Zones
Moving from the current to the future

The role of the West

• Western Jamaica should agglomerate around services in order to make a substantial contribution to Vision 2030

• Tourism is a main stay in most parishes (Westmoreland, Hanover, St. James, Trelawny)

• BPO is becoming a big sector
Moving from the current to the future

The role of the West

• Higher education is also seeking foothold into the West

• Some infrastructure in place to facilitate this:

• E.g.
  – massive stock of hotel rooms
  – convention centre
  – major tertiary institutions
  – financial services institutions
  – Port facilities
Moving from the current to the future

The role of the West

*Key Success Factors for the SEZ*

- Linkage creation will be necessary- *No to enclaves !!!!*

- Strong legal and regulatory framework for proper zoning programme development

- Strong incentives in the form of infrastructure so that the players can operate effectively (*Not calling for Government Hand-Out*)
Moving from the current to the future

The role of the West

Key Success Factors for the SEZ

• Transparent and efficient administrative regime for zone based firms

• Efficient transportation network and logistic hub- key to movement of personnel to deliver services)
Moving from the current to the future

The role of the West

Key Success Factors for the SEZ

• Highly educated and skilled population

• Need to:
  – reduce crime,
  – have greater access to social infrastructures such as parks,
  – high quality physical infrastructure such as road network, water and sewage supply;
  – access to entertainment centres, medical facilities etc,

to attract the persons needed in the labour force for the SEZ to work.
Concluding Thoughts

• Creation of SEZs built on the services sector will deliver enormous benefits to Western Jamaica

• It will attract more suppliers and customers, generate stronger scale economies, produce stronger network effects, among other things.

• Overall, if Western Jamaican Agglomerates around services it can make a substantial contribution to Jamaica’s GDP and help the nation to achieve Vision 2030.