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**Jamaica:
Problems and Prospects
for the Seaga Government** [Redacted]

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An Intelligence Assessment

State Dept. review completed

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ALA 82-10066
May 1982

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Jamaica: Problems and Prospects for the Seaga Government

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An Intelligence Assessment

*Information available as of 16 March 1982
has been used in the preparation of this report.*

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The authors of this paper are [redacted]
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may be directed to the Chief, Middle America-
Caribbean Division, ALA, [redacted]

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This report has been coordinated with the National
Intelligence Officer for Latin America and with
the Directorate of Operations. [redacted]

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**Jamaica:
Problems and Prospects
for the Seaga Government**

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Key Judgments

After a year and a half in office, Prime Minister Edward Seaga has begun to turn the economy around slowly and to reestablish a climate of public order, but much remains to be accomplished. His qualified economic success has at least halted the negative trends prevalent under the previous government. Seaga still has a popular mandate, but the momentum gained from his landslide victory will begin to dissipate if he is unable to demonstrate sustained economic improvement.

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Jamaica will continue to require a heavy infusion of external aid to keep Seaga's program on track. For the next few years, the program will be unlikely to reach targeted annual economic growth in the 3- to 5-percent range—even with increased aid under the Caribbean Basin Initiative. If the global economy and the related demand for bauxite begin to pick up this year, Seaga will, however, have a better-than-even chance of eliciting the private sector response needed to restore economic vitality.

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The margin for success is narrow. Deepened or prolonged global recession would undermine foreign exchange earnings, upset adherence to International Monetary Fund targets, and put off foreign investors. A shortfall of as little as \$200 million in projected foreign exchange receipts this year would mean a decline in economic activity.

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Seaga has swung Jamaica firmly into the US camp. Other moderate US allies in the region will see the success or failure of Seaga's efforts as a barometer of Washington's ability to promote stability and economic progress. Jamaica is perceived as the showcase of the Caribbean Basin Initiative, and Seaga's failure would be demoralizing.

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The opposition, headed by former Prime Minister Michael Manley, has yet to pull itself together since its crushing defeat at the polls. Despite internal divisions, however, leftists still control the party and will attempt to exploit Seaga's difficulties and weaknesses.

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Political violence has declined since the elections, but crime will be an endemic problem as long as the government is unable to reverse the economic conditions on which crime feeds. The government remains vulnerable to leftist-inspired terrorism because of the poor state of its security forces. Narcotics trafficking—estimated to have earned as much as \$200 million last year for Jamaica—also promises to be an intransigent problem.

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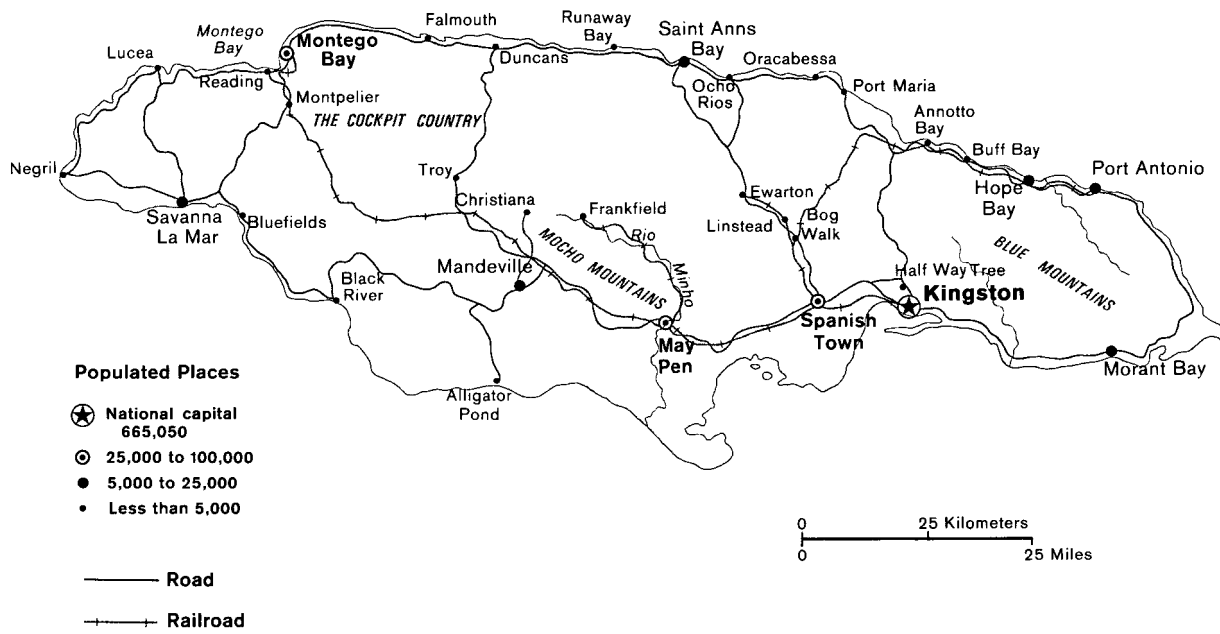
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Figure 1
Jamaica



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**Jamaica:
Problems and Prospects
for the Seaga Government**

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From the beginning of his administration, Prime Minister Edward Seaga has moved boldly to reverse the steady political, economic, and social decline that occurred under his predecessor, Michael Manley. Counting heavily on US support to rebuild the island's battered economy, Seaga has also realigned Jamaica's foreign policy to parallel Washington's.

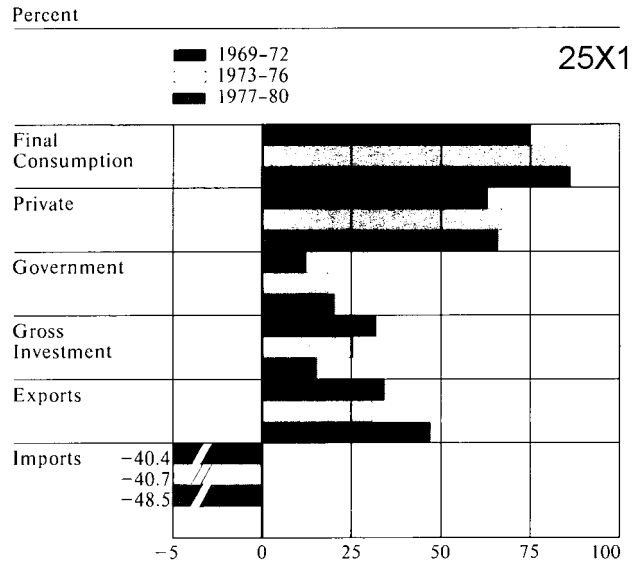
Both Seaga's emphasis on private-sector initiatives and his alliance with the United States will be carefully monitored by the rest of the Caribbean, much of which looks to Jamaica—as the largest of the English-speaking islands—for a credible development model. Because Jamaica is widely seen to be Washington's Caribbean showcase—to some extent in competition with Cuba's showcase, Grenada—Seaga's success or failure will reflect on the United States, especially on the reliability of the United States as patron and partner. Many of the moderate governments of the small Caribbean entities, for example, want tangible US support in exchange for resisting the radical left and Cuban influence in the region (figure 1).

Seaga's Challenge

When Seaga became Prime Minister, he took over a nation exhausted by political violence and with an economy in shambles (figure 2). During Michael Manley's eight years in office (1972-80), plunging investment outlays had slashed economic activity almost one-fifth and per capita consumption one-fourth. Private investors had been frightened away by Manley's economic strategy, which included:

- A program of nationalization to expand state control of production and distribution.
- Greatly increased production taxes, particularly on bauxite mining.
- Tighter state control on imports and domestic prices.
- Strengthened labor unions.
- An aggressive land reform.

**Figure 2
Jamaica: Percentage Contribution of
Expenditures to Gross Domestic Product,
1969-80**



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In this economic climate, Jamaicans began to depend more and more on subsidies, public assistance, marijuana sales, and black-market activities. By the time Manley was voted out of office:

- Inflation had tripled to around 30 percent.
- The rate of unemployment had worsened to 30 percent.

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- Manufacturing and mining output had fallen by one-third, commerce by one-half, and construction by two-thirds.
- The flight of at least 40 percent of Jamaica's professionals, managers, and skilled workers had crippled productivity in all sectors.
- Foreign debt had more than doubled to \$1.5 billion, while foreign payments deficits and capital flight had slashed net foreign exchange reserves from \$200 million to minus \$600 million. Commercial debt arrears stood at over \$100 million, and import credits had dried up (figure 3). [redacted]

Setting a New Course

To rebuild the economy, Seaga has initiated new policies designed to dismantle Manley's state economic management and release market forces and private initiative. Seaga has worked to restore business confidence, promote use of existing capacity, encourage investment, and build an export base. His three basic aims are:

- To encourage private-sector growth by phasing out controls on prices, imports, rents, and wages; selling state enterprises; and restricting the operation of state marketing boards.
- To cut inflation by ending public-sector deficits and establishing positive real interest rates.
- To improve the external payments position by loosening exchange controls and restructuring the public foreign debt. [redacted]

To finance the recovery, Seaga obtained a large financial package from the International Monetary Fund (IMF). Negotiations during the first half of 1981 resulted in Fund loans which, if maintained, will total \$620 million over three years. The tough fiscal and monetary measures required by the IMF complemented Seaga's orthodox policy initiatives. In addition, Kingston is relying on continuing IMF support to encourage an equal or greater amount of debt relief and new lendings and aid from commercial banks and Western donor nations. [redacted]

Mixed Economic Results in 1981

Economic performance under Seaga was markedly better than under the previous administration, but it

was not good enough to encourage the kind of investment and capital flows Jamaica needs to revitalize the economy. Progress was noteworthy in improving the private investment climate, getting government spending under control, and reducing inflation. Kingston had little trouble meeting its IMF financial targets. Nevertheless, the difficulties involved in restructuring the economy and the deepening of the world recession undermined investment, exports, and economic growth; and no progress was made on reducing unemployment. [redacted]

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Economic Growth. Economic growth in 1981 was positive for the first time in eight years, but still far below Seaga's target. New money and investors counted on by Seaga to reactivate the economy generally remained on the sidelines during the year. Although continuing low investment prevented manufacturing, mining, and agriculture from rebounding, Kingston used higher imports and increased capacity utilization to boost services and the commercial sector. [redacted]

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Managerial and foreign exchange shortages stifled expansion in manufacturing. Moreover, stiff competition from consumer goods smuggled into the country further eroded many markets for domestic producers, particularly in textiles and shoes. Although the state investment promotion agency in 1981 generated proposals of \$750 million in new investments for manufacturing—over half from foreign investors—only 22 new projects representing \$20 million in investments were initiated or began operations by the end of the year; delays were caused generally by bureaucratic snarls and shortages of managers and skilled workers. Kingston drew down part of a \$20 million World Bank loan to increase industrial workspace for labor-intensive, light-assembly, export operations in the Kingston Free Zone. By the end of 1981, 30 small manufacturing and warehousing concerns were operating in the zone, a gain of 10 firms over the year. [redacted]

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In mining, weak world demand caused major investment deferrals and slowed production. Bauxite output slipped a half million metric tons in 1981 to 11.6

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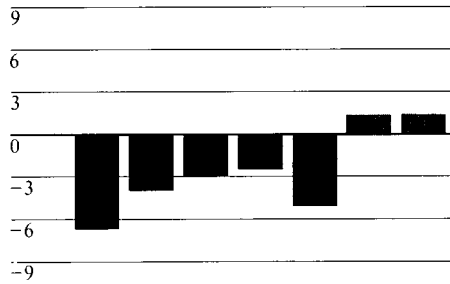
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Figure 3

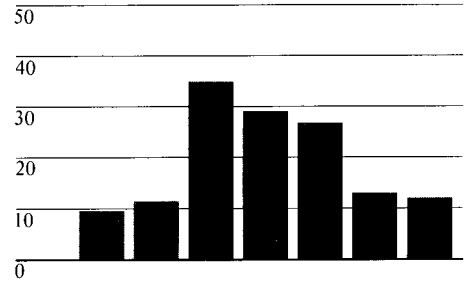
Jamaica: Economic Indicators

Note change in scales

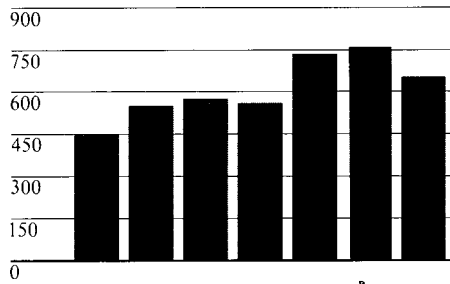
Real GDP Growth
Percent



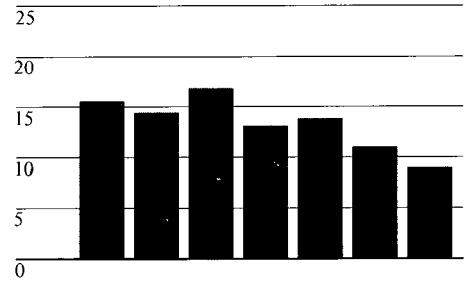
Consumer Prices^a
Percent



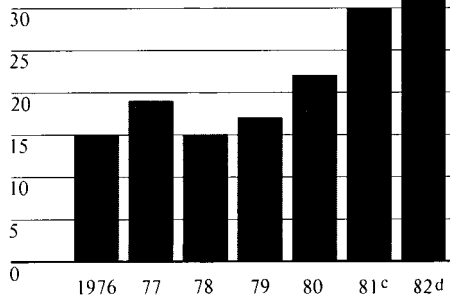
Bauxite/Aluminum Exports
Million US \$



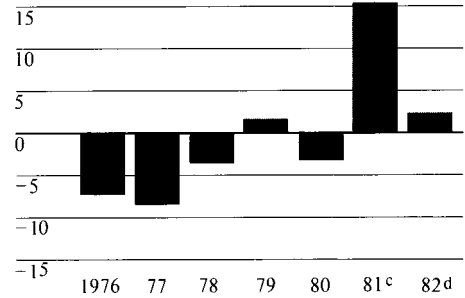
Public-Sector Deficit
Percent of GDP



Debt Service Ratio
Percent



Aggregate Supply^b
Percent



^aYear over year.

^bGDP plus imports and minus exports.

^cEstimated.

^dProjected.

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million, 1 million tons below Kingston's target.¹ Last year's production was 27 percent below capacity and 24 percent below the peak reached in 1974. [redacted]

Tourist arrivals dropped 10 percent last year but finished the year on the upswing, thanks to an energetic promotion campaign in the United States. At the end of the year, foreign investors reassumed management of many of the largest hotels on the island and in several cases took on long-term leases. Many of the hotels began expensive refurbishment to offset long neglect. [redacted]

Traditional agriculture remained in a deep slump, in part because new government policies to boost investment and credit and to improve marketing came too late to have any impact on 1981 output. The production of sugar—a vital commodity—fell 20 percent below 1980's depressed level because of bad weather and smut-and-rust disease. The unrepaired devastation of 1980's Hurricane Allen held banana output down for the second year running. The only crop to show real gains was marijuana, or "ganja," which did well last year as growers increased crops to benefit from high prices. [redacted]

Inflation. Substantial progress against inflation was made as Kingston stuck to its austerity program and as supplies—particularly of imported foodstuffs—increased sharply. Despite the relaxation in price controls, the annual rate of inflation was more than halved to 13 percent. Current government spending was cut by freezing jobs, selling off some public enterprises, and holding wage increases to just 10 percent per year for both 1981 and 1982. Tax revenues were boosted by greater administrative efficiency, higher customs receipts, and an expanding commercial tax base. Local merchandise supplies jumped 15 percent, reflecting the partial recovery of domestic production and—more importantly—higher imports. Tight control of the money supply further reduced inflationary pressures, as did raising interest rates to positive levels and encouraging greater private savings. [redacted]

¹ For each million tons of lost production, Jamaica loses \$40 million in taxes and wages.

Foreign Trade and Payments. Kingston boosted imports about 25 percent last year by relying on massive new foreign borrowing. Even so, imports remained well below the volume of the early 1970s. Moreover, relaxed import licensing regulations tended to channel imports toward consumers rather than domestic producers. For example, imports of foods were up almost 50 percent in real terms and those of finished manufactures rose 25 percent. Imports of raw materials and of intermediate and capital goods, however, grew only 10 percent in real terms—not enough to rebuild sorely depleted stocks. [redacted]

Export earnings stagnated because of the effects of poor weather on agriculture and of world recession on markets. The volume of bauxite/alumina exports slipped 4 percent below 1980, even though earnings were up slightly. The value of traditional agricultural exports fell by about 10 percent. Exports of manufactures improved somewhat as both production and export prices increased. Tourism and other service receipts did no better than in 1980. Although not included in official statistics, informed observers estimate that receipts of Jamaican marijuana farmers and traders increased to as much as \$200 million in 1981, representing a US "street value" of \$1 billion. [redacted]

Kingston used its IMF and Western donor support and new incentives for capital repatriation to cover an unprecedented gap of about \$750 million for its current account deficit and debt amortizations. Medium- and long-term borrowing jumped more than 50 percent. Direct IMF disbursements totaled almost \$250 million last year and encouraged \$70 million in commercial bank debt relief and \$200 million in new loans from Western donor countries, including \$60 million from the Mexico-Venezuela oil facility. Other commercial lenders—including some short-term credit suppliers—stayed away, largely because Kingston was unable to eliminate debt arrears which stood at \$80 million at the end of the year. [redacted]

To loosen the tight foreign exchange situation, Kingston authorized local businessmen to offer more than the official exchange rate to encourage Jamaicans to

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Jamaica: Foreign Financial Gap

Million US \$

	1974	1975	1976	1977	1978	1979	1980	1981 ^a	1982 ^b
Trade balance	-59	-161	-136	71	81	-74	-74	-300	-450
Merchandise exports, f.o.b.	752	809	656	738	831	818	965	990	920
Bauxite/Alumina	491	525	454	563	574	558	736	760	650
Sugar	82	154	64	76	68	59	55	50	60
Merchandise imports, f.o.b.	811	970	792	667	750	892	1,039	1,290	1,370
Petroleum	167	158	173	188	176	291	408	450	450
Net services and transfers	-33	-121	-168	-113	-131	-76	-102	-125	-100
Tourism	133	129	106	72	156	199	189	200	250
Current account balance	-92	-282	-304	-42	-50	-150	-176	-425	-550
Debt amortization	-40	-50	-82	-118	-87	-98	-176	-321	-400
Financial gap	-132	-332	-386	-160	-137	-248	-352	-746	-950
Direct investment	23	-2	-1	7	-27	-26	-11	10	75
Medium- and long-term loans	222	252	170	116	67	115	356	540	625
Net short-term capital	-50	17	124	66	108	164	48	196	250
Change in gross reserves	63	-65	93	15	11	5	41	NEGL	NEGL
Other financial indicators									
External debt (yearend)	588	782	1,010	1,081	1,209	1,332	1,500	1,800	2,100
Debt service	81	106	143	188	172	211	310	455	500

^a Estimated.^b Projected, assuming continuing IMF support.

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return capital they were holding out of the country. This move boosted capital inflows by about \$150 million, as many Jamaicans—including some marijuana dealers—began to repatriate funds. []

The Economy in 1982

Despite the extra aid expected from the Caribbean Basin Initiative (CBI), Jamaica faces another difficult year. To maintain vital IMF financial support, Kingston will need to take some unpopular steps to assure quicker progress in cutting the government deficit and in phasing out price and import controls. Unfulfilled consumer expectations will be an increasing problem this year. Wage increases will almost surely trail inflation. At the same time, unemployment will remain near 30 percent. []

In these circumstances, adjustments will fall disproportionately on the poor in the near term. As a result, Seaga, concerned for the political consequences of rapid adjustment, will tend to slow the implementation of his program. Although Seaga recognizes the urgent need for sharply reducing the government's role in the economy and in consumer subsidies, he also is concerned that swift actions will aggravate unemployment at the same time that subsidies are being reduced. Some recovery in supplies of food and other consumer items have helped the government, but in the coming months continued popular support will depend upon raising employment. To ward off protests, Seaga may turn to such labor-intensive government investments as public works, although this would hurt the budget and spur inflation. []

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Economic Growth. The level of investment needed to boost economic growth much above last year's slender 1.5 percent will not be available this year. Mining output will fall, and import shortages will limit other production gains. With the depressed world market, no additions to bauxite capacity can be expected, although several projects that would boost productive capacity from 16 to 20 million tons are in various states of planning. In manufacturing, the volume of investment proposals processed last year assures an increase in outlays in 1982. The new tax and trade incentives envisioned by the CBI will help, although investors will still be cautious this year (figure 4).

Manufacturing will show mixed results again in 1982, although production, particularly assembly operations, is likely to be up slightly. Key problems continue to be:

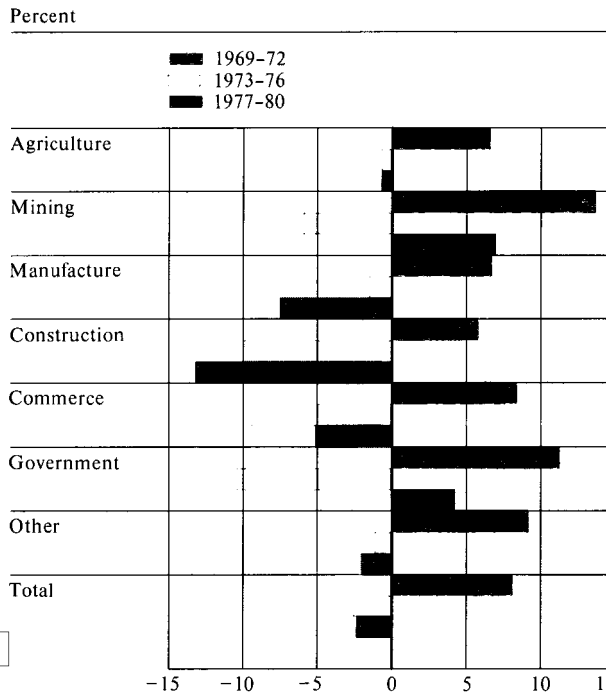
- Serious shortages of skilled workers and managers.
- Persistent foreign debt arrears that preclude the resumption of foreign suppliers' credits, which are crucial sources of minimum working capital for domestic producers.
- Greater competition from imports, which will probably bankrupt many small, inefficient producers.

The outlook this year for mining, where Jamaica's export capacity is greatest, is dismal because of depressed world demand and strikes. Despite the new 1.6-million-ton bauxite purchase by the United States for the strategic reserve, bauxite production will almost certainly decline by as much as 2 million tons. Strikes, which closed three of Jamaica's four alumina plants during most of January and February, have already cost Jamaica 1 million tons of production. Even before the strikes began, bloated company inventories had caused two major producers to announce sharp reductions for 1982. Indeed, only strong pressure from Seaga kept them from cutting production plans much deeper.

Tourism should be a plus this year; advanced bookings exceed previous records, and hotel occupancy rates are up sharply. Tourism's recovery is shaky, however, and could rapidly deteriorate with a renewal in domestic violence, particularly if directed against foreign visitors.

Figure 4

Jamaica: GDP Growth by Sector



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Agricultural production will rise somewhat as generous tax breaks for farm investment, increased credit, and relaxed price controls take effect. Recovery from hurricane damage will boost banana production. Dismantling of state sugar cooperatives and higher domestic prices are likely to favor the sugar industry. The outlook for crops produced for the local market, however, is poor; the jump in food imports has lowered prices paid to farmers and reduced plantings.

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Inflation. Despite continuing austerity, inflation will stay at about 13 percent in 1982 as supplies tighten and price controls are loosened. The public-sector deficit will remain high even though lower spending

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on government subsidies, consumption, and employment will partly offset rising public investment outlays. A slowdown in import growth will reduce the expansion in local supplies. Additionally, smaller domestic food plantings and the continued relaxation of price controls will lead to higher food prices. A continuing housing shortage, the return of Jamaican expatriates, and the establishment of the large United Nations Sea-Bed Authority in Kingston will keep up housing costs. [redacted]

Foreign Trade and Payments. A disappointing export performance and the leveling off of capital inflows will probably hold the increase in nonoil imports to 10 percent in 1982. This hike will restore nonoil import volume to just 90 percent of the 1972 level. Food and other consumer goods imports will continue to grow this year, although more slowly, thereby precluding a substantial boost in imports of capital goods and raw materials. [redacted]

The outlook for traditional exports is bleak, and merchandise export earnings will almost surely fall this year. Only the US purchase of bauxite for the strategic reserve and jawboning by Seaga will keep bauxite earnings from falling much more than \$100 million. Part of this will be offset by a boost in agricultural and manufacturing exports. [redacted]

Kingston will have to tap every available source to cover a projected \$1 billion financial gap this year. Assuming that Jamaica maintains IMF support, medium- and long-term borrowing will increase by \$85 million. Direct IMF assistance will fall by \$70 million, since last year's disbursements were front loaded. The loss of these funds can be more than offset by \$100 million in new loans from the World Bank, which will be contingent on meeting IMF targets. In addition, inflows from Western donors and the Mexico-Venezuela oil facility will exceed last year's level because of the higher aid associated with the CBI. Although commercial bankers will increase their lending only slightly, they are likely again to offer debt rescheduling, thus reducing payments on foreign debt due in 1982. Capital repatriation will rise at least \$50 million, largely reflecting higher marijuana earnings. Another source of help will be higher foreign

direct investment, which will probably increase from \$10 million in 1981 to as much as \$75 million in 1982. [redacted]

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Tough IMF Talks Ahead. Kingston will be involved in difficult IMF negotiations over the next few months. Although Jamaica has passed all performance tests for the year ending 31 March, negotiating terms for upcoming periods of the three-year IMF package may be even harder because the Fund has put Kingston on notice that it expects it to eliminate the budget deficit on current income and spending and move more rapidly to phase out price and import controls. Moreover, the IMF may well press Kingston to normalize the foreign exchange market by establishing an official parallel market or by devaluing the Jamaican currency. [redacted]

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Despite tough negotiations, chances are better than even that Jamaica will work things out with the IMF. Although the current IMF package stipulates loan cancellation if performance targets are not met, the IMF can be lenient, particularly during the early stages of a program. Moreover, because weak world demand for Jamaican exports and optimistic Jamaican and IMF projections for bauxite and alumina exports are probably more responsible for any shortfall in Jamaica's net international reserves than are Kingston's policy moves, the IMF is likely to be understanding. [redacted]

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Political Moves

Concurrent with the drive to alter the economic course of the island, the Seaga government—with the strong endorsement of the electorate—is returning Jamaican politics to the center of the political spectrum. [redacted]

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Among the government's early moves was the removal of extreme leftist influence from the news media. Radicals have been dismissed from the Jamaican Broadcasting Corporation, the newly reorganized and renamed government information service, and other state-controlled media outlets. The government also is negotiating to return one major newspaper to private

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ownership. Seaga's removal of the most blatantly radical "advocacy" journalists has gone far to curb press irresponsibility. The government is making gradual progress in strengthening the independent media and is taking steps to guarantee that the sort of partisan political interference that was rampant under the previous leftist government will not recur. [redacted]

In another move to reverse the leftist direction of the previous government, Seaga has taken firm steps to curb Cuban influence by severing diplomatic relations and expelling approximately 100 Cubans from the island, including doctors, teachers, and construction personnel. The Cuban Ambassador was ordered out of the country shortly after the election, [redacted]

[redacted] In breaking relations, Seaga charged that police had uncovered evidence proving that Cuba was harboring and training criminals wanted by the Jamaican police, some of whom were notorious gunmen who fled to Cuba after the election. Seaga also accused leftists in the opposition party of condoning contacts between the fugitives in Cuba and militants belonging to Manley's Peoples National Party (PNP). [redacted]

Seaga has maintained relations with the Soviets on a correct and businesslike level. Kingston is willing to discuss technological assistance programs if they meet the government's criteria, but not much of substance is anticipated on this score. Seaga would like to continue the sale of bauxite to the Soviets, given the cutback in purchases by Western companies. [redacted]

[redacted]

While both Havana and Moscow are assessing their setbacks, continuing contacts with local radicals probably enable them to provide limited covert assistance. Seaga informed US officials, for example, that his security advisers are aware of continued Cuban and Soviet involvement with the left. National Security Minister Spaulding said privately in Washington that he suspects Communist elements of being involved in labor agitation to undermine the government's recovery program. Spaulding revealed in Parliament that

evidence had been found in a car belonging to Communist leader Trevor Munroe indicating that the radicals were studying plans for sabotage and terrorism. [redacted]

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Domestic Security Concerns

Seaga's efforts to rehabilitate the stagnant economy and to alter Jamaica's political direction will meet many obstacles, particularly violent crime and other deep-rooted socioeconomic ills. The wave of political warfare that swept the country in 1980 is ebbing, but crime has not fallen off as sharply as the new government had hoped. Worsening social and economic conditions and high levels of urban migration, mostly to Kingston, have contributed to a threefold increase in violent crime over the past decade. As the ranks of the unemployed have swelled, Jamaica's overcrowded slum neighborhoods have become a breeding ground for hoodlums. [redacted]

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The wide availability of automatic weapons—many of them probably introduced during the 1980 campaign by leftist politicians or criminals with close ties to them—and the flourishing narcotics trade now pose acute problems for the undermanned police force. Some 500 to 700 M-16 rifles probably are still on the island in the hands of rival bands of thugs. These hoodlums are no longer employed—and to some degree controlled—by the various political factions, and are thus likely to turn increasingly to armed robbery as a source of income. [redacted]

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Within the police force, low salaries contribute to wide-ranging corruption and many midlevel officers have resigned to take better paying and safer jobs elsewhere. The security forces suffered from a long period of neglect under Manley and were further weakened by the surge of violence accompanying the 1980 election. While they benefit from competent and professional leadership at the top and are instilled with the British tradition of apolitical behavior, their capabilities are limited by insufficient manpower, inadequate communications, and dilapidated vehicles. Notwithstanding these deficiencies, police operations have been stepped up in recent months with some notable successes. [redacted]

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Recognizing the urgent need to upgrade the security forces, the government has doubled expenditures for the 2,800-member Jamaican Defense Force (800 are reserves) and has increased budgeting for the 6,300-member Jamaican Constabulary Force. Other countries also have offered modest assistance, but equipment, training, and morale weaknesses leave both forces inadequately prepared to cope with pressing security problems. Should Jamaica experience a major outbreak of terrorism or an organized leftist campaign against the government, the security forces would be overwhelmed. [redacted]

Narcotics Trafficking

The problem of violent crime is deeply entwined with Jamaica's marijuana trade. Supplying between 5 and 10 percent of total US marijuana consumption, Jamaica's large-scale cultivation has nearly doubled in each of the past three years and now generates as much as \$200 million per year for producers and smugglers. Jamaican businessmen have a vital stake in continuing the marketing of "ganja" because it constitutes a major source of funds for essential imports. The illicit trade also accounts for bribery and corruption among government authorities and affects all levels of Jamaican society. [redacted]

Prime Minister Seaga shares Washington's concern for the alarming expansion of the narcotics industry and its pernicious influence. Nonetheless, he sees it as fundamentally a US problem, and expects Washington to take the lead in suppressing the trafficking and finding alternative sources of income for growers. Because the issue is politically explosive in Jamaica, he has refused to sign a formal agreement with the United States. [redacted]

As a practical politician, Seaga recognizes that an antimarijuana program would provoke the wrath of powerful groups—important political figures, his party's rural constituency, and the Ethiopian Zion Coptic Church. The Coptics, who operate a multimillion dollar legitimate business empire and are second only to the government as a landowner, are deeply engaged in the "ganja" trade through their business outposts in Florida and other parts of the United States. Smoking "ganja" is part of their religious ritual, but their

legitimate business interests are a convenient cover for the profitable North American trade in marijuana. The Coptics, and perhaps leftist and criminal elements, would resist a "ganja" crackdown—possibly by violence. [redacted]

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Retaining Public Support

Seaga's economic recovery and public security programs are sure to be painful for key components of the society such as labor, business, and agrarian interests, thus raising the prospect that his policies will founder on a withdrawal of public support. Seaga still enjoys a popular mandate, but the euphoric postelection mood is beginning to dissipate. Voters expressed their confidence in Seaga as the only practical choice to deal with the island's crisis—a sentiment made explicit in the postelection slogan, "Mr. Management has taken over from Mismanagement." [redacted]

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Seaga's real test is narrowing down to his ability to keep his promise to create jobs and income. As in most other democratic societies, the dynamics of the Jamaican political system are such that the competition between the two major parties is strongly influenced by economic factors. Carl Stone, the respected Jamaican pollster, has traced the swing from Manley's PNP to Seaga's Jamaican Labor Party (JLP) over a five-year period (figure 5) to show the erosion of Manley's support as economic conditions worsened and the party's leftist tilt alienated voters. [redacted]

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Since 1944, both parties have alternated in power over two-term periods, with the PNP popular vote until 1980 fluctuating between 49 percent and 57 percent and the JLP popular vote between 43 percent and 59 percent. The pattern suggests that economic issues have a strong effect on the climate of public opinion, something that was particularly true in the 1980 election. In a poll conducted shortly before the voting, Stone found that economic issues outranked all others—by an almost 2 to 1 margin in urban areas and 6

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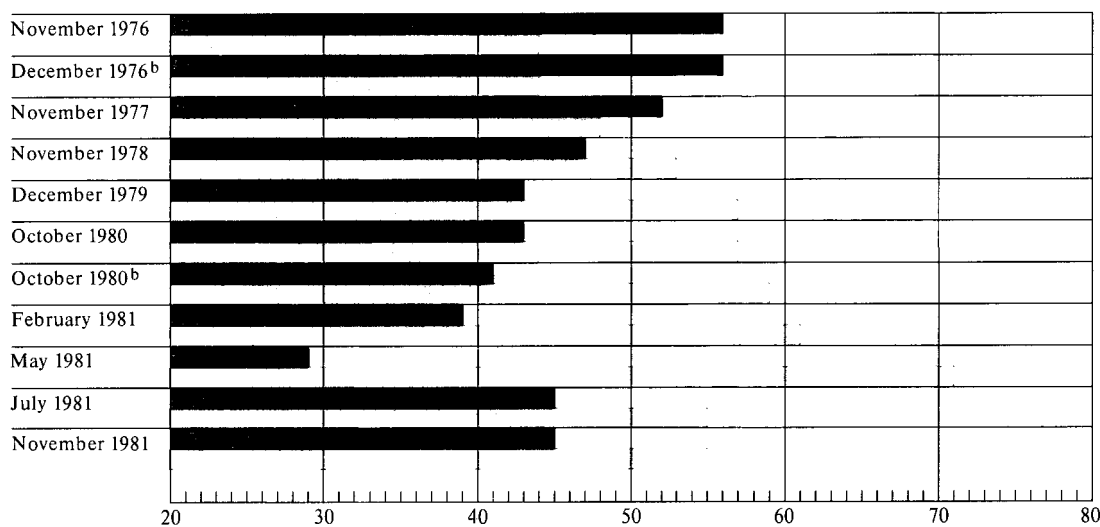
Figure 5

Jamaica: Public Opinion Polls and Election Results 1976-81^a

Percent

■ Peoples National Party
 □ Jamaica Labor Party

Date of Poll or Election



^a Poll results exclude respondents with no preference.
^b Election results.

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to 1 in the countryside. Manley's leftist leanings and other ideological issues trailed by a distant 10 percent as a central concern of respondents.

Popular attitudes could easily shift again. Support for Seaga already has shown a drop, but this is probably attributable in part to excessively high initial expectations that he could engineer a rapid economic turnaround. Moreover, it also reflects the normal swing in voter support following an election. The Prime Minister still has time on his side because at present he faces no real political challenge.

Clearly the government will have to demonstrate some headway over the next year or so if it is not to lose the momentum built by its impressive electoral victory. A voter defection probably would benefit the PNP to some extent. Most likely, however, it would signify a return to the traditional pattern of political preference—that is, a significant middle sector uncommitted to either party. Chances for a PNP resurgence will depend on its ability to overcome internal

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divisions and to recapture its traditional influence among lower and middle class Jamaicans. It may also benefit from the growing pool of discontented youth who are attracted by radical political ideas. [redacted]

The toughest audience for Seaga will be the island's powerful labor movement. So far, the government has benefited from the extraordinary good will of organized labor, which was essential to the JLP victory. Expectations are still high that the government will improve economic conditions, particularly since it came to power on a platform promising to "make money jingle in the pockets of voters." [redacted]

Jamaica's two principal labor unions—each identified with one of the major parties—historically have been an important political force. They have a demonstrated power to resist wage restraints and some labor unions will oppose adherence to the austerity measures prescribed by the IMF. Unions affiliated with the opposition PNP are almost certain to become politically strident if worker discontent over the sinking standard of living is not checked. Labor unrest has already distracted the government, and a new wave of strikes seems inevitable unless the economic situation improves within the next year (figure 6). [redacted]

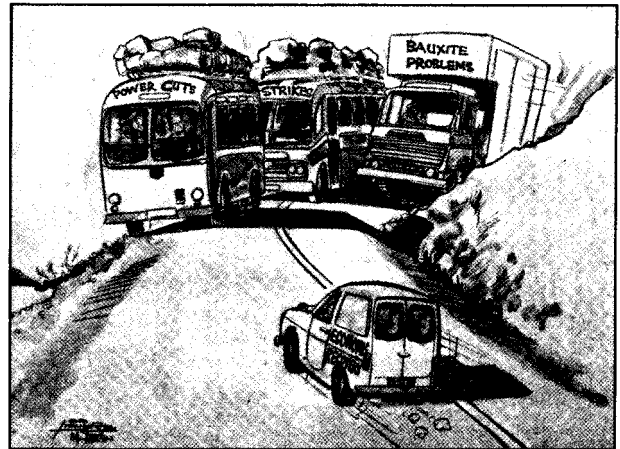
Holding the lid on wage demands could be the government's next major test. The National Workers' Union (NWU), controlled by Manley's party, wields power over the bauxite workers, who already are proving troublesome for Seaga in light of labor conflicts and cutbacks in production by the major companies. The NWU has been hampered by poor organization and leadership, but Manley now has a salaried position as an adviser to the union and he may instill new militancy among its members. [redacted]

The development of serious labor difficulties could strain Seaga's cabinet—although that prospect does not appear likely over the short term. Deputy Prime Minister Hugh Shearer, who is president of the island's largest labor organization, the Bustamante Industrial Trade Union (BITU), has been instrumental in cultivating close labor support for the government. Caught in a crossfire, he could find himself at odds with Seaga on critical labor issues. Division

Figure 6
Seaga's Problems as Caricatured by
"The Jamaica Daily News"

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within the government would play into the hands of opposition and leftist elements eager to discredit the government's economic policies. [redacted]

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Seaga's Opposition

The overwhelming defeat of Manley's PNP has left it in a demoralized and discredited state. Jamaicans blame Manley's mismanagement and his cozy relationship with Havana for the political and economic disaster which had overtaken the island by 1980. Despite Manley's charisma, his credibility has diminished and his party, with only nine seats out of 60 in Parliament, has a long road to travel before it can become an effective opposition force. [redacted]

The PNP's annual conference in October once again demonstrated Manley's unwillingness to separate himself from the small clique of radicals who retain key posts in the party organization and who were a

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major cause of his defeat. Leftists were reconfirmed in their positions and moderates did not attempt to challenge Manley. The internal struggle between these two factions has been central to the party's deterioration. Manley claims to have a mandate to end what he calls "pussyfooting" on the ideological conflict within the party, but he has been reluctant to divorce himself from the radicals. Manley has attempted to put some distance between his "democratic socialist" followers and the Communist Workers' Party of Jamaica (WPJ), while at the same time deferring any action to limit the disproportionate leftist influence in the party. [redacted]

Because of his ideological convictions, Manley probably will resist moderate pressures to return the party to the center-left mainstream of the Jamaican political spectrum. His ability to reconcile opposing factions within the PNP will determine the party's chances of reinstating itself as a viable challenge within the well-entrenched two-party system. Manley, who has a flair for ambiguity, will probably manage a facade of unity. Party moderates [redacted]

[redacted] track record for independent action is not impressive. Manley's political agility may enable him to keep the party together if not entirely harmonious. For now at least, no major shift in the PNP's political leanings or hierarchy is expected. [redacted]

To a considerable extent, the PNP's prospects will depend on Seaga's fate. Even moderate gains by the government would go a long way toward keeping the opposition off balance. If Seaga stumbles badly, his opponents would be in a position to counterattack vigorously. Jamaicans would be more likely to stray from JLP ranks if the PNP is able to build a convincing case of the government's inability to restore prosperity to Jamaica. [redacted]

The government is also concerned over the possibility that a small but active radical left might disrupt the fragile political and social peace that has returned since the election. The Worker's Party of Jamaica (Communist), headed by Dr. Trevor Munroe, which campaigned on Manley's behalf, has been actively engaged in organizing and proselytizing among the

army of unemployed in Kingston and some rural areas. Circulation of the party's monthly newspaper now ranks third on the island, and the party's appeal reportedly is high among unemployed youth who make up much of the population and who are susceptible to Communist blandishments. One poll showed some 40 percent of responding youths favoring Communism as the best form of "true democracy," and leading politicians believe there is a growing trend toward radicalism among this group. [redacted]

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[redacted]

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[redacted] The longer the PNP remains in limbo, the greater will be the likelihood of the WPJ filling the vacuum. Even more than the PNP, Munroe's party seems willing to employ violence to advance its cause. The WPJ already is believed to have recruited gunmen and thugs who were employed by the PNP during the 1980 campaign. [redacted]

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The WPJ is aggressively recruiting and working to expand its influence on the labor front. The party can be expected to take advantage of a possible breakdown in support for Seaga by exploiting problems between unions and management and fomenting agitation against the Seaga program. [redacted]

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The Hopeful Signs

Seaga has clearly made a good start in fulfilling his pledges to alter the disastrous economic and political course charted by his predecessor. The government's well-orchestrated campaign to build confidence in Jamaica's future seems to be paying dividends. Tourism already shows signs of emerging as a milestone in the recovery process. In other areas, such as manufacturing and agriculture, a turnaround will be slower to materialize, but Seaga's ambitious plans to increase productivity and generate new foreign exchange could begin to yield results over the next several years. [redacted]

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While the breakthrough is encouraging, Seaga still faces formidable problems. His policies have done little to alleviate staggering unemployment on the island—a situation that he cannot disregard indefinitely. In addition, the outlook for bauxite remains dismal. Nonetheless, if demand improves soon, chances are a little better than even that Seaga's well-founded economic initiatives will encourage growing private investment and restore economic vitality over the next two years. [redacted]

The overwhelming size of Seaga's popular mandate will most likely enable him to survive the next few years if the economy continues to improve gradually. After a year and a half in office, the Jamaican leader still has several factors in his favor—a demoralized opposition, a commanding majority in Parliament, and considerable support within the electorate. [redacted]

The Downside Risks

Kingston has a difficult road ahead, and much could go wrong in the next few years. Economic performance in Jamaica depends to a great degree on the world economy and the views of decisionmakers beyond the island. If a deepened world recession were to cause bauxite producers to cut back sharply and if tourism once again fell into the doldrums, foreign exchange earnings would be off substantially. These factors could also slow aid inflows by causing Jamaica to fall below its performance targets under the IMF program. Moreover, most investors will want to see increased evidence of Seaga's staying power before they commit themselves to big projects, even with the considerable improvement in the investment climate promised by the Caribbean Basin Initiative. If any combination of these factors were to cause foreign exchange earnings to fall short of our projections by just \$200 million this year, Jamaican economic activity would decline 1 percent and any substantial progress would be postponed until at least 1985. [redacted]

If the Jamaican economy fails to improve substantially, Seaga may face the same steady erosion of public support that unseated his predecessor. Under these circumstances he will be less able to find answers to the grave social problems that have driven so many Jamaicans to leave the country and others to turn to political violence and crime. Without demonstrated progress during the coming year—mainly in creating new employment opportunities—public opinion is likely to turn increasingly against Seaga's JLP government. [redacted]

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Implications for the United States

Seaga almost certainly will need continued heavy financial support from the IMF and Western donors during at least the next three years. If the bauxite companies decide to cut back further in their Jamaican operations, Seaga will press for additional US stockpile purchasing to bridge the gap. Unless Jamaica can find alternate markets for its bauxite, Seaga's recovery efforts will receive a serious setback and projected targets are bound to slip. [redacted]

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Seaga's efforts to carry out a successful economic recovery are firmly identified with US policy in the region; indeed, Jamaica is perceived as the centerpiece of the Caribbean Basin Initiative because of its size and political importance among the English-speaking islands. A Jamaican failure would demoralize moderates in the region and add to skepticism about US ability to promote stability and economic progress in the Caribbean Basin. Among the region's youthful majorities, alienation and distrust already encourage radical experiments and susceptibility to Marxist influences from Havana and Grenada. [redacted]

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