Explaining Differences in Economic Performance in Caribbean Economies

By
Ronald Ramkissoon, Ph.D.
Senior Economist, Republic Bank Ltd., Trinidad and Tobago
Telephone: 1-868-625-4411
Email: rramkissoon@republictt.com

Paper Presented to an International Conference on "Iceland and the World Economy: **Small Island Economies in the Era of Globalization**", Center for International Development (CID), Harvard University, Cambridge, MA, May 20, 2002

FIGURE 1


Lake Okeechobee
Miami
Florida Keys
Grand Bahama
Abaco
Eleuthera
NASSAU
Andros
Cat Island
Long Island
Great Exuma
Crooked Island
Acklins
WEST INDIES
LA HABANA
Matanzas
CUBA
Pinar del Rio
Placetas
Cienfuegos
Isla de la Juventud
Camaguey
Holguin
TURKS AND CAICOS ISLANDS
Great Inagua
Leeward Islands
www.TravelAmap.com
DOMINICAN REPUBLIC
HAITI
CAYMAN ISLANDS
PUERTO RICO
SAN JUAN
ANGUILA
Montego Bay
PORT-AU-PRINCE
SANTO DOMINGO
Barbuda
ST KITTS AND NEVIS
Antigua
JAMAICA
KINGSTON
HISPANIOLA
MONTSERRAT
GREATER ANTILLES
GUADELOUPE
DOMINICAS
HONDURAS
CARIBEAN SEA
Lesser Antilles
MARTINIQUE
ST LUCIA
SAINT VINCENT
BARBADOS
Punta Gallinas
ARUBA
NETHERLANDS ANTILLES
GRENADA
NICARAGUA
Isla de San Andrés
Riohacha
WILLEMSTAD
www.TravelAmap.com
Barranquilla
CARACAS
Lago de Nicaragua
Maracaibo
Cartagena
TRINIDAD AND TOBAGO
Maracay
Barquisimeto
COSTA RICA
VENEZUELA

Abstract

Explaining Differences in Economic Performance in Caribbean Economies

Most Caribbean states are small by conventional standards. As such they all face the common constraints of size including vulnerability to external shocks and natural disasters. Notwithstanding this, some of these states have done better than others in terms of economic performance. This paper investigates some of the factors that might explain the superior performance of some of these small states. It is found that within the selected Caribbean group of small states, the smaller or microstates performed better. Better performance was associated with a higher degree of openness, an economic structure of these economies in which tourism and offshore finance sectors featured significantly but not agriculture, greater political stability, endogenous capability expressed in a strong macro-economic framework and societal cohesion. Among the preliminary conclusions arrived at is that small states are not without possibilities in spite of a hostile external environment. Special treatment in international fora to complement appropriate domestic initiatives can give all small states a better chance for progress in a globalized environment.

Explaining Differences in Economic Performance in Caribbean Economies

1. Introduction

Notwithstanding that all small states face common external and domestic challenges, the fact is that some do better than others. An enquiry into the explanations as to why this might be so, must be important for understanding and shaping domestic and regional policies.

The Caribbean for our purposes in this paper comprises fifteen (15) small territories i.e. islands and littorals all of which are sovereign states. These territories range in size from St Kitts and Nevis with a population of 41,000 to the Dominican Republic with 8,373,000 persons. Grenada, the smallest island in our grouping has a land area of 340 square kilometers to Guyana with 196,850 square kilometers (Table 1). These territories were colonized by English, French, Dutch, Spanish and Portuguese settlers who for the most part removed the indigenous peoples, replacing them by African slaves and indentured laborers mainly from India but also from China and other parts of the Middle East and Asia. The population also includes descendants of the European settlers. For our purposes in this paper all the territories are considered small. While the population of Jamaica, Haiti and the Dominican Republic is over the "standard" 1.5 million, these countries generally share the major characteristics of smallness. The territories are a mixture of different economic performances, languages, fortunes and hopes.

The primary focus of this preliminary enquiry is not so much as to what distinguishes the performance of small economies from large economies, which issue dominates much of the literature on small economies. Rather it seeks to explain why, within a group of small economies some did better than others. This focus is not pervasive in the literature.[1]

By way of approach the paper begins with a review of the literature in Section 2, which helps to identify the major explanations of growth of small economies. This forms the basis in Section 3, of an empirical investigation of the factors that might explain the performance of the group of selected Caribbean economies. Section 4 arrives at some tentative conclusions and suggests areas for further research. This research must be considered a preliminary effort due to the time constraint. The conclusions must therefore be taken as tentative.

TABLE 1

SELECTED COUNTRIES BY SIZE AND POPULATION
(IN ASCENDING ORDER)

COUNTRY	Size (sq km)	COUNTRY	Population
Grenada	340	St Kitts & Nevis	41,000
St Kitts & Nevis	360	Antigua & Barbuda	68,000
St Vincent & the Grenadines	390	Dominica	73,000
Barbados	430	Grenada	98,000
Antigua & Barbuda	440	St Vincent & the Grenadines	115,000
St Lucia	610	St Lucia	156,000
Dominica	750	Belize	240,000
Trinidad & Tobago	5130	Barbados	267,000
Bahamas	10,010	Bahamas	303,000
Jamaica	10,830	Suriname	417,000
Belize	22,800	Guyana	761,000
Haiti	27,560	Trinidad & Tobago	1,301,000
Dominican Rep	48,380	Jamaica	2,633,000
Suriname	156,000	Haiti	7,959,000
Guyana	196,850	Dominican Rep	8,373,000

Source: World Development Indicators Database, May 2002

2. Explanations of Economic Performance

A brief review of the literature on growth theory suggests that there is still much debate on what might be the most relevant theory in the case of small economies. Mueller (1994) and Read (2001) are among those who argue that endogenous growth theory holds the most relevance because of its departure from the assumptions of the traditional neo-classical growth theory. Easterly and Kraay (2000) say the "good news is that the lessons of growth experience from all countries seem to be applicable to small states." Notwithstanding this debate empirical research has gone ahead in the identification of factors that explains growth in small economies.

The measurement of economic performance of small countries is not entirely a straightforward matter. This might be measured by growth in income or growth in per capita income in which case one might use GDP and GDP per capita, respectively. In the case of per capita GDP one may use the current position or an average over some period. This latter indicator is considered superior for the purpose at hand. Arguably, one may also measure economic performance by the scarcity of poverty since the less poverty in any country, one might argue, the better the performance. For this one might use a measure of the proportion of the population living under the poverty line. Alternatively, there is the UNDP's Human Development Index, which is a broad measure of living conditions in individual countries. Yet another measure of economic performance might be the degree of competitiveness of an economy. All these measures have some limitation. In this paper we use an average GDP per capita (1975-2000) as the main indicator of economic performance.

Size

Small economies are all faced with common constraints and size is considered a constraint to better economic performance. Constraints include (i) small size of the domestic market (ii) limited possibilities for the development of endogenous technology (iii) limited quantities of natural resources (iv) narrow structure of domestic output, exports and export markets (v) high level of imports and (vi) high transport costs. It is these characteristics, which combine to make most small economies especially vulnerable. Further, it is these characteristics which seem to describe at least some small states as sub-optimal in economic terms and which lead some researchers and policy makers to adopt quasi-defeatist positions and attitudes upon which arguments for aid and special privileges are based.

Despite the existence of common challenges the fact is that some small economies do better than others. In any case we share the view that size in itself is not a sufficient explanatory factor for economic performance. This is borne out in the literature on country experiences such as by Armstrong and Read, (1995, 2001) and Read, (2001). Indeed Armstrong and Read (1995) lament the lack of attention to "potential advantages, which might also arise." In the same vein one Caribbean economist, Pantin (1994) argues that in the past, too much emphasis has been placed on the disadvantages of small states. Not surprisingly Read (2001) argues that the "literature tends to adopt a fatalistic tone."

But just as the pessimistic view seems overly skewed so too might be the more positive positions. Easterly and Kraay (2000) find that small states are nearly 40 percent richer than other states. Read (2001) points to the advantages of small size such as openness to trade and social cohesion.

Perhaps unfortunately, there is a too strong a tendency in parts of the literature to argue as if there is a special virtue in being small. Briguglio (1998) however reminds those of that opinion that small states do tend to be successful " not because they are small but in spite of this fact."

Our focus is on explaining the differences in economic performance amongst a group of economies, which are all considered small. Put another way, the issue to be investigated is this. What explains the varying performance amongst a group of small Caribbean economies?

Our review of the literature indicates that the factors explaining growth in small economies might be classified differently depending on the variable(s) of interest of the researcher. Nevertheless certain main factors stand out. These are (1) geography (2) the degree of vulnerability, (3) natural resources (4) openness (5) economic structure (6) workers' remittances (7) culture and social coherence (8) independence (9) endogenous policy and (10) political stability. I will now discuss each in turn.

Geography

Geography is often identified as one factor explaining economic performance. Dimensions of this factor include island-ness, climate, location in relation to surrounding countries, distance from the equator (Krugman, 1998), strategic or locational importance, whether land-locked or littoral or the presence of large inland waterways. Some countries may lie along a fault line or in the case of the Caribbean, in a hurricane zone. These unique geographical features of small states will possess particular advantages or disadvantages. Most small states are islands and this feature of small islands has generated particular interest in the literature. However, Read (2001) finds a weak influence of "island-ness" on the performance of small states. Armstrong and Read (2001) accept that islands have distinctive challenges including higher transport costs and costly internal communication.

Strategic geographic location is often posited as an explanation of performance. For example, a country might be located along a major trading route. The location of a country in relation to other countries has been also identified as a possible factor explaining economic performance. Specifically, if a poor country were located in a prosperous region of the world, one would expect that its performance is likely to converge over time with the prosperous countries around it (Read, 2001). The reverse is also to be expected. If some countries are doing well, in line with their more prosperous neighbor(s) and others are not, then this is also of interest.

Vulnerability

A priori one would expect that economic performance would be correlated with vulnerability. That is, the more vulnerable a country to external factors the worse that country is likely to perform. Vulnerability is defined as the degree of exposure to external economic forces and environmental hazards (Commonwealth Secretariat/World Bank, 1999). Vulnerability with its multidimensional aspects has been proposed as a factor, which explains a particular weakness of small states. On this basis the case is being made in international trade fora for the special treatment of small states. For our purposes here we will assume that even among small states some might be more vulnerable than others and therefore it is legitimate to consider this factor in determining the economic performance among a group of small states.

Natural Resources

Abundant natural resources have played an important role in the economic development of many states, large and small, often notwithstanding the negative effects associated with growth which is so based. Armstrong et al (1998) find that among the explanations for successful microstates is a natural resource base. This finding, Read (2001) argues is contrary to the "Dutch disease resource curse thesis." The so-called "curse" argues that a mineral resource boom might have an overall greater negative impact compared to the benefits that it might bring. He explains that this inapplicability might be due to the "greater social cohesion" that is thought to characterize small states. This point would be explored later in the paper. Alexander and Read (2001) more broadly, point to "factor endowments" as one of the possible explanations for superior performance of small states. This broader definition is perhaps more useful for our purposes here as it allows for certain broader considerations of resource rich but not mineral rich islands.

Kuznets (1963) is one of the earlier economists who pointed out, that countries with natural resources need not do better when compared to countries without. The crucial variables he says lie in the "nation's social and economic institutions." This contention is especially relevant in the Caribbean today.

Openness

Openness to international trade in goods and services is considered a positive factor by many, in explaining economic performance in small economies. Read (2001) argues for example, that "small states are …likely to be the biggest beneficiaries of a relatively liberal international trade regime." This is partly because imported technology, which many small states are unable to develop, will be more easily available. Easterly and Kraay (2000) find that some negative effects of such factors as high volatility "are roughly offset by the positive effect of trade openness…" Read (2001) even contends that G.A.T.T. and the W.T.O. are favorable to small states. In the case of Iceland, Kristinsson (2000) claims that "free trade policies…have contributed to Iceland's well being…."

These arguments are not without controversy. For one thing, up until the nineties, many small states did not pursue an especially liberalized trade regime. Even where there is movement towards freer trade, many protectionist barriers still characterize the trade of most small states. Indeed, De Rosa (2000) laments that small states in the Eastern Caribbean risk being marginalized because of the pursuit of protection and special treatment.

The fact is that notwithstanding the theoretical arguments for free trade, many small countries are still not convinced. I daresay, that in several respects, neither are all the developed countries.

Financial openness is one dimension of overall openness. Easterly and Kraay (2000) find that small states do not take "full advantage of the opportunities for risk diversification afforded by international capital markets." There is much truth here as financial openness can allow small states to hold claims on assets abroad whose returns are not normally correlated with domestic assets.

For our analysis here however, one would consider that small states with a higher degree of openness do better.

<u>Economic Structure</u>

Research by Armstrong and Read (2000) found that certain sectors in small states made a positive contribution to the superior economic performance of those states. These sectors were natural resources, financial services and tourism.

Financial services (usually offshore) were found to explain the better economic performance of small economies. This activity is noted by Read (2001) who however, refers to it as a form of "international rent seeking." In a criticism of small states Armstrong and Read (2001) speak of "lax regulations and laws" which they claim small states can get away with due to the "importance of being unimportant." Recent experience suggests however, that small states are not viewed as "unimportant" by the developed world as far as offshore finance is concerned. The position of the OECD and the Financial Action Task Force on offshore financial services are well known in the region. Indeed, stringent supervision has become even more so since September 11. In this context the arguments by Baldachinno and Milne

(2000) for the use of "jurisdictional leverage" by small economies for economic development seems limited.

In the econometric work of Armstrong and Read, agriculture was found to have a negative effect on the economic performance of small states. Reasons for this were not advanced.

Workers' Remittances

Remittances, which are that part of workers' salaries remitted to families in the home country from abroad, play an important role in explaining the economic performance of many small economies. Remitted funds are used to support dependants, repay loans, and for investment purposes (ECLAC, 1998). Remittances are paid in kind as well as in cash and for this as well as other reasons, measuring inflows is always problematic. However it is conceivable that such inflows will improve conditions in small states.

Culture and Social Cohesion

It is not difficult to accept that the economic performance of small economies is explained by much more than economics. Read (2001) speaks of "social cohesion" as one of the factors explaining economic growth in small countries. He also argues that the inapplicability of the Dutch disease to small states may be due to social cohesion. How this might be so is not made clear in the article. However, Srebrnik (2000) is clear that while climate, natural resources etc. are important in explaining economic development, cultural values, attitude and habits are also important. Baldacchino and Milne (2000) are even stronger and argue that exercising and safeguarding the endogenous local capacities of law, policy and culture "may be the only means for small islands to affect adverse effects of small size..."

The attention to social cohesion is not new. According to Kuznets (1963) "the specific challenge is to put it briefly, how to use the stronger sense of community, the closer coherence of population, the greater elasticity of social institutions, to overcome the disadvantages of small size." Small islands he argues must compensate for the disadvantages of size by "the quality of its people and its social institutions."

Independence

Does a greater degree of autonomy for small economies lead to a better economic performance? The literature has paid some attention to sovereignty as a possible explanation for economic performance. Like so many issues on small economies there are no clear-cut answers.

One might argue that colonial status on the one hand limits the development of domestic capabilities while on the other there are significant financial and other benefits to be derived from being associated with a country of developed world status. Of course, if viewed from the point of view of self-determination and independence these considerations are often inconsequential. Armstrong and Read (2000) found that dependent territories have done better than independent states. They argue however that this is no argument against de-colonization. With some adjustment to the data they also found that there was no evidence to say that dependent states performed better or worse than independent small states. Briguglio (1995) however claims "many SIDS (small island developing states) may not have survived as independent states in the absence of artificial props". One should have no doubt about the merits of this claim.

Endogenous Policy

It is accepted that the quality of local decision-making can make a difference to economic performance. Endogenous policy is taken to mean action which is driven by the country's population itself. This action might be conducive to a successful performance or stifle it. For better or for worse, policy makers in small economies devise and implement strategies for the promotion of economic growth and development.

Small economies are often thought of as being alert and "quick on their toes." According to Armstrong and Read (2001) "speedy and flexible response to global shocks" is a feature of success of small economies. In addressing this internal factor Read (2001) opines that "critical determinants of growth success therefore appear to be ineffective endogenous policy-making support of the pursuit of niche export markets, openness to trade, and international free-riding and rent-seeking." He also argues that because small states face higher costs and risks, they therefore need to focus on appropriate endogenous strategies.

Perhaps Armstrong and Read (2001) best capture the concept of endogenous policy by what they term "deliberate specialization" which they say can be extremely useful as it is "perhaps the most important lesson" of successful small economies.

In the same vein, though with a specific focus, Baldacchino and Milne (2000) make the case for "jurisdiction" as a separate factor in explaining economic performance. Pointing to a number of very successful small economies, they explain that "the imaginative use of state legal resources in effective public policy…has been absolutely central" in economic transformation. They argue further for the consideration of "legal reservoirs" as economic "resources" when measuring economic viability or potential. In this context Read (2001) points to small states as being a powerful pressure group in UN organizations.

Political Stability

Political stability might be considered an endogenous and non-economic factor in explaining successful economic performers. It is our view that it should be treated as a separate explanation of economic performance of small economies. Simply put, countries, which possess a greater degree of political stability,[2] are likely to demonstrate better performance. Srebrnik (2000) is among several authors who observe that a feature of small islands is their ability to "maintain democratic political systems." He points to countries such as Iceland and the Faroes. One however can point to several small islands that have not been able to do this and which have stagnated as a result. The point is that political stability is important for any size of island arguably more so for small islands which already face many challenges as a result of size.

3. The Case of the Caribbean

Performance

All the economies in the Caribbean can be considered small. The criteria for smallness include, population, GNP/GDP, island-ness and territorial economic sovereignty. No Caribbean state is landlocked. All face a common set of challenges. These include (i) a high degree of openness (ii) high level of vulnerability (iii) environmental challenges and (iv) susceptibility to natural disasters. Many face a common history being settlements of slavery and indenture-ship and whose *raison d'etre* was as suppliers of agricultural commodities and natural resources for the European powers. Notwithstanding much similarity in their socio-economic and political evolution some territories have done better than others. The intention of this paper is to identify the particular factors that would have separated the good performers from the poor ones. This might in turn help in shaping policy in the future.

Performance is measured here by the average change over a twenty-year period, 1975 to 2000, in per capita GDP. An examination of Table 2 shows that the best performers are the smaller islands including the Bahamas (US$11,931), Barbados (US$9,684), Antigua and Barbuda (US$6,070) and St. Kitts and Nevis (US$6,035). The larger states show a more moderate position with the following figures for Haiti (US$1,393), Suriname (US$2471), Guyana (US$2,701) and Jamaica (US$2,721). Based on this data the smaller islands have done better over the last twenty-five years or so.

Another observation is that when measured by GDP per capita and ranked, except for a few cases, the present performance of Caribbean economies (Table 2, column 1) is not very different from the average historical experience (column 2). This indicates that countries have largely retained their relative positions over a twenty-five year period. If however, only growth rates are used as a measure of performance one notes that the larger countries generally move up and the smaller ones move down the ranking order indicating that the smaller economies of the region have grown at a faster rate (column 3).

If one were to measure performance by changes in real GDP the smaller islands again stand out (Table 2). St. Kitts and Nevis, St. Lucia, Antigua and Barbuda, St Vincent and the Grenadines are among the best performers with average annual growth rates over the twenty-year period ranging from 4.9 to 5.2 percent. Belize was an exception in that although it is among the largest states it also shows the highest growth rate of 5.3 percent. Comparatively, larger countries such as Guyana, Jamaica and Trinidad and Tobago had growth rates of 0.9 percent, 0.7 percent and 3.0 percent, respectively.

TABLE 2

SELECTED COUNTRIES; GDP PER CAPITA AND REAL GROWTH RATES
(IN ASCENDING ORDER)

GDP Per Capita (PPP) (2000)		**GDP Per Capita (Aver.) US$**		**GDP Growth (Aver. %)**	
Haiti	1,467	Haiti	1,393	Jamaica	0.7
Dominica	3,120	Suriname	2,471	Haiti	0.7
Jamaica	3,639	Guyana	2,701	Guyana	0.9
Suriname	3,799	Jamaica	2,721	Suriname	1.1
Guyana	3,963	Dominica	3,120	Barbados	2.1
St Vincent & the Grenadines	5,555	Belize	3,138	Trinidad & Tobago	3
Belize	5,606	St Vincent & the Grenadines	3,147	Dominica [G22]	3.4
St Lucia	5,703	Dominican Rep	3,272	Bahamas	3.7
Dominican Rep	6,033	St Lucia	3,788	Dominican Rep	4.4
Grenada	7,580	Grenada	3,910	Grenada	4.5
Trinidad & Tobago	8,964	Trinidad & Tobago	5,643	St Vincent & the Grenadines	4.9
Antigua & Barbuda	10,541	St Kitts & Nevis	6,035	Antigua & Barbuda	5
St Kitts & Nevis	12,510	Antigua & Barbuda	6,070	St Lucia	5.20
Barbados	15,494	Barbados	9,684	St Kitts & Nevis	5.2
Bahamas	17,012	Bahamas	11,931	Belize	5.3

Source: World Development Indicators Database, May 2002

Most of the data in columns 2 and 3 cover the period 1975-2000.

If one were to measure performance by human development then the United Nation's Human Development Index is appropriate. The ranking for 2000 (Table 3) shows Barbados, Bahamas, Antigua and Barbuda, and St Kitts and Nevis at the upper end. At the lower end one finds Haiti, Guyana, the Dominican Republic and Jamaica. St Lucia, a smaller economy, is an exception with her lower ranking taking her into the ranks of the larger countries.

What then might explain the better performance of some Caribbean countries as opposed to others? Based on the above review one may identify the following: geography, natural resource, openness, economic structure, workers remittances, vulnerability, political stability and culture and social cohesion, independence, endogenous policy and initial conditions.

Geography

The Caribbean islands were called into being by geography. By that I mean that many of them came to be colonies of Europe, firstly because of the lure of gold then of agricultural commodities such as tobacco, cotton and sugar-cane which were produced in the region to satisfy largely European demand. They all lie in close proximity to the industrialized countries of North America and Europe and have maintained substantial trade and travel connections with the developed countries of the North. Much of the export trade is under preferential arrangements.

The best performer in our Caribbean group is the Bahamas which is an archipelagic state and which is 45 miles off the coast of Florida. Other good performers are Antigua and Barbuda and St Kitts and Nevis. These are archipelagic island states and are characterized by attractive beaches. They lie in relative close proximity to the USA compared to Guyana and Suriname, for example.

TABLE 3

COUNTRY AND H.D.I. RANK
(IN ASCENDING ORDER)

COUNTRY	Rank (2000)	Score
Barbados	30	0.858
Bahamas	33	0.844
Antigua & Barbuda	37	0.833
St Kitts & Nevis	47	0.798
Trinidad & Tobago	50	0.793
Dominica	51	0.793
Grenada	54	0.785
Cuba	56	0.783
Belize	58	0.777
Suriname	67	0.766
St Vincent	79	0.738
Jamaica	83	0.735
Dominican Rep	87	0.729
St Lucia	88	0.728
Guyana	96	0.709
Haiti	150	0.444

Source: UNDP's, Human Development Report 2000

Natural resource

Natural resources rank high as an explanation of the successes of small states (Armstrong et al, 1998). It might be useful to differentiate between (i) mineral and (ii) other natural resources, partly because of the high profile, which the former occupies in the economic development literature. One finds that the while the smaller island states boasts of attractive, often white sand beaches as a primary feature, the larger territories such as Guyana, Jamaica, Suriname possess bauxite, which is used in the production of aluminum. The twin island state of Trinidad and Tobago is the only state in the group with oil and natural gas in significant commercial quantities. The performance of that country however has been average compared to the smaller territories. The growth rate over the period 1975 to 2000 averaged 3.0 percent for Trinidad and Tobago compared to countries such as St. Kitts and St. Lucia with rates of over 5 percent. Further, its per capita GDP in 2000 measured US$8,964 compared to the Bahamas with US$17,012 and Barbados with US$15,494. The larger territories in the grouping which possess bauxite are among the worst performers. This clearly confirms that possession of even a key natural resource need not ensure superior performance. Undoubtedly however, this would have played some role in the performance of that country.

Although white sandy beaches, beautiful reefs and beaches and lush rainforests are natural resources these are not normally considered in the same way as commodities such as minerals. This is partly because the economics of these are different in terms of exploitation and marketing say. However, rates of depletion and environmental considerations apply to all natural resource. Indeed it is the "exploitation" of these natural resources which characterize many of the smaller islands especially our four best performers, the Bahamas, Barbados, Antigua and Barbuda and St. Kitts and Nevis.

Openness

Openness is often considered a negative feature of small economies. Much of the literature however seems to argue the reverse. A look at the Caribbean data show that the most successful economies are relatively open compared to the worst performers (Table 4). Thus the best performers, Bahamas, Barbados and Antigua and Barbuda have an average trade to GDP ratio of 135 percent while the worse performers, Haiti, Suriname and Guyana have a

TABLE 4

AGRICULTURE, TRADE, TOURISM: SHARE OF GDP (%)
(IN ASCENDING ORDER)

COUNTRY	Agriculture (% of GDP) Average		Trade (% of GDP) Average		Tourism [1,2] (% of GDP)
Bahamas	2.17	Haiti	40.2	Haiti	N/A
Trinidad & Tobago	2.58	Dominican Rep	59.48	Guyana	N/A
Antigua & Barbuda	5.27	Suriname	72.61	Suriname	0.6
Jamaica	7.43	Trinidad & Tobago	83.64	Montserrat	0.8
Barbados	7.47	Jamaica	98.32	Trinidad & Tobago	1.2
St Kitts & Nevis	9.31	Dominica	114.52	St Vincent & the Grenadines	2.2
Suriname	10.84	Grenada	114.98	Jamaica	2.5
St Lucia	12.42	Barbados	115.25	Dominica	2.7
Dominican Rep	15.4	Belize	117.75	Belize	4.3
St Vincent & the Grenadines	16	Bahamas	129.62	St Kitts & Nevis	8.1
Grenada	16.03	St Kitts & Nevis	135.73	Grenada	9.0
Belize	21.9	St Vincent & the Grenadines	137	Bahamas	10.0
Dominica	26.14	St Lucia	144.37	Barbados	11.2
Guyana	30.5	Antigua & Barbuda	161.52	Antigua & Barbuda	12.0
Haiti	31.14	Guyana	170.39	St Lucia	13.0

Source: World Development Indicators Database, May 2002; EIU Country Profile; Regional Central Statistical Offices

1. Contribution of hotels and restaurants to GDP
2. 1999 data or most recent available

ratio of 94.4 percent. Guyana has an unexpectedly high degree of openness at 170.4 percent of GDP.

This appears to be an exception since the larger countries in the group tended to be the least open. Often it is thought and argued in the region that the smaller territories are the least open. As can be seen, countries such as St. Kitts and Nevis, St. Vincent and the Grenadines, St. Lucia and Antigua and Barbuda are the most open countries in the group. Better performance then seems to be associated with greater openness as measured in terms of goods and services to GDP.

Economic structure

Agriculture

Agriculture is important for a fair amount of Caribbean countries. Agricultural crops include citrus fruits, banana, sugarcane and rice which are sold under preferential trading arrangements such as the Cotonou Agreement between the European Union and the ACP group of countries, formerly Lome. Nutmeg is produced by Grenada and sold to Europe. Agriculture ranges from just over 2.0 percent of GDP in the Bahamas to 31percent in Haiti (Table 4). Econometric work by Armstrong et al (1998) finds that agriculture is associated with states showing a poor performance. In the Caribbean grouping it is found that Haiti, the worst performer has the biggest agriculture sector (31 percent) and in the case of the best performer, the Bahamas, agriculture accounts for the smallest share of GDP (2.2 percent). Some questions, which arise from these observations, are these. Does this mean that countries should down play agriculture if they wish to be successful? Are the results for agriculture caused by inappropriate domestic and international agricultural policies? Or is it the case that the region needs to develop a “new agriculture” based on niche markets and agro-progressing?

Tourism

The study by Armstrong et al (1998) found that tourism had a positive effect on performance. In our Caribbean group, tourism accounted for more than 10 percent of GDP of the three best performers, Bahamas, Barbados and

Antigua and Barbuda. In the case of the worst performers the size of this sector is negligible (Table 4).

Offshore Financial Services.

This was another sector identified in Armstrong et al (1998) which accounts for the good performance of the small economies, which they studied. In our grouping, offshore finance was a feature of the top four performers (Table 5). On the other hand, the five worst performers had no such sector in their economies. This sector however, plays an important role in other economies of the Caribbean.

This sector of small Caribbean economies has been under threat of "black-listing" by the OECD and the Financial Action Task Force (FATF). The initiative to set up offshore tax havens is one of the best examples of the strategic jurisdictional leveraging advocated in the collection by Baldacchino and Milne (2000). However the sector has become tainted by the shady dealings of some institutions. In view of the actions by the OECD it should be clear that this attempt at economic survival by small economies is not without its limitations. Going forward might not be as lucrative to these economies as was the case in the past.

Remittances

While data on remittances is very often questionable, remittances do play a very significant role in the level of economic activity in countries in Latin America and the Caribbean (ECLAC, 1998). Caribbean countries showing a high level of remittances include the Dominican Republic (US$1.7 billion), Jamaica (US$789 million) and Haiti (US$122 million) (Table 6). These are not among the best performers in the region, however. Annual remittances now represent over 10 percent of GDP in these countries (Multilateral Investment Fund, 2001). These are substantial amounts by any measure.

A more meaningful measure might be remittances per head of population. When this is calculated, interestingly, St. Kitts and Nevis and Barbados, two of the best performing economies, receive the highest share of remittances per head of population, US$419 and US$315, respectively. Jamaica and the Dominican Republic however, remain among the highest receivers of remittances per capita.

TABLE 5

COUNTRY: OFFSHORE FINANCE

COUNTRY by GDP per capita (in ascending order)	**Offshore Finance Centers**
Dominica	●
Haiti	
Suriname	
Guyana	
Jamaica	
Belize	
St Vincent & the Grenadines	●
Dominican Rep	
St Lucia	●
Grenada	●
Trinidad & Tobago	
St Kitts & Nevis	●
Antigua & Barbuda	●
Barbados	●
Bahamas	●

Source: EIU London Country Profile 2001;
World Development Indicators Database, May 2002

TABLE 6

REMITTANCES BY COUNTRY
(IN ASCENDING ORDER)

COUNTRY	Remittances (US$)	US$ per head of population
Bahamas	N/A	N/A
Suriname	200,000	0.48
Guyana	1,116,667	1.47
Dominica	9,351,852	128.11
Antigua & Barbuda	9,400,000	138.24
Grenada	9,866,667	100.68
St Vincent & the Grenadines	13,900,000	120.87
St Lucia	15,566,670	99.79
St Kitts & Nevis	17,200,000	419.51
Belize	21,800,000	90.83
Trinidad & Tobago	44,567,530	34.26
Barbados	84,250,000	315.54
Haiti	122,800,000	15.43
Jamaica	789,300,000	299.77
Dominican Rep	1,689,000,000	201.72

Source: World Development Indicators Database, May 2002

1. Data are for individual years between 1990-2000

Vulnerability

Does the degree of vulnerability among Caribbean economies have anything to do with the relative performance of these states? The vulnerability rankings of the Commonwealth/World Bank Study will be used to attempt to answer this question. At first glance it is expected that the more vulnerable a country, the worst is likely to be its performance. It is observed that generally, some of the best performers in the Caribbean group of countries such as (i) the Bahamas and (ii) Antigua and Barbuda are among the most vulnerable (Table 7) and some of the worst performers such as Haiti and Suriname are the least vulnerable. Barbados stands out as an example of a country with a relatively good performance and with a relatively low level of vulnerability. Vulnerability by itself then seems not to be a major explanatory factor for the relative economic performance of Caribbean states.

Political stability

Undoubtedly the economic performance of small economies depends importantly on a political environment of relative peace. Compared to other areas around the globe, over the past 25 years the Caribbean has been a zone of relatively peace. There have been periods of brief upheavals in several islands however. Trinidad and Tobago had two brief episodes of upheavals, in 1970 and in 1990. While Jamaica has not experienced any coup attempts it has experienced a fair amount of protests over economic hardships and gang violence often associated with drugs and politics. Guyana has experienced regular civil strife since the sixties with racial tensions overflowing into violence at times. Haiti seems to be in an unending spiral of turbulence. Among the smaller islands Grenada had a coup in 1979 and 1983 when its then Prime Minister was killed. Suriname had a coup in 1980 and various forms of unstable government since then. Despite these experiences however, the region has been a relative zone of peace.

Apart from Grenada there has been more all round turbulence in the political atmosphere in Guyana, Suriname, Jamaica and Trinidad and Tobago- all not-so-good performers and the larger states in the group.

TABLE 7

CONTRY AND VULNERABILITY INDEX

COUNTRY	Composite Vulnerability Index [1]
Antigua & Barbuda	2
Bahamas	4
Dominica	12
Guyana	13
Grenada	15
Jamaica	18
St Lucia	19
Belize	23
St Vincent	24
St Kitts & Nevis	29
Barbados	38
Trinidad & Tobago	49
Suriname	78
Dominican Rep	83
Haiti	96

Source: Commonwealth Secretariat/World Bank Task Force, Composite Vulnerability Index, 1999

1. From most vunerable to least vulnerable

Culture and Social Cohesion

Caribbean countries together represent a mixture of peoples and cultures from several continents. Some countries like Guyana on the South American continent and Trinidad and Tobago, are characterized by two major ethnic groups of Indian and African ancestry. The smaller islands are in the main inhabited by people of African ancestry. In most if not all however there are varying numbers of descendants of European, Chinese, Asian and other lineage. This phenomena coupled with inter-marriages have served to give the Caribbean population an especially cosmopolitan character. These characteristics have however, not prevented popular upheavals, varying degrees of ethnic and other forms of intolerance; protests and open conflict at certain points in the history of these states.

It is difficult to attribute, far less quantify, better economic performance in some countries to unique cultural or societal behaviors. Nevertheless it is probable that the more successful micro states possessed some advantages in this respect.

Independence

In the literature it is not clear that sovereignty has any particular advantage or disadvantage as far as the performance of small economies is concerned. It is interesting to observe in the Caribbean however, that the larger states became independent first. Interestingly, Haiti, the worst performer, was the first country in our group of small economies to become independent followed by the Dominican Republic, Cuba, Jamaica, Trinidad and Tobago, Barbados and Guyana (Table 8). As already noted these economies performed worse than the smaller ones. What does this say? Perhaps that independence for small economies carries with it a heavy price, which is not obvious at first. In this context, the suggestions for some sort of political and economic integration are still valid now, as was the case in the fifties and sixties.

Endogenous Policy

In the pursuit of economic development all small states seek to harness their endogenous capabilities and resources. For numerous reasons, both of an external and an internal nature, the reality is that some

TABLE 8

COUNTRY AND YEAR OF INDEPENDENCE
(IN ASCENDING ORDER)

COUNTRY		Year of Indep.
Haiti	……..	1804
Dominican Rep	……..	1844
Jamaica	……..	1962
Trinidad & Tobago	……..	1962
Barbados	……..	1966
Guyana	……..	1966
Bahamas	……..	1973
Grenada	……..	1974
Suriname	……..	1975
Dominica	……..	1978
St Lucia	……..	1979
St Vincent & the Grenadines	……..	1979
Antigua & Barbuda	……..	1981
Belize	……..	1981
St Kitts & Nevis	……..	1983

Source: www.CIA.gov; EIU London Country Profile 2001 succeed and some fail. Geographic and other fortunes, mineral resources, remittances and such will take any state only so far. The quality of the state apparatus, the entrepreneurship and courage of the private sector and the commitment of the people will, when taken together, determine how fast and how far a small economy progresses.

The countries that have demonstrated a better performance over the period appear to have done a better job in building the requisite institutional infrastructure that was required to do the job. The union of the smaller Eastern Caribbean territories under the banner of one monetary authority is a case in point (McCarthy and Zanalda, 1995). This would have helped in better inflation and fiscal controls. This is not the whole story however. A more homogenous society, access to grant funds, and preferential markets have undoubtedly played a role.

Initial Conditions

Finally, one might consider the initial conditions that obtained in explaining the superior performance of some Caribbean economies. We recall that our better performers were the Bahamas and Barbados. It happens that these two states also occupied the two top positions in 1975 (Table 9). Haiti, which was at the bottom of the ladder in 1975, remains in that position today. St Kitts and Nevis showed the greatest improvement over the twenty-five year period followed by Antigua and Barbuda and Grenada.

4. Conclusion

What then have we observed as far as the economic performance of selected Caribbean territories is concerned? Based on different yardsticks, the best performers seem to be the smaller states in the group or what might be called microstates. The best four performers in terms of GDP per capita are the Bahamas, Barbados, Antigua and Barbuda and St. Kitts and Nevis in that order. These are a combination of archipelagic and island states with average GDP per capita of between US$6,000 and US$12,000 on an international currency basis.

What are the factors that might explain this performance by these smaller states? Based on our preliminary evaluation, the key factors are

TABLE 9

GDP PER CAPITA

COUNTRY	Initial Level (in ascending order)	Final Level (2000)	Differences (% increase)
Haiti	842	1,467	74.2%
St Vincent & the Grenadines	946	5,555	487.2%
Grenada	1,232	7,580	515.3%
Belize	1,257	5,606	346.0%
Dominican Rep	1,360	6,033	343.6%
Suriname	1,399	3,799	171.6%
Guyana	1,460	3,963	171.4%
St Kitts & Nevis	1,493	12,510	737.9%
Jamaica	1,551	3,639	134.6%
Antigua & Barbuda	1,576	10,541	568.8%
St Lucia	1,670	5,703	241.5%
Trinidad & Tobago	2,277	8,964	293.7%
Barbados	4,150	15,494	273.3%
Bahamas	4,433	17,012	283.8%
Dominica	N/A	N/A	N/A

Source: World Development Indicators Database, May 2002

(i) openness (ii) economic structure with an emphasis on tourism and offshore-finance (iii) political stability (iv) endogenous policy and (v) culture and societal cohesion. It is more difficult to draw conclusions in respect of the other factors. Table 10 represents a somewhat crude attempt to summarize and capture some of these factors.

The method of analysis used here does not allow for the isolation of the most significant explanatory factors which econometric analysis would help provide. Measurement would likely pose a problem in some cases however. This would be an area of future research. It is noteworthy that several of the explanatory factors might be considered choice or policy factors. This would include openness, political stability and endogenous policy. Factors such as geography, natural resources and economic structure, might be considered environmental and structural and consequently less controllable. Yet, these are not immune from policy intervention. Indeed, is it not the case that the policy makers harnessed these factors in such a way that made the difference for these micro-states? Research on the usefulness of each of these specific factors in explaining future performance is likely to bear fruitful results.

Unlike several of the larger territories these micro-states have no mineral resources but have made use of their available natural resources of sea, sand and climate. These small states are most open in the group and rely heavily on tourism and offshore financial services. “Jurisdictional leverage” or the use of the sovereign right to make laws and establish independent institutions has been instrumental in offshore finance, and in the conduct of monetary and fiscal policies, which have played an important role in these economies. Remittances play a significant part in only two of them. They were among the latest to become independent and are characterized by a largely homogenous population and relative political and social peace compared to the larger states in the region.

One question which arises is the sustainability of the strategy pursued thus far by the more successful micro-states. Will the strategy continue to work in this unfolding era of globalization? Mounting environmental concerns with respect to sustainable tourism and the threat by the O.E.C.D. to offshore centers suggest the need for a more urgent focus on other areas of services. While small size would probably provide the flexibility in adjustment, adequate financial capital must also be made available to these states. The

TABLE 10

COUNTRY AND SELECTED FACTORS EXPLAINING ECONOMIC PERFORMANCE

COUNTRY	Most Vulnerable	Greater Political Stability	Better Cultural & Social Cohesion	Latest to become indep.	Highest GDP per capita	Highest H.D.I. Rank	Greater Openness	Economic Structure: Agric. <10%	Economic Structure: Tourism >10%	Economic Structure: Offshore Financial Centers	Remittances per head of pop. US$ (best performers)
Haiti											
Suriname	●										
Guyana											●
Jamaica	●	●	●							●	
Dominica		●	●	●							
Belize		●	●	●						●	
St. Vincent & the Grenadines			●							●	●
Dominican Rep		●	●						●	●	
St. Lucia			●								
Grenada								●			
Trinidad & Tobago		●	●	●	●	●		●	●	●	●
St. Kitts	●	●	●	●	●	●	●	●	●	●	
Antigua & Barbuda		●	●		●	●	●	●		●	●
Barbados	●	●	●		●	●	●	●	●	●	
Bahamas											

Services Negotiations under the F.T.A.A. must provide the flexibility for adjustment that small states need in order to make continuous progress.

As for the larger states in the group there are lessons to be learnt. These need to undertake a thorough introspection to identify what is it that is lacking at the internal level in order to promote faster economic development. Part of the answer might very well be in the inability to vision and to strategize with the available natural and human resources, towards the achievement of shared goals. It might be the case that the smaller islands have been able to do this better.

To the extent that small size is a constraint, which I have no doubt that it is, then integration remains a lasting answer. The much talked about Caribbean Single Market and Economy can be viewed as the best institutional expression of a regional strategy for development. But will all aspects, political, social and economic, come together in time, to produce far greater synergies for faster advancement of individual territories?

The preliminary finding of this paper that some small or microstates have done better than others in the Caribbean must not be interpreted to mean that small states do not need special treatment in the globalization process. Rather, the point is that with an efficient domestic macroeconomic framework, adequate international support and understanding in trade and finance and with easier access for their products in world markets, they can all benefit from globalization.

Endnotes

1. One exception is the paper by D. McCarthy and G. Zanalda (1995)
2. Political stability is not dependent on form of government.

References

1. Armstrong, Harvey W. and R. Read. 1995. Western European Micro-States and EU Autonomous Regions: The Advantages of Size and Sovereignty. World Development 23: 1229-1245.

2. Armstrong, Harvey W. and R. Read. 2000. "Comparing the Economic Performance of Dependent Territories and Sovereign Microstates" Economic Development and Cultural Change 48, 285-306.

3. Armstrong, Harvey W. and R. Read. 2001. Globalization and Economic Development: Lessons From Small States. Paper for Conference on Small States in World Markets – 15 Years Later, Goteborg University, UNU-WIDER.

4. Armstrong, Harvey W., R.J. De Kervenoael, X. Li and R. Read. 1998. A Comparison of the Economic Performance of Different Micro-states and Between Micro-states and Larger Countries. World Development 26: 639-656.

5. Baldacchino, Godfrey and D. Milne (Eds.) 2000. Lessons From the Political Economy of Small Islands- The Resourcefulness of Jurisdiction. P.E.I., Canada: Institute of Island Studies.

6. Bernal, Richard. 2000. Globalization and Small Developing Countries: The Imperative for Repositioning. In Globalization-A Calculus of Inequality-Perspectives from the South. Edited by D. Benn and K. Hall. Jamaica: Ian Randle Publishers.

7. Briguglio, Lino P. 1995. Small Island Developing States and their Economic Vulnerabilities. World Development 23: 1615-32.

8. Briguglio, Lino P. 1998. Small Country Size and Returns to Scale in Manufacturing. World Development 26: 507-515.

9. Commonwealth Secretariat/World Bank Task Force on Small States. 1999. Small States - A Composite Vulnerability Index.

10. Crowards, Tom. 2000. Comparative Vulnerability to Natural Disasters in the Caribbean, Paper presented at the OAS/USDE-NOAA/CSC Workshop on Vulnerability Assessment Techniques, Charleston, South Carolina, Caribbean Development Bank, Staff Working Paper No. 1/00.

11. Crowards, Tom and W. Coulter. 1998. Economic Vulnerability in the Developing World with Special Reference to the Caribbean. Presented at the Annual Review Seminar, Research Department, Central Bank of Barbados.

12. De Rosa, Dean A. 2000. Trade Policies and Prospects of the Eastern Caribbean States in the New Global economy. ADR International Ltd.

13. Easterly, W. and A. Kraay. 2000. Small States, Small Problems? Income, Growth and Volatility in Small States. World Development 28: 2013-2027.

14. ECLAC/CDCC. Caribbean Development and Cooperation Committee, 1998. The Contribution of Remittances to Social and Economic Development in the Caribbean. Port of Spain: ECLAC.

15. Krugman, Paul. 1998. The Role of Geography in Development, Paper prepared for the Annual World Bank Conference on Development Economics, Washington, D.C.

16. Kuznets, S. 1963. Economic Growth of Small Nations. In Economic Consequence of the Size of Nations. Edited by E.A.G. Robinson. London: St Martins Press.

17. Looney, Robert E. 1989. Macroeconomic Consequences of the Size of Third World Nations: With Special Reference to the Caribbean. World Development 17, 69-83.

18. McCarthy, Desmond F. and G. Zanalda. 1995. The Economic performance in Small Open Economies- The Caribbean Experience: 1980-1992, Washington D.C.: The World Bank.

19. Milne, David. 2000. Ten Lessons for Economic Development in Small Jurisdictions: The European Perspective, The Institute of Island Studies http://www.upei.ca/-iis/10lessons.html

20. Multilateral Investment Fund, IDB. 2001. Remittances To Latin America and the Caribbean: Comparative Statistics.

21. Mueller, Richard E. 1994. Determinants of Economic Growth in Developing Countries: Evidence and Canadian Policy Implications. Policy staff Paper No. 94/08, Department of Foreign Affairs and International Trade, Canada.

22. Pantin, Dennis. 1984. The Economics of Sustainable Development in Small Caribbean Islands. Trinidad and Tobago: University of the West Indies, Department of Economics.

23. Read, Paul. 2001. Growth, Economic Development and Structural Transition in Small Vulnerable States, Discussion Paper No. 2001/59, United Nations University, WIDER.

24. Srebrnik, Henry F. 2000. Identity, Culture and Confidence in the Global Economy. In Lessons From the Political Economy of Small Islands. Edited by G. Baldacchino and D. Milne. P.E.I. Canada: Institute of Island Studies.