EBD/83/325

December 19, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Small Tropical Island Countries - An Overview

The attached paper on an overview of the economies of small tropical island countries, prepared by Mr. Legarda, Consultant, will be taken up at a seminar scheduled for Friday, February 24, 1984.

Att: (1)

Other Distribution:
Department Heads

Small Tropical Island Countries: An Overview

By Benito Legarda

December 16, 1983

This paper is written in response to requests by Executive Directors for a study of small island countries. In the context of the discussions leading to the requests, the concept was given greater precision by focusing on small tropical island countries, as it was the economic difficulties faced by these countries which gave rise to the requests. In particular, what was being sought was to identify problems which were either peculiar to such countries or which were found in them in a particularly acute form, and to consider what the Fund could do about them within its sphere of competence.

The paper will start with a discussion of definitions of economic smallness, and examine the parameters of the concept. It will then enumerate the tropical island countries which fall within the most commonly used of these parameters, concentrating on those which are Fund members. A short consideration of macroeconomic policy in such countries will be followed by a review of the recent literature on smallness and insularity (or islandness) for the light it may throw on problems of particular relevance to these countries and on how these relate to macroeconomic policy. The discussion up to this point is covered in sections I and IV, which are largely efforts to summarize the most recent symposia on the subject and which in turn contain summaries of or references to much of the quite substantial earlier material. Section V endeavors to examine concretely the situation of the Fund member countries in the light of the considerations put forward in the preceding sections. Finally, section VI, after a brief review of the Fund's work in these countries, draws up a "shopping list" of measures which could be considered for their benefit if it is decided that action oriented to their concerns should be taken.

On the basis of the review of the issues and problems in this paper, Board members should be in a position at its conclusion to answer for themselves three questions: (1) Do the small island countries under study have special economic characteristics or special economic problems, either as to the nature of these characteristics and problems or their degree of intensity? (2) Does the presence of such special characteristics and problems provide a rationale for either the devising of special programs or measures, or for specially emphasizing particular measures within the framework of the standard programs? (3) What specific measures in various fields (operational, statistical, etc.) can the Fund take, alone or in collaboration with other entities, if a decision is taken that small island countries merit some special treatment? (Parenthetically, it may be remarked that if certain problems are shared with non-island countries, this is not really a basis for ruling them out of consideration. If the problems need to be faced in any case, a start could very well be made by addressing them in the case of the small island countries and moving on to other economies in due course.)

I. The Influence of Economic Size

Contemporary concern with the economic consequences of the size of nations dates back at least to the 1957 Lisbon Conference of the International Economic Association. National boundaries were considered to be relevant elements, discontinuities affecting the mobility both of goods and of factors of production. These discontinuities show up in such features as the use of national currencies and the need for countries to balance their international payments (25: p. 40). 1/

The gains from international trade are supposed to parallel those from interregional trade within a country, in that both lead to specialization of production and to the equalization of real incomes, the difference being in unrestricted factor mobility among regions but not among countries. But it is also postulated that, under certain conditions, free trade in goods alone even without factor mobility will lead to international equalization of factor incomes, thus reinforcing the comparability of interregional and international trade. In practice, things do not go so smoothly. Some regions within the same country are not fully integrated with others by commodity trade, growth rates among regions differ markedly largely because of differences in output mix, and despite unrestricted factor mobility as between growing and lagging regions (and, one might add, despite conscious redistributive policies), income differences persist (34: p. 32). With such mobility absent in international trade, itself subject to institutional obstacles and barriers, the parallelism between interregional and international trade was seen to be far from perfect and there was some basis for hypothesizing that economic structures and the processes of development might be different in small countries from those in large countries (25: p. 40). The latter could expect to benefit from economies of scale in production, and there was some discussion of what a country's minimum size, the critical minimum size, might have to be in order to enjoy these benefits

---

1/ The References section at the end of the paper contains four sections which list all sources. Beginning with section B, these sources are numbered consecutively and are referred to by item number and page number throughout the paper; thus, (25: p. 40) refers to item 25 of the list of references (Jalan, Bimal, "Introduction" and "Classification of Economies by Size"), p. 40.

(41: p. 41; 25: pp. 2-3; 5: pp. 51-60). At the time of the IEA Lisbon conference, there were few independent developing countries, the stress was on the advantages of largeness rather than the disadvantages of smallness and on the problems of the small advanced European economies, and the effect of size on development per se received little attention (25: p. 2).

The discussion on the economic consequences of size has been inconclusive, in part because of the use of different and shifting criteria to classify countries and their application in various empirical studies. The theoretical economic concept of a small economy is quite clear: it is a price taker, a country that supplies such a small proportion of the total supply of goods and services that it cannot influence their price, and cannot control its terms of trade. But this concept is also quite unhelpful for the present study since, as pointed out in an UNCTAD document, such countries as India or Argentina can be considered small by this definition (44: p. 3).

This has compelled some writers to devise arbitrary cutoff points in certain characteristics to define smallness. For those who take a multidimensional approach, the most commonly used have been population (as proxy for labor force and/or the number of consumers), total national income (as proxy for capital stock or internal market size), and total land area or if possible, arable land area (as proxy for natural resource availability), these three together taken as defining the aggregate productive potential of the country (44: pp. 3-4; 45: p. 10; 25: p. 42; 41: p. 7.) Indices can be, and have been, constructed incorporating these characteristics. Unfortunately, there is no theoretical or empirical basis for assigning relative weights to each of them nor for assuming that they are of equal weight (25: p. 43). A variant approach would consider national income not as a parameter but as a variable to be explained in part by smallness (34: p. 20). Another variant adds the distance from the nearest continent as a characteristic to be considered (44: p. 6).

For lack of a satisfactory definition, and because the various criteria yield (with some exceptions) the same broad groupings of countries, many writers have fallen back on arbitrary cutoff population figures. This has the advantage of relating to the human resources constraint of economic growth (34: p. 22). Kuznets in 1960 and Chenery and Syrquin in 1975 used cutoff points of 10 million and 15 million, respectively. William Demas, in his 1965 work on the Caribbean, used cutoff points of 5 million in population and 10 to 20 thousand square miles in usable land area (25: pp. 40-41; 34: pp. 18-22; 41: pp. 7-8).

The cutoff point of 5 million in population appears to have been adopted by both UNCTAD and the Commonwealth Secretariat as the working definition for small economies (25: p. 7). But there is a further refinement: a subcategory variously termed very small economies, microstates, or ministates has been recognized, with (among various parameters) 1 million population as the upper limit, although for some authors the terms are not synonymous and different cutoff points have been proposed, all, however, within the 1 million population limit (6: p. 88; 25: p. 7; 19: p. 186; 29: p. 1,018; 44: p. 13). An obvious disadvantage of the population criterion is that it is not invariant over time.

For purposes of this study, the context of the Board discussions leading to the requests for its preparation would indicate that primary focus should be on those tropical island economies which might be classified as very small, ministates, or microstates. On the basis of 1980 population figures, 17 such countries are members of the Fund: Antigua and Barbuda, the Bahamas, Barbados, Cape Verde, the Comoros, Dominica, Fiji, Grenada, the Maldives, Mauritius, St. Lucia, St. Vincent, Sao Tome and Principe, the Seychelles, the Solomon Islands, Vanuatu, and Western Samoa. Four small independent Pacific island countries are not Fund members: Kiribati, Nauru, Tonga, and Tuvalu (Table 1). About equal in number to those Fund members are the associated or dependent territories, some of which may sooner or later become independent and apply for Fund membership (Table 2). Thanks to the Recent Economic Developments (RED) papers prepared by the Fund staff, we have a much fuller economic picture of the countries which are Fund members than of those which are not.

As is obvious from the tables, and as is pointed out in the literature, the two main concentrations of small tropical island countries are in the Caribbean and in the South Pacific (13: p. 990; 44: p. 29; 45: p. 20). (Strictly speaking, Bermuda and most of the Bahamas lie outside the tropics, but are "tropicalized" by the Gulf Stream.)

II. Macroeconomic Policy in Small Island Economies

Small economies are by their nature open, not in the sense of being completely free of trade or exchange restrictions, but in the sense that to attain higher levels of living they must turn to international trade, which implies specialization and a high degree of external dependence. For example, the average ratio of imports to GDP for non-oil developing countries is 21 percent, but no island developing country for which we have statistics goes so low, the lowest being 26 percent (44: p. 131). On the basis of figures given by Khatkhate and Short for a sample of small economies, Helleiner calculated that in 1978 exports averaged 57 percent of their GDP and imports averaged 60 percent of total domestic spending (29: p. 1,018; 24: p. 166).

Smallness and openness imply that production and income are basically determined by domestic supply conditions and world demand conditions. Compensatory fine tuning to counter the production and income effects of such exogenous factors as natural calamities or world price movements is impracticable, in part because there would be too long a lag between shock and response, and in part because policy instruments and the personnel to plan and implement them may not at present be available in many such economies. A third factor might be that with external transactions at such an unusually high proportion of GDP, domestic compensatory measures would be likely to spill over into the balance of payments to an equally unusual degree.

Therefore, monetary policy cannot be determined by short-run macroeconomic considerations but rather by the long-run development strategy of such an economy. For countries choosing the path of outward looking, export-oriented growth, based on free trade and the judicious encouragement of private enterprise, the foundation should be a stable exchange rate regime with currency convertibility and relatively free capital flows (30: p. 33).

1. Exchange rate policy

A stable exchange rate regime is considered to be best attained by pegging to some external standard, as a freely floating exchange rate risks extreme volatility in the face of thin foreign exchange markets and structural rigidities. Small open economies, already highly vulnerable to external economic shocks, would have these shocks compounded by wide exchange rate fluctuations into equally great internal price and cost disturbances, possibly even leading to the declining use of the local currency as the unit of account in contracts. But there is a disadvantage in pegging to some key currency which is floating, because the pegging currency subjects itself to fluctuations which are purely the result of fluctuations in the key currency to which it is pegged, and the question arises of the optimum currency basket to which to peg in order to maximize exchange stability or minimize instability. In this connection it is important to consider the currency composition of a country's international trading and financial ties. In practice it has been found that most developing countries which maintained unchanged pegs in the 1970s had relatively modest inflation rates (24: pp. 173-176).

In fact some authors, on the premise that domestic inflation in many small countries is determined by exchange rate policy, seek to achieve price stability by gradual appreciation of a national currency vis-a-vis a trade-weighted currency basket. Of the countries that have tried this policy, Vanuatu at least seems to have achieved some success (19: p. 194; 20: p. 317; 63a: p. 14). But, as pointed out by Garnaut,

> This is possible only if nominal domestic expenditure is adjusted downward when the exchange rate is raised so as to maintain real expenditure at levels that are consistent with balance in external payments.

This illustrates the narrow range of policy options facing national macroeconomic policymakers in small island countries. In the face of adverse external shocks, macroeconomic responses can take the form of domestic deflation, domestic restructuring of production and consumption (increasing the relative prices of tradables through devaluation, tariffs, subsidies, etc.), or external financing of import requirements (including the running down of foreign exchange reserves). With declining terms of trade, high interest rates, and limited foreign exchange reserves, much external financing must be considered as being exogenous. Therefore, unless additional stabilization finance materializes, small countries subject to large external shocks face the alternatives of restructuring or deflation. Hence the time element is important. Restructuring takes time because of lags in producer and consumer responses to changed market signals; deflationary macroeconomic (monetary and fiscal) policies take less time; and import and exchange controls can take effect immediately (24: p. 179). The latter two options would, of course, be obviated if sufficient finance were available for restructuring.

2. Domestic monetary policy

Within this framework, domestic monetary policy must seek to attain two objectives: first to ensure a stable monetary environment and second to channel savings toward productive investment.

Domestic stability is often defined as price stability with external balance and an acceptable level of employment. In today's world it may be approximated by a domestic inflation rate not too different from the world inflation rate (assuming some sort of ex ante equilibrium) and a current account deficit consistent with sustained capital inflows. Credit creation can be kept noninflationary by ensuring that domestic credit grows in step with the demand for domestic financial assets. This means that the magnitude of domestic saving must be compatible with the investment needed to fulfill development objectives, and that the necessary funds must be channeled into what are regarded as productive investments from the national point of view. The magnitude of savings may not be very responsive to monetary policy, as empirical studies have shown that domestic saving is determined by national income, and there is a low responsiveness of demand for broad money to interest rates. (But see 19: p. 197 for a different view.)

However, it has also been found that the form of saving, or the composition of monetary portfolios, is interest sensitive, and thus monetary policy can have a substantial long-run impact on the buildup of domestic financial assets, on the financialization of saving. Its range is bound by the lower and upper limits for interest rate action, the lower limit being the domestic rate of inflation (presumably a medium-term average), and the upper limit given by the rates of return on the projects available to an economy. This upper limit underlines the importance of having identifiable, bankable development projects, since for some economies the real financial constraint has to do with the deployment rather than the mobilization of funds. (Incidentally, it illustrates, in a small economy, the inseparability of micro considerations from macro policies; for many such economies, with a limited range of small-scale economic activities, micro is macro.)

What happens in an open economy, with a relatively free external payments system, if the rates of return on domestic bankable development projects are, in a period of high international interest rates, below such rates? An outflow of capital could not be regarded with equanimity by small developing island economies (nor, to judge by recent events, even by large developed continental economies). To raise domestic interest rates above rates of return would leave savings with no matching loan demand. The Fund's Articles of Agreement do allow restrictions on capital movements, but this is a legal answer and probably would at best be a stopgap which would be difficult to enforce fully. Project feasibility studies can be reviewed to see if they will yield higher rates of return. There is probably no single universal answer, but at least the question should be asked.

One possible response would imply re-examining assumptions regarding the competitiveness of financial markets. Market imperfections have been pointed to from time to time (see, e.g., 11: p. 71). In small economies with only a few financial intermediaries, the question may not be merely one of market imperfections but of a qualitatively different market structure, namely, oligopoly or monopoly. One policy line which has therefore been mentioned is a monopolist's profit-maximizing strategy through product differentiation: pay low nominal rates on sight and short-term deposits, for which there are no close substitutes, and higher rates on longer-term deposits, which do have closer substitutes in the form of tangible inflation hedges. With volatile inflation, adjustments must be made in long-term nominal rates so as to keep the real deposit rate constant; the higher is the expected rate of inflation, the more the term structure has to be tilted (19: p. 195).

Possibly the alternatives may be less stark if the assumption of free international mobility of funds is modified, since even countries assuming the obligations of Article VIII of the Fund's Articles of Agreement can and do maintain controls on the transferability of funds on capital account. As Chandavarkar has suggested:

> The choice is not so much between particular levels or structures of interest rates as between rigid and flexible policies . . . in the absence of any universally valid a priori criteria, interest rate policies have to be determined in terms of a judicious empiricism as part of an overall savings and development strategy, with perhaps a little more accent on the role of interest rates as a savings incentive than heretofore. (11: pp. 58, 105-106)

Because of the weak relation between monetary policy and the growth in demand for monetary assets, emphasis in monetary policy should be on the control of domestic credit in line with the forecast growth in the demand for money, supplemented by sectoral guidelines for allocating domestic credit growth as between government and the private sector. (For most of the preceding discussion, see 30: pp. 20-22, 33-36.)

This framework for monetary policy is obviously meant to apply to a condition at or near stability. Where the situation is not at such a stage, modifications to suit individual circumstances must, of course, be made.

There is also the theoretical possibility that the governments of these small island economies may not opt for outward looking policies. National autarky is mentioned as a serious problem (8: p. 204). However, this is considered unlikely. Although the governments of small island economies may profess different sociopolitical philosophies, the differences are more evident in, e.g., the relative shares and roles assigned to the public and private sectors, or to foreign and domestic investment, than in external economic policy, since no development conscious government can afford to forgo the gains in income accruing from the promotion of the export of goods and services. As has already been seen, the lowest ratio of imports to GDP among the developing island countries is still considerably higher than the average for all developing countries. In fact, some of the criticisms made of certain small island countries' development projects have to do with infrastructure not deemed to be economically viable, such as harbors and airports, but which are precisely projects that would contribute to greater economic openness.

In view of the very limited room for maneuver in macroeconomic policy, monetary authorities in small island countries may also pursue the financialization and mobilization of savings and their deployment into investment by institutional measures. They can encourage or establish financial intermediaries that will have both a deposit base and some orientation toward development financing, meeting the requirements for both working capital and fixed capital while maintaining a maturity profile which will avoid liquidity crises. For countries trying to decide whether or not to have full-fledged central banks, these are points meriting consideration, especially the provision of backup resources to tide institutions over inevitable periods of liquidity stringency.

3. Some fiscal aspects

Small island countries do not have the luxury of choosing from among systems of taxation and budgetary expenditure which adhere to some abstract criteria of desirability. They have to tax the major income and expenditure flows wherever they are located. In a small, open economy, these are most commonly found in the external sector, hence the heavy reliance on import and export duties and on tourist-related charges (room occupancy taxes, airport terminal fees, etc.).

As to other sectors, it will be seen that the scope for taxation on offshore banking is quite narrow, owing to competition and narrow spreads and the inherent nature of the business which is that of a tax haven. License fees and stamp duties can be of some importance (as in the Bahamas), and for the "functional" centers a profit tax is considered the most flexible tax which can be applied (35: pp. 15-18). The usual sumptuary taxes on alcoholic beverages and tobacco can also be resorted to. Taxes on fuel, especially motor fuel, are standard revenue measures, and where alternative sources of energy can be developed could figure importantly in energy diversification programs. With proper management and rational pricing policies, parastatals could also contribute to current revenues by allocation from profits, although in practice they are more likely to be a drain on the budget.

The substantial incidence of taxation in the external sector means that account has to be taken of the cyclical nature of foreign trade and tourism. This has implications both for revenues and for expenditures. On the revenue side, dependence on a few primary commodity exports means vulnerability to price fluctuations; this would indicate the desirability of countercyclical levies and bounties on such exports (20: pp. 330-331). A progressive levy that would increase as prices rise and taper down as prices fall to some base figure would seem to be the minimum prescription. But the political difficulties of implementation must be recognized. There are also difficulties in case of prolonged recessions, or in cases of long-term changes in terms of trade or of the exhaustion of depletable resources.

On the expenditure side, the danger is that expenditure levels set in boom times may be difficult to adjust in recessions. Wage levels set in times of prosperity may prove downwardly rigid. New businesses established utilizing economies of scale at peak levels of demand may become unprofitable when demand slackens. Governments should therefore plan countercyclical variations in the budget surplus in order to stabilize public expenditures along a sustainable growth path through both trade and investment cycles. This requires accurate forecasts of trends in international markets together with their effects on domestic expenditure, the attainment of desired expenditure levels by setting policy instruments, and adherence to these policy settings despite the temptation to greater spending during periods when official net foreign assets are increasing markedly. Obviously these are more easily said than done, especially in the context of the administrative limitations of small countries (20: pp. 322, 329).

Some of the difficulties of maintaining budgetary flexibility in the context of certain policy priorities are illustrated by the cases of Antigua and Barbuda and the Comoros. In Antigua and Barbuda, staff reports that the Government recognizes overstaffing in the public sector as a factor inhibiting fiscal adjustment, but that it was compelled to become "an employer of last resort" in the face of a 47 percent unemployment rate when it came to power in 1976 and fears for the safety of tourists, the mainstay of the economy (49a: p. 8; 38: p. 15). In the Comoros, staff reports that the relatively large civil service has been used as an engine for employment (53a: p. 1). The comment has been made that in small island countries, budget making at all levels from government down to the household is rendered precarious by the notoriously volatile prices of traditional commodity exports (17: pp. 182, 184).

4. Fiscal dependence

One fiscal characteristic of small island economies which is not adequately addressed in the recent general literature, although it does stand out in the staff REDs, is fiscal dependence. In part this is a transitional problem of independent statehood, but it also appears to be much more than that. In some Pacific islands, where the subsistence sector is still quite sizable, this may stem from the inherent difficulties of collecting taxes on noncash transactions.

But even where tax ratios are high, the problem remains. The Caribbean Development Bank (CDB) reports that the seven East Caribbean Common Market countries have unusually high tax ratios, with current revenues all exceeding 21 percent of GNP at market prices. Many of them no longer depend on external sources for current budgetary support, but all are still dependent on the United Kingdom, Canada, and other external donors for contributions to their capital programs. The CDB observes that governments are saddled with fiscal burdens to provide infrastructure and other services without commensurate revenues since there is no real linkage effect to create taxable activity. This is attributed to very open, highly specialized economies with a limited range of natural resources and output, high population density, and exports based largely on a few primary products vulnerable to world market price fluctuations. This leaves such countries with only marginal ability to adjust to changes in demand, narrow local markets with little scope for import substitution, and high per capita costs because of the diseconomies of small size (10: pp. 298-300).

UNCTAD is more specific about the disadvantages of smallness. There is "overequipping" because many facilities are larger than can be fully utilized by small communities, and there is simultaneously "underequipping" because, since the individual unit is excessive in relation to demand, it is difficult to justify standby units or substitutes and the country lacks any kind of fallback or safety position (44: p. 21). Small island governments are also called upon to provide services (e.g., doctors, transport services to outlying islands, etc.) which ordinarily could be expected from the private sector but which are not automatically forthcoming in small island environments because of the narrowness of the market; on the other hand, they normally have low levels of expenditure for certain traditional governmental functions like defense.

One difficulty that may be encountered is that the concept of fiscal dependence is superficially clear but becomes somewhat elusive in practice. External financing of budget deficits may, for countries with market access (e.g., Barbados, Mauritius, or Fiji), be little different from the usual external debt operations of countries of various sizes at different stages of economic development. For other small Caribbean island countries, debt service ratios are in fact comparatively low, but this reflects the concessionary nature of the financing (65a: pp. 161, 200-206). Does the mode of financing by official grants and concessionary loans convert external debt into external fiscal dependence? Even more to the point, aside from the formal deficits, several small island country budgets include foreign grants among their revenues; would this not seem to be a stronger indication of fiscal dependence?

It would be worthwhile to focus on and refine this concept in future studies. At one time some 20 years or so ago, there was some discussion about the viability of the emerging small island nations. While discussion of viability per se has trailed off as the international community has accepted small island countries as participants in world affairs, some discussion continues on the related concept of achieving self-reliance. An UNCTAD panel of experts' report in 1973 recommended that

> . . . in order to achieve financial independence the DICs [developing island countries] must do away with the need to rely on the support of metropolitans for their recurrent budgets.

But the literature mentions that some of the smaller DICs are not presently viable and that it is difficult to discern when complete self-reliance can be attained. Therefore, a strategy totally different from any existing model is needed which would consider development alternatives based on aid and credit (14: pp. 277, 288).

III. Economic Characteristics of Small Tropical Island Economies

Having established that monetary policy in the countries under study must be framed with a view to long-run development objectives rather than short-run macroeconomic considerations, it is time to review briefly what the recent literature has to say about the general economic characteristics of these economies, their problems, and possible development alternatives.

In looking through the literature, the same concepts recur: Smallness. Openness. Dependence. Instability. Vulnerability. Fragility.

Peripherality. Remoteness. Isolation. Fragmentation. Dispersal. Some of these concepts are economic, some are geographic, and some are both.

1. Smallness

Perhaps the first characteristic to be looked at is smallness and its economic consequences. Are small economies simply smaller versions of large ones? The weight of opinion answers this in the negative. In the most common terms, small economies suffer from insufficient labor, an insufficient domestic market, and in some cases insufficient land (43: p. 103). Some of these can be overcome or at least mitigated by appropriate policy orientation. Most obviously, the constraint of a limited domestic market can be overcome by "going open" through the export of goods and services to regional and world markets, and some island countries have flourished by building up externally oriented manufacturing sectors and/or tourist facilities. A favorable location on world traffic routes and/or proximity to a continental hinterland are, of course, helpful (as witness Singapore and Hong Kong which are, however, not small economies as defined by the parameters referred to in this paper).

Openness thus seems to be a policy imperative for small island economies and, as we have seen, in actual practice this has been attained to a far greater degree by these economies than by other developing economies. But the trade-off for an expanded market is a heavy reliance on imported goods; a high degree of openness also means a high degree of dependence, in this sense as well as in the classical sense of being a price taker for exports. The high propensity to import does, however, have some saving grace; it reduces the domestic multiplier effect of disturbances from whatever source, and this very openness means that to a greater extent its domestic shocks are shared with the rest of the world (24: p. 172). But it must be recognized that external shocks, e.g., changes in import prices, have larger effects.

The other dimensions of smallness are not so easily transcended or modified. Economies of scale and factor indivisibilities are particularly important. A small land area means a narrower resource base, a narrower range of production conditions and therefore of primary commodities produced, and greater vulnerability of output to natural hazards. A hurricane, flood, or drought that might be a regional disaster in a large country is a national calamity in a small one. In point of fact, cyclones are part of the environment in about two thirds of island countries. This implies wider fluctuations in output of both subsistence and export goods.

A delay in the arrival of a ship at the end of the year has marked statistical consequences in the monitoring of the economy. The absolute size of cargo flows affects frequency, transit times, and freight rates the farther a country is from densely traveled routes, and absolutely small cargo flows are likely to show relatively large imbalances between inbound and outbound movements (3: pp. 215-216).

There is also a lower volume of output, which means higher unit costs of processing, transport, and marketing export commodities, weakening their competitive position. Unlike in large countries, economies of scale cannot be exploited. High unit costs are aggravated by geographic isolation and (for archipelagic countries) territorial fragmentation.

There is also the concentration phenomenon in various aspects. Much of the national output is concentrated in a few industries, which in turn are concentrated on foreign trade. Exports are concentrated in a few commodities, and sent to a few overseas markets (31: p. 145). Imports, while more diverse in commodity content, also tend to come from only a few suppliers.

There is also greater market vulnerability, since price takers are subject to world market price fluctuations and there is less scope for counterbalancing or stabilizing action if exports are concentrated in one or a few commodities. There will be less averaging or pooling of different price trends for individual export commodities. Vulnerability to policy changes also comes from market dependence on a single country or on a few countries, with perhaps an ambiguous offsetting advantage if such concentration means special terms of market access.

High vulnerability to natural hazards and to market fluctuations signifies a reduced ability to adjust to shocks which have diminished the profitability of the leading sectors. The instability in the capacity to import (or the income terms of trade) means a greater variation in growth rates over time (34: pp. 27-28).

The effects of a small population are equally noticeable. Again, this restricts the total volume of marketed and, most commonly, exported commodities, leading to the usual high unit costs of processing, transportation, and marketing and to a weakening of competitiveness. Moreover, with rising incomes come rising demands for a broad range of services (medical, technical, etc.), but with a small population it is less likely that there will be adequate incentives for individuals to offer these services privately. (A ranking financial official in a relatively advanced Caribbean country has observed that in his country there are no neurosurgeons, as there are not enough patients.) Therefore, there is more pressure on the public sector to provide them. But this creates a demand for manpower in the public sector that will compete with the private sector's requirements and thus tend to restrict the expansion of output. This shortage of trained manpower shows up in the fragility of the manpower chain in the public sector; a break resulting from absence due to illness, training, or emigration can be quite disruptive and reduce efficiency.

Recognition of this shortage is recorded in the World Bank's Report on the Caribbean:

> The Antigua meeting [of the Caribbean Group for Cooperation in Economic Development or CGCED] recognized the paucity of management resources in the public sectors of the "ministates" as the constraint on the absorptive capacity for public sector investments, as well as on the implementation of sound policies conducive to economic development and growth.

And again:

> It has been also recognized that adequate project preparation, including technical, economic and financial aspects, was a serious problem for the LDCs of the East Caribbean. (67: p. 9)

Overcoming, in the private sector, the constraint of limited output arising from a small population can be accomplished by encouraging external investment, provided other resources are present, but this implies some surrender of local control over resource use. In the public sector, expatriate personnel can be recruited to fill gaps, but this increases economic and technical dependence (41: pp. 12-16).

Reference was made earlier to the importance of economies of scale and factor indivisibilities ("lumpiness"). The observation is sometimes made that the unit of production is the firm, not the country, and that commodity production benefits from scale economies in the firm, without necessarily depending on the economic size of the country. This may be true, although it has been indicated that a corollary effect in a small country is the narrow range of products arising from supply constraints.

In the field of exports, small economies should in theory be able to enjoy economies of scale as easily as large ones; this assumes that there is no difference between selling on the home market and on the international market. But market knowledge is not perfect, product differentiation and brand preference exist and (in the absence of multinational participants) erode price competition, there are risks and costs involved in international selling, and there are additional costs of after-sales service which rise with distance. These differences make it easier for large economies to reach economic levels of production in capital-intensive lines which, combined with scale factors, gives them a clear lead over small economies, whose static advantage lies in products not amenable to economies of scale (31: pp. 146-147).

Of greater relevance, and one that is clearly dependent on the size of the country, is the presence of external economies or supporting services--engineering, legal, financial, research, training, agricultural extension, even the provision of collection, transportation, storage, and marketing facilities. Several economies are typically short of these externalities. This is aggravated by the absence of tertiary education facilities in many of them (Barbados being a conspicuous exception of long standing, and there are signs of movement elsewhere; at least two East Caribbean small island countries now advertise their medical schools--N.Y. Times, April 24, 1983, Sec. 12, "Education: Spring Survey," pp. 19, 70--but these may not be primarily oriented to training local medical students but rather expatriate ones).

Diseconomies of small scale also affect the public sector, as factor indivisibilities affect roads, airports, harbors, and communication facilities, making investment in them costly in per capita terms. In small island economies, the consequent increase in economic activity may not be sufficient to cover capital costs, yet the alternative may be economic stagnation; the choice may lie between economic openness or functional remoteness. Provision of these services may therefore require a long-term subsidy and would seem to call for some understanding with donor countries. The officers of the South Pacific Bureau for Economic Cooperation (SPEC), taking account of the small loadings, great distances, and inability of the island states to subsidize transport services, write:

> . . . In the geographically dispersed South Pacific region some uneconomic services will need to be supported if the overall transport requirements of the region are to be met . . . . The only solution is to ask aid donors to take on the responsibility as special assistance to developing island countries until such time as the total level of trade in goods and services by regional carriers is sufficient to support these services. (42: pp. 477-478)

2. Insularity or islandness

If there is some preponderance of agreement in the literature that small economies have special problems not encountered by large economies, or at least not to as serious a degree, the same cannot be said for another main characteristic, namely, insularity or islandness (an inelegant but perhaps serviceable neologism that has crept into the discussion possibly because insularity refers as much to a psychological state as to a geographic configuration). The question that is bluntly posed is whether a small island economy has problems not also faced by small economies of other sorts; whether islandness as a characteristic is a useful category in the context of social analysis and policy. Much of the literature skirts the issue, but where it is faced, more often than not the answer is that there are no significant differences, and that insularity is not a useful category for socioeconomic analysis. It is pointed out that smallness, remoteness, dependence, peripherality, the decline in self-reliance, the need for economic diversification, a weak bargaining position vis-a-vis foreign investors and transport operators are all problems which are faced by remote, small mainland countries or even by peripheral regions of larger countries (39: pp. 945, 950; see also 29: p. 1,024, note 1).

At the official level, some member states of the United Nations have communicated to the Secretary General that they do not recognize island developing countries as a special category. One country stated it

> . . . does not favour the proliferation of special categories of developing countries demanding special and preferential treatment in international development cooperation.

But it goes on to say,

> It is however recognized that [island developing] countries may suffer from special problems flowing from their island position. (45: p. 4)

This opens the door to a differentiation between island and other economies which implies that there are at least differences in degree, possibly extending to differences in kind, between island and non-island economies. Some commonsense reflections would support this. For example, one can conceive of mainland or even landlocked states sooner or later connecting into a continental electric power grid or highway network. This possibility is foreclosed to the scattered island countries of the Atlantic, Indian, and Pacific Oceans.

The analysis is complicated by the concept of islandness. It will be recalled that in the case of smallness, the economic concept was clear but unhelpful, and resort had to be had to demographic or physical parameters in order to analyze the economic implications of the concept. The opposite is true of islandness. The physical definition is quite clear as given by the Encyclopedia Britannica: "Island: any area of land smaller than a continent and entirely surrounded by water." But it is not very functional. Manhattan is an island geographically; is it also one economically? Apart from the fact that they are separate countries or territories, how different are Singapore and Hong Kong from Manhattan? Possibly these were considerations that led to adding the criterion of distance to the nearest continent in an UNCTAD paper on island developing countries.

There is also the question of land borders, which by definition should not exist for island countries. Indonesia and Papua New Guinea are indisputably island economies, yet they share a common land border. So do two other island republics, Haiti and the Dominican Republic.

Going beyond these cursory ruminations, some effort has gone into constructing a profile of the distinguishing characteristics of island states, to attempt what might be termed a functional definition or at least description of what constitutes an island state. The starting point is that there is a lack of unanimity even on what constitutes an island. When various characteristics are compared, it turns out that some large island countries have continental characteristics, while some coastal enclaves have insular characteristics (18: pp. 931-933).

Amid this taxonomical ambivalence, and in contrast to those who see no differences between small island and non-island economies, there are those who profess to discern specific insular problems, as in the following passage:

> However, when price volatility is compounded by sudden large variations in output and the whole is transmitted to the national economy with little abatement because of the narrow range of exports and the dominant role of exports in the economy, there is an especially island problem. (17: p. 186)

And even those who see little merit in a separate classification for small island economies seem willing to grant that the national pervasiveness of the effects of natural disasters (earlier adverted to) is a peculiarity of such economies, and this could have policy implications in connection with possibilities for financing disaster recovery.

3. The transportation revolution

As this writer's brief is limited to the small island economies, and the other small non-island economies have not been examined, he is not in a position to make a categorical statement on the differing views regarding the usefulness of insularity as a separate analytical concept. However, this much can be said: If there is one economic characteristic (in addition to the climatological factor already mentioned) that lends justification to a special category for small island developing countries, it is the consequences of the transportation revolution of the last two decades or so, the rapid development of the container and of the cellular container vessel. The actual or potential impact of this revolution is the centralization of trade and the elimination or marginalization of small operators. These technologies were developed for the use of large, high-wage continental countries with road-based transportation systems. They completely changed the nature of sea traffic: from being an independent mode of transport, containerization made it a mere extension of the land transportation system. The seas, instead of being highways to be traveled over, became simply gaps to be bridged. Increasingly large vessels carried much heavier cargoes to fewer nodal ports equipped with facilities for the container traffic, instead of plying the former multiple port itineraries. Unmodified conventional vessels were quickly driven out of an increasingly wide range of trades. The advent of air traffic, much of it subsidized, increased the diseconomies of conventional shipping by drawing away its passenger component.

The container revolution has forced some major restructuring in the operation of both import and export trades whose effects have yet to be studied. But the large consequence is clear for the small, remote island economies: it is their increasing marginalization, consequent to the concentration of trade and the concentration of people. For archipelagic countries, the effect is compounded by domestic fragmentation: the outer islands are in turn becoming increasingly marginalized. This augments the flow of emigrants to towns, cities, or even metropolitan countries.

The Pacific island countries face serious and growing problems with aging and uneconomic, often second-hand vessels of low capital cost but high operating cost. The exogenously imposed technological changes lead to the conveyance of larger cargo loads to fewer central ports when what the islands need are frequent, regular sailings for small loads to and from many outports, especially where perishables are involved. Communications with outer islands are reportedly deteriorating. In the Solomon Islands, for example, the World Bank reports the decline and disappearance in the last five years of the inter-island cutter boat service; the Chinese sea traders have become land traders. This development is attributed to situational and institutional factors, but probably is also in part a spillover effect of the consequences of the revolution in ocean transport. In the Caribbean, there has been a great acceleration in the decline of the schooner traffic (8: pp. 201, 206-208, 211, 213, 216, 219-220, 222-223, 235-236; 17: p. 193; 75: p. 37).

In Vanuatu, staff observes that

> . . . the infrequent and spasmodic inter-island shipping services, and the consequent uncertainty over the collection of copra from rural areas, has further discouraged production of copra in the subsistence sector. (63b: p. 19)

In Sao Tome and Principe, staff observes that

> . . . the problems resulting from the islands' isolated location have been aggravated by the relatively small volume of freight to be transported and the limited port facilities. (60b: p. 13)

These consequences are unlikely to have affected continental or landlocked countries in the same way, and have probably been accommodated to more readily by the larger island economies, if only because of larger size. They therefore provide the basis for treating small developing island economies as a separate category. Without quite going this far, the Commonwealth group of nations, at least, has recognized the importance and special nature of island problems (41: p. 501).

At any rate there seems to be a high correlation between smallness and insularity. Defining microstates by a cutoff point of half a million in population, a group of authors found that 79 percent of these states are islands, 15 percent are coastal enclaves, and only 6 percent are inland (9: p. 954).

Analogous consequences, of perhaps more universal applicability, are also being seen in the sphere of air transport. The advent of long-range wide-bodied jets enables airlines to reduce the number of refueling stops, thus weakening the bargaining position of countries formerly indispensable for this service. It also imposes higher standards for airport construction and maintenance, burdening small countries wishing to promote their tourist trade with the need to construct costly infrastructure facilities.

While not attributed directly to transport revolutions, the adverse trends for island countries find confirmation in the World Bank's report of May 24, 1982 on the Caribbean group (including three non-islands in the 16 countries and territories covered). On the basis of approximately 100 reports and studies, the report finds that "for each and every state of the region, economic circumstances are becoming inexorably more difficult" (67: p. 11). Although ascribed to world economic stagnation, the fragilities of the Caribbean trading area, and the limitations of a regional market whose population (Commonwealth component) is only about that of Hong Kong, this is both clear and sweeping.

4. Other characteristics

From what has been seen so far, it is apparent that the various characteristics of small developing island countries are, although conceptually distinct, interrelated and overlapping in practice. For example, it is difficult to discuss smallness without leading into openness, dependence, instability, vulnerability, and fragility.

At this time it is worth turning to concepts that have both geographic and economic aspects. One of them is remoteness. In its most obvious meaning it refers to geographic distance, which has implications for transport costs and delivery time, giving the advantage in the export trade to those countries which are geographically close to the rich markets of the more developed countries. But remoteness has another, more properly economic aspect than the obvious consequences of physical distance. A small island country may not be all that physically distant from its main markets and sources of supply, but if it does not have the facilities to take advantage of its relative proximity--if it does not have harbors to avoid having to break bulk at ports outside the country, or airports to receive the large carriers of the modern tourist trade--then it can be said to be functionally remote. Such remoteness obviously goes against the openness that should characterize small developing island economies.

There is also the related concept of peripherality. In a geographic sense it is similar to remoteness. In an economic sense, it has more to do with the relationship between a center, which emerges because of technical and institutional leadership, and the periphery. The power to decide the pace and direction of development rests with the center, while the periphery gets the backwash and spread effects. The center attracts capital and dynamic immigrants, and enjoys economies of scale, including the development of linkages and thus infrastructure, making it even more economically attractive. The center also furnishes a market for the products of the periphery, giving rise to spread effects.

The peripherality of the small developing island economies lies in that the activities which drive them forward may be accepted or rejected, but they cannot be created or maintained without involving the center. Thus the particularly poor island countries are those which have been unable to establish sufficiently close links with an affluent sponsor.

Peripherality, well managed, leads to prosperous dependency, with its recognizable dangers: income declines in the center may be magnified in the peripheral countries. But sudden fluctuations are a fact of island life, and some governments at least may prefer fluctuations around an upward trend to stagnation or even decline. The most successful island countries internationally are those which have best been able to adapt to economic changes at the center, and this underlines the importance of human resources, on whose openness, responsiveness, and inventiveness rides their countries' ability to make their way in the world economy (17: pp. 194-198).

One issue must be faced, and that is the question of per capita incomes. It is sometimes observed that per capita incomes of small developing island countries are higher than those of many non-island developing countries; the implication is that they are not particularly handicapped or disadvantaged and therefore require no special measures. On this the Commonwealth Secretariat observes that the concept of disadvantage is customarily expressed on the basis of GNP statistics. But while total GNP may be a significant measure of a country's economic "size," average per capita income is a much less reliable indicator of the particular disadvantages faced by the smallest countries. Considered in isolation, a relatively high per capita GNP can disguise both the actual level of real development and the inherent constraints on future development prospects. For example, ownership of such consumer durables as TV sets may signify "utility" and "status" in large economies but in many island settings presently beyond reach of telecasting is of quite limited usefulness (videotaping perhaps). Even motor vehicles mean much less on small islands with few roads to traverse. For its part the Caribbean Development Bank (CDB) reiterates the general recognition that the concept of national income per capita is not a foolproof indicator of the standard and quality of life of a country's population, and while efforts should be made to develop other indices, the per capita income criterion should be used reservedly with some adjustment to reflect the international comparability of incomes and with a graduated application to the "softening" of funds. Other criteria such as size, openness, and exposure to risk should also be taken into account (10: pp. 308-309).

Thus, the United Nations has identified three categories of specially disadvantaged developing countries, namely, the island developing countries, the landlocked, and the least developed, and UNCTAD conferences have always called for special assistance for each category. With this as its starting point, the Commonwealth concluded that the problems facing its smallest members arise from several distinct factors often found in combination, such as small population, limited land area, natural resources, and skilled manpower, geographical and geopolitical isolation, and high per capita costs (41: p. 11; 15: pp. 461-462).

In an April 1979 meeting in Western Samoa sponsored by the Commonwealth Secretariat, two of the conclusions reached were that: "The use of GDP per head as a criterion for aid allocation is inappropriate" and "The use of GDP to distinguish countries eligible for concessionary loan finance, e.g., IDA credits, is unfair to DICs [developing island countries]" (14: p. 289).

It may be observed, as an illustration, that Bermuda has a slightly higher per capita income than Canada according to the 1981 World Bank Atlas, yet no one will pretend that economic opportunities are better or more numerous and economic development prospects more optimistic in the former than in the latter. (The recently issued 1983 World Bank Atlas puts Bermuda's per capita income above that of the United States.) Admittedly this is an extreme case, but it is not unusual, and analogous comparisons can be found down the income line.

Apart from conceptual considerations, mention must also be made of the underlying data. For one thing, those island countries that do not have large subsistence sectors and whose economic structure basically consists of local production for export and local consumption from imports are less likely to have their national income understated than countries (island and non-island alike) with sizable subsistence sectors and non-island countries with only a sketchily recorded cross-border trade. Moreover, for many of the small island countries under discussion, Fund staff members candidly recognize the deficiencies of national product data and regard them as being only approximations of orders of magnitude. This approach finds its way into the REDs where, for example, the latest RED figures on Western Samoa carry a per capita GDP figure in very round numbers (64b: p. iv), clearly suggesting that it lays no claim to any great precision, although this has subsequently been raised by 12 percent in another document issued five months later (64c: p. 33). Such diffidence, however, seems to have difficulty in percolating through to the published data in IFS, which carry figures complete with a decimal place, implying a degree of exactness that is not really present in the data. The reliability of such figures from country to country is also likely to vary, and this calls into question the advisability of placing too much analytical reliance on ratios to national product magnitudes. As if to underline the problems, there are in some cases rather wide divergences between Fund and World Bank national income and product figures. The more egregious incongruities, extending even to basic data like population figures, are mentioned in the notes to Table 1.

IV. Overcoming the Disadvantages of Insularity and Smallness

The discussion on ways of overcoming the disadvantages of smallness and insularity has been carried out at various levels. At its most abstract and formalistic, it is postulated that with economies of scale and increasing returns, smallness of scale must result in certain disadvantages. A country must have some critical minimum economic size in terms of both population or employment and investment or income level, short of which it may not be able to maintain any positive growth in labor productivity and dynamic comparative advantage (unless, of course, there is close economic integration with neighboring countries). Since increasing returns have typically been a property of the manufacturing sector, the inhibiting influence of increasing returns to scale is held to indicate the limits to industrialization in a small, open economy. But although agriculture is not clearly linked by empirical evidence to distinct returns to scale, it could be indirectly linked in that land-augmenting technological progress is connected with industry. Therefore, this line of argument continues, the one remaining sector not handicapped by the phenomenon of increasing returns is the services sector, and it is this sector which is identified as providing a promising way forward for small economies (5: pp. 50, 57, 60-62).

At a less abstract level, progress must involve diversification. Here certain obstacles are pointed out. Simply to diversify into other primary commodity exports is seen to have only limited advantages in a cyclical context, since the main peaks and troughs in prices seem roughly to coincide. Moreover, given the factor constraints of a small economy and the possible forgoing of attainable scale economies in production and marketing, this may mean increased costs for the traditional commodities and high unit costs for the new ones. Therefore, it may be better to diversify into new areas altogether, and this is what some island developing countries have done or are doing, such as Mauritius going into industry and tourism (17: p. 186).

For very small remote Pacific islands (and even for some larger Caribbean ones--see 37: p. 138), one suggestion is what has been termed "boutique agriculture" dealing in nuts, fruits, and craft timbers which are relatively imperishable, have a low bulk weight to value ratio, whose production and processing make only modest demands for energy or imported inputs, and which could supply nearby tourist centers or major markets in surrounding continents. (The shift to relatively nonperishable commodity exports is in any event an adjustment recommended by Asian Development Bank officials to island countries handicapped by infrequent and unreliable shipping services.) It may be possible to take advantage of air cargo services associated with nearby tourist centers to ship horticultural products such as ornamental plants and cut flowers to distant destinations. Insularity is an advantage in most of these cases in protecting the flora from pathogens which affect them elsewhere. Some products mentioned in this connection are cashew and macadamia nuts, craft industries based on exotic woods or those which are costly or difficult to grow elsewhere. Imports of cut flowers into Australia, starting about 1970, are reported to have grown now to half a million dollars a year. On the other hand, success has so far eluded Sao Tome and Principe in its efforts to diversify export production by growing pepper, bananas, quinine, cola nuts, and flowers (60b: p. 34).

It is recognized that this sort of agriculture would not lead to spectacular improvements in the islanders' standard of living, but that they might "provide some stability or employment and income, and supplement traditional forms of livelihood." It is also underlined that any new activity should not entirely displace subsistence agriculture so as not to build up too much dependence on and vulnerability to outside factors (46: pp. 107-113).

In fact one of the characteristics of some of the Pacific islands that has been commented on is "subsistence affluence." A large proportion of personal needs and wants is met by subsistence production, i.e., without cash transactions, with a work week under 30 hours (17: p. 179). This seems to occur in island countries with good soil and climate whose man to land ratio is favorable and whose social systems, featuring communal ownership and management of land, enjoy considerable stability. But this seemingly happy state of affairs no longer appears to be politically acceptable, in part because it is seen as not being conducive to growth, and the real problem is how to progress beyond it and yet retain an acceptable degree of self-reliance (41: p. 487).

The way forward seems to lie through methods already mentioned. In the abstract and in general, it means diversification into dynamic sectors where increasing returns to scale are not important, in commodities, manufactures, and especially in services, while recognizing that diversification has its costs, such as the creation of trade infrastructure like credit systems, information and marketing networks, shipping arrangements, etc. (24: pp. 175, 182). In the concrete, it means things like light manufacturing for export, export processing zones, foreign investment, multinationals, tourism, migration (including work on foreign ships), and financial centers (17: p. 194; 44: p. 24). To these must be added fisheries and a recent innovation in international law, namely, the 200-mile exclusive economic zone, whose implications for the developing island countries have yet to be studied fully but which hold great promise. These may not completely coincide with the priorities set by various international conferences or institutions; for example, the World Bank abolished its tourism department some years ago. But they are the dynamic sectors on which the small island economies depend for their development, as distinguished from mere sustenance or stability. Some of them may not only be intellectually unfashionable but downright unpopular, not least among national policymakers who may entertain well-founded doubts about their wisdom.

1. Multinationals

The question of transnational or multinational corporations (MNCs) is a case in point. Authorities in small countries may hesitate to permit their operation, fearing that the host country would come to be dominated by them. But foreign investment in general is something that is a reasonable option for small open island countries, since both the markets and the risks are overseas, and foreign investment often brings with it market contacts (17: p. 187). And they also realize that MNCs are the single most important avenue for technology transfer for the very small economies, especially those without a strong indigenous industrial class. The small economies have one advantage insofar as the intentions of the MNCs are concerned: because of their small size, import substitution is out of the question, so exportation is clearly the objective. This also puts to one side much argument about "appropriate" products or technologies, since for the export trade the most internationally marketable of the former or cost effective of the latter will have to be pursued.

But the bargaining disdavantages of the small countries vis-a-vis MNCs are quite clear. Some of them are remote, have small and not inexpensive labor forces, and may therefore have no comparative advantage. They cannot "unpackage" the MNCs (i.e., buy brand names, technology, etc., especially as needed by local firms). They are less likely to enjoy the benefit of backward linkages created by foreign enterprises, not only because of limitation on local supplier capabilities but also because export orientation gives little margin for a "learning" process on the domestic market. The technological upgrading of small economies may well have to follow the initiative of the MNCs whereas larger economies may be able to act more independently with their own research, development, and industrial engineering infrastructure.

Faced with these and other disadvantages, small countries start out with low bargaining power vis-a-vis the MNCs, and the initial issue to be faced may well be what inducements to offer them in order to have them locate their export activities in these countries. Within this scope the small country may have some choice on the type of MNC it may be willing to host as between the MNC manufacturing firms (which provide capital, technology, and marketing) or foreign retailing firms (which provide only product design and marketing). The latter seem more flexible and therefore more promising, but can be complicated. Their contribution of marketing expertise and services is not confined to their main function of supplying an established brand name and market outlets but also includes providing product design, materials, specifications, and even finance (31: pp. 152-156). The domestic capital arrangements can obviously be quite varied under this system ranging from completely indigenous private equity to joint venture to joint participation between public and private sectors.

But the difficulties remain daunting. Some small economies lack even the rudimentary skills and infrastructure for the simplest export-oriented activities. Some are so remote that transport costs remove them from serious consideration. The number of aspiring countries is large enough to enable MNCs to pick and choose, bargain for maximum concessions, and play one country off against others. This may affect newcomers more than those already established. Small island countries, no matter how low they allow their wage levels to fall, may find that there are larger continental countries with equally low wages which can offer MNCs the added inducement of domestic markets. Sudden spasms of protectionism in the richer markets may stunt promising growth, although being part of an integrated MNC network in components and processes may bring with it lower protectionism and have the MNCs themselves constitute a potent factor favoring relatively less restricted trade (31: pp. 157-158). If the small island countries try to attract foreign investment in the form of MNCs, it is undoubtedly because their options are so limited. They may soon be assisted by the prospective adoption of a code for transnational corporations worked out by the United Nations.

2. Tourism

Another dynamic sector in the small island economies which has attracted considerable discussion is tourism. Most of the Caribbean and Indian Ocean islands, and some in the Pacific, have experienced rapid rises in total and per capita income from this source. For some of them it has become the leading sector. For countries formerly dependent on traditional commodity exports, which were marked by wide price fluctuations, it has reduced the degree of instability, as it seems to be more reliable as a source of foreign exchange (17: p. 189). Distance from major metropolitan areas has apparently not been an insuperable barrier, as shown by the experience of the Seychelles, Mauritius, the Maldives, and Fiji. It is a highly competitive business, with the competition coming not only nor even primarily from other small island states but also from larger islands like Sri Lanka and continental countries like Kenya and Mexico.

It is often criticized for having a high import content with minimum local value-added contribution. This would be more likely the smaller the economy and the fewer the externalities which it can offer, and also the higher the degree of foreign control or ownership. The recent compendia contain studies of tourism in two island countries, Jamaica and Fiji. For Jamaica, which is somewhat larger than the island economies under discussion, the import content (or payment for goods and services) was about 37 percent or not much higher than in the manufacturing sector (12: pp. 226-227). For Fiji the picture looks somewhat different (although the statistical methodology may also have been different): over 70 percent of tourism expenditures are lost in the form of import payments and profit repatriation. It may be borne in mind that, of the countries discussed in this paper, Fiji is one of the larger, more advanced, and better endowed ones (7: pp. 245-252). For the Seychelles, staff cites a study showing that tourist expenditure has a direct import content of 40 percent (61b: p. 54). In addition, indications are that there is a very high indirect component.

This heavy foreign exchange leakage is in part a reflection of the tourist industry's dependence on foreign expertise, foreign capital, and foreign control of tourist plant, international transport, tourist marketing, and tourist flows in general. Travel agencies and tour wholesalers in metropolitan countries are in direct touch with their customers and are in a position to influence the volume and direction of tourist flows. Countries located on principal flight sectors between metropolitan countries, which are also the countries with past and/or present political and economic ties with them and with established infrastructure and communication networks, are likely to have a head start in tourism, in part because of official policies seeking to generate returns from investment in transport infrastructure. Tourist destinations do not just happen. They are made so by advertising, tourist plant investment, and transport linkages largely undertaken by metropolitan capital.

The tour wholesaling companies and the airlines are by far the most extensive advertisers, and their first priorities are often continental, e.g., the Pacific "gateway" cities of San Francisco, Los Angeles, Vancouver, Tokyo, Sydney, etc. The island countries are given only second priority and have in most cases to sell an "undifferentiated" product (sun, sand, and surf) except when certain characteristics give a place a certain uniqueness (e.g., Bali). Foreign companies control tourist flows between market and destination countries, and often within destination countries themselves by means of control of accommodations, tours, and tourist shops (7: pp. 242-255).

The Jamaica study points out the relative ineffectuality of unilateral efforts on the part of the destination country. Between 1964 and 1973 there was no statistical significance in the relationship between promotional expenditure and visitor arrivals. Another device, cutting room rates in order to increase occupancy, also proved ineffective. It was found that higher occupancies were explained more by incomes in the United States and by lower air fares (12: pp. 222-223).

Staff, however, cites a modest increase in Bahamian tourism in 1982 as being an apparent reflection of the aggressive marketing strategy pursued by the Bahamas (50a: p. 1).

The major criticisms made of tourism are that it causes land prices to rise, with foreigners acquiring the best sites; that it superimposes an alien culture; and that it bids away labor from the agricultural sector (37: p. 137; 12: p. 227). There are also environmental considerations.

The effects on labor are documented in various REDs by the Fund staff. For example, on the Seychelles we read:

> Another serious problem facing the sector is an outflow of agricultural workers to other, higher-paying occupations (primarily tourism and government service). This results on the one hand in shortages of labor supply and reduction in volume of output within the agricultural sector and, at times, an excess supply of labor in other sectors, especially tourism. (61a: p. 5)

On the Maldives, we read:

> Many people have left alternative employment, often in other parts of the country, to work in this sector [tourism] because of the attractive wages it offers. (56b: p. 7)

Again, on Antigua and Barbuda we read:

> Agriculture, once the key sector of the economy, had been declining continuously since the 1960s in relative importance . . . due mainly to the abandonment of sugar and the top priority given to tourism as the mainstay of the economy . . . . The traditional aversion of young people toward agriculture and the expectations of better remuneration in the urban service sector, has [sic] brought about a scarcity of farm labor and very low efficiency in the fields. (49b: pp. 2, 35)

The diversion of labor also raises the question as to the degree to which tourism should supplant rather than complement traditional export activities, and this is, of course, something that each country must decide for itself (17: p. 189). It is not surprising that countries not yet fully committed to tourism should hesitate to take the plunge. The latest RED on the Comoros, for example, refers to "the Government's reluctance to promote this subsector for cultural, political, and environmental reasons" (53b: p. 15).

Yet despite these reservations, despite the desire for diversification on the part of governments that feel they have become overdependent on tourism, despite the fact that for some the problem is to control rather than to encourage the growth of this sector, despite the Asian Development Bank's lack of great expectations in this field for its developing island members, there are more signs of small countries promoting it than of discouraging it. Perhaps this arises from the underlying theoretical and pragmatic bases that have been mentioned earlier, and the fact that there are no easy alternatives: island developing countries are particularly dependent on invisible receipts to finance their imports, and among these receipts tourism ranks high (40: p. 11). It may also be due to the presumption that some adverse effects, while inescapable, can be mitigated with proper zoning, careful approval procedures, ownership limitations for certain national assets, and public education programs (12: p. 228).

The hotel building industry, often thought of as part of the tourist sector, has been singled out for separate consideration in some studies because it can be regarded as a capital goods export industry financed by foreign capital, owned by foreigners, selling to a foreign market, and using a high proportion of foreign inputs, but with local content and employment generated in construction higher than in operating the finished hotel. This has policy implications for fiscal incentives and frequent reconstruction where employment ranks as a priority along with foreign exchange earnings (17: p. 189).

But there are differing views on this. In Antigua and Barbuda staff reports:

> Large infrastructure projects and construction of new and expansion of existing tourist developments traditionally have utilized foreign suppliers and construction contractors and have not created significant domestic value added. (49a: p. 29)

3. Offshore banking centers

Another service industry that has attracted attention is the setting up of offshore banking centers. McCarthy defines offshore centers as cities, areas, or countries which have made a conscious effort to attract offshore banking business, in turn defined as nonresident foreign-currency-denominated business, by allowing relatively free entry and by adopting a flexible attitude where taxes, levies, and regulation are concerned. An offshore center "garages" profits that would be taxed elsewhere (35: pp. 3, 33). He distinguishes between "paper" and "functional" centers. The former refer to places that record deposit taking and lending which actually take place in other countries, in order to avoid the various taxes and levies that might otherwise be applicable. "Functional" centers host banks which have a physical presence and raise, invest, and lend funds largely on their own initiative. They are broader based and their major attraction lies in their geographic location and, in some cases, the availability of local expertise and services. Most of them

> . . . have permitted or even encouraged interaction between the domestic institutions to deposit with offshore institutions and, more commonly, by allowing offshore institutions to make onshore loans, generally for specified development projects. (pp. 5-6)

At the time the article was written there were 21 offshore centers, but 7 of them accounted for the lion's share of the volume of business (pp. 3-4).

"Paper" centers in the modern world of telecommunications are extremely close substitutes for one another, and demand for them will be quite sensitive (i.e., elastic) to minor changes in charges and regulations. With little physical presence, banks are mobile and can easily relocate operations. "Functional" centers generate profits in their own right rather than solely via the avoidance of taxes and levies elsewhere, and demand for them will be less sensitive to taxes and levies. Places which are already established with several banks or which can offer support services, such as accountants and lawyers, will have an advantage in attracting more institutions because of external economies, and this holds true even for "paper" centers. While the supply of "paper" centers is highly elastic, being especially attractive for small and open economies, that of "functional" centers is likely to be very limited, depending as it does on a favorable location with respect to markets and on the ability to provide trained support staff like clerks, lawyers, and accountants (pp. 9, 10).

Since, except for the upgrading of telecommunication facilities, relatively few positive measures can be taken to attract offshore business, much competition has centered on reducing or eliminating taxes and levies on offshore business. This limits the direct tax benefits that countries can derive from hosting offshore centers. Competition likewise keeps to a minimum the local capital requirements (pp. 13, 17, 21).

Thus the most important direct benefits of offshore banking are reported to be the local operating expenditures (wages, rental of premises, administrative expenses, and telecommunications). These depend not so much on the volume of transactions as on the number of institutions, the type of business carried out (e.g., trust business is more labor intensive than interbank business), and the cost of the various inputs. Since offshore banking requires a minimum level of personnel even for "paper" transactions, the number of institutions located in a particular center is generally the most important single determinant of employment, and there will be little increase in employment even with rapid increases in the volume of business because of the simple nature of the paper work and because initially they may be operating at less than full capacity. Some of these direct benefits are eroded by leakages such as expatriate salaries, increased imports, etc. The direct benefits thus include a small favorable impact on the balance of payments, a rise in government revenues, a direct injection into the economy from wages and salaries paid to local employees, and an indirect injection from rents and sales to expatriates (pp. 21, 23, 24).

Indirect benefits are enumerated as (1) improved access to international capital markets, (2) increased efficiency of the domestic financial system, (3) development of local staff, and (4) the attraction of ancillary services (such as nonbank financial intermediaries). On (1), the finding is that onshore loans do not appear to have been at much better than normal market terms. Item (2) would presume at least some overlapping between offshore and domestic operations which is not politically acceptable everywhere; even where it is, local banks may be more responsive to local needs and offshore banks may introduce inappropriate techniques. Item (3) is more likely to occur in the larger "functional" centers where, however, they may provoke a "brain drain" from the domestic sector. Item (4) would not be expected in the "paper" centers and even in the functional ones their net contribution is generally small (pp. 25-27).

Offshore banking is sometimes viewed as being relatively costless. This is perhaps closest to the truth for the "paper" centers, but the benefits will be correspondingly low. "Functional" centers must incur direct costs such as expenditures on telecommunications, education, supervision and regulation, etc., while risking indirect costs in case of success, such as increased tax evasion and decreased independence of monetary policy (p. 27).

The conclusions of the survey are that while many countries are capable of hosting "paper" operations, only a few have the potential for becoming "functional" centers. Most of the countries which had real potential to establish themselves as successful offshore centers have already done so, and there is almost an excess of such centers (pp. 31, 11; 19: p. 204).

The magnitude of direct benefits is not large in absolute terms, but the relative importance of the benefits may be considerable for very small economies and also on a per capita basis (35: p. 31). The benefit-cost equation may appear favorable for existing centers, but new "paper" centers are in general not likely to succeed (19: p. 204).

4. Fisheries

One of the ironies of small island countries is that, although they are surrounded by oceans reportedly teeming with fish, so many of them should be so heavily dependent on imported canned fish. In part this is traceable to resource constraints which are often consequences of physical and economic smallness. The fact that several island countries have built up a thriving export trade in fish, and that more are in the process of doing so, makes this an especially interesting area of possible development to small island countries both for exportation and for import substitution.

In fact, one study goes so far as to say that the brightest development prospect

> . . . is the economic potential of the marine and sea-bed areas surrounding the small island masses . . . . For the poorly-endowed smaller countries, fish and marine products appear to offer the only real alternative to continuing reliance on aid . . . . For some it [fishing] offers the only real development choice available, apart from dependence on external aid. (40: pp. 8, 12, 22)

However, despite good overall growth prospects, it is also subject to adverse short-term movements stemming from market conditions, e.g., ". . . sharp reductions in the price and volume of fish exports stemming from excess supply conditions in the North American market" noted by staff in the Solomon Islands (62a: p. 8).

The literature distinguishes between coastal or inshore fisheries and offshore fisheries. The former, because they are oriented to domestic consumption, have traditionally been of greater significance, while the latter which for various reasons are more suitable for commercial exploitation hold promise as a significant export item.

Coastal fisheries are characterized as being multispecies, lacking a single major fishery which could provide the backbone of commercial catching and processing enterprises. This together with small markets means that fishing vessels tend to be small while fishing gear and techniques must be diversified to make the best use of the variety of species available. Even moderate weather can completely disrupt coastal fishing. When the islands are remote, with a small land mass, and away from continental shelf areas, there is little nutrient run-off to enrich the surrounding seas and therefore the inshore fisheries resources are not extensive, especially in the pelagic species vulnerable to seining. In reef environments typical of the South Pacific, modern technology is difficult to apply and techniques are likely to remain labor intensive. Other problems are the abnormally high fuel and maintenance costs for all processing and refrigerating equipment in remote island areas, and the strain on the available limited refrigeration imposed by the ambient temperature in the tropics. The need for refrigeration and the high freight costs resulting from remoteness are obstacles to exportation (26: pp. 41, 43, 45-46; 33: p. 64).

To develop artisanal or small-scale fishery would require supporting infrastructure investment such as landing facilities, processing plants, the supply of ice, and roads between port and market. It would also mean well-designed credit schemes that would meet the needs of small fishermen while at the same time minimizing the rather common risk of loan default (33: pp. 74-81). And it would require ecological management designed to prevent indiscriminate overexploitation of certain inshore species which has been observed in places like Antigua and Barbuda (26: p. 46; 49b: p. 5).

Offshore fisheries are based on tuna and tuna-like species, which account for 93 percent of the recorded fish catch from the 200-mile zones of the small island states in the South Pacific Commission area. Tuna are reported to show unequaled economic potential to many island states, whose present low level of participation indicates considerable potential for development (26: pp. 47-48).

The difficulties have to do with the migratory nature of tuna, the costs associated with smallness and remoteness, and the constraints of scale economies. Even with the dramatic increase in the ocean area controlled by individual island states as a result of the 200-mile zones of extended jurisdiction, this represents only a fraction of the habitat of the highly migratory species, and there may be seasonal fluctuations in the abundance of these resources in any given 200-mile zone. Moreover, there are often marked year-to-year variations. Most small island states would therefore find it difficult or impossible to maintain a fleet year round, and would lack the resources to withstand successive poor seasons or even a single very bad one. Cooperation with neighboring states, preferably on a broad regional basis, could help alleviate these problems (26: p. 48; 37: p. 137). This point is particularly stressed by Asian Development Bank officials.

Smallness is another obstacle. It is estimated that a 300-ton fishing vessel costs $1 million to replace and $1 million to run annually; an average U.S. tuna purse seiner costs $6 million to build and $2 million per annum to run. Small states lack adequate slipways and docks for large fishing vessels, and do not carry abundant stocks of spare parts and ancillary equipment. The annual fuel costs alone of any of the vessels referred to exceed the entire national fuel bill in 1977 for some of the smallest Pacific states (Tuvalu and Niue) and represent a substantial fraction of the fuel consumption of several others.

Moreover, fuel is far more expensive in remote areas, discouraging foreign flag vessels from bunkering there and making it difficult for small island states to encourage these vessels to call and unload their catch. Thus these countries face an added economic disadvantage from this quarter.

Other difficulties arise in connection with minimum levels of viable operations. It has been estimated that the economic viability of the catching sector requires 8,000 tons of tuna per annum, which means at least ten catcher boats. Most small island states lack the skilled fishermen and other technical or management personnel for this scale of operations. In addition, live bait resources sufficient to support bait catches of well over 240 tons per annum would be required, and most small island states do not have bait fish resources of this magnitude, and even for some which do, this amount is several times their present total commercial fish catch.

Remoteness again enters to complicate the effects of economies of scale. Merely to export frozen fish would mean high freight costs which might jeopardize the whole operation, so that some processing seems called for. But here the minimum annual requirement for a viable tuna cannery is 5,000 tons, and 15,000 tons is closer to the optimum. In addition to financial and manpower problems, this requires water and power resources which are beyond most very small island countries (26: pp. 52-53).

In confronting these problems, small island states have a whole range of options to choose from, running from wholly owned, operated, and controlled local fisheries, through numerous joint venture alternatives, to regional cooperation with neighboring island countries, and to the generation of revenue from purely foreign fishing fleets. A balancing of national interests with economic feasibility would seem to point to some combination of local and foreign participation as the most realistic alternative, with the exact combination likely to be different in each case (26: p. 48; 37: p. 137). American Samoa, for example, has put together a combination of mainland canneries, Korean fishing vessels, and domestic labor and land (or more accurately, location).

V. Characteristics of the Fund Members

Turning to the 17 Fund members which have been classified as small tropical island countries, it is possible to see more concretely, and with some statistical perspective, many of the characteristics that have been referred to in general in the literature on small island economies. A quick glance at Table 1 confirms the South Pacific Bureau for Economic Corporation's (SPEC) dictum that, "There is no typical profile for a developing island country" (42: p. 480). Immediately apparent are differences in geographic size, demographic size, economic size, and per capita income.

Fiji, Mauritius, the Bahamas, and Barbados are the largest economies measured by GNP in the World Bank Atlas. (The Bahamas would move to the head of this list if one were to follow data mentioned in note 1 to

Table 1, and Table 6 shows that they have the highest Fund quota.) They also have the highest per capita incomes in the list, to which must be added the Seychelles and Antigua and Barbuda.

The factors behind this performance are various. Three countries have a base of previous development in sugar to start from--Barbados, Fiji, and Mauritius. All three also have a respectable tourist trade. The latter two have the largest populations among the 17 countries under discussion. Moreover, Mauritius has light industry in an export processing zone, and Barbados is diversifying into industry and services, favored by a long history of political continuity and stability and by a long-standing commitment to education. Fiji is going into fisheries and has the advantage of being less fragmented than the other archipelagic small island countries (the larger of its two main islands is bigger than Puerto Rico or Cyprus and is almost as big as Jamaica) as well as having a larger land area than the others except the Solomons. The Bahamas' favorable location has enabled them to generate the highest revenue from tourism in this group, higher even than that of larger countries like Jamaica.

1. Invisibles

For this group of 17 countries, one general characteristic is that invisible receipts are quantitatively more important than commodity exports. While statistical precision is not possible, in part because of the varying quality of the statistics in different countries, for the year 1981 the two most important invisibles (tourism and transfers) together amounted to nearly $1.6 billion, while commodity exports amounted to a little over $1.2 billion.

Of the invisibles tourism was of overwhelming importance; at nearly $1.3 billion, it by itself surpassed commodity exports. Revenue from tourism was very unevenly distributed. Nearly four fifths accrued to the Caribbean area; the Bahamas alone earned nearly half of the tourist revenue of these 17 countries, and with Barbados accounted for seven eighths of the tourist receipts of the Caribbean countries in this study. Tourist revenue surpassed commodity exports in six countries, and almost equaled them in three others. A tourist sector that is large in relation to the rest of the economy seems to be associated with relatively higher per capita incomes, as in the Seychelles and Antigua and Barbadua.

The next largest invisible item, transfers (private and official), ranged between $250 million and $300 million. For some countries (e.g., Cape Verde, the Comoros, Western Samoa), such transfers far surpassed not only other invisibles but also commodity exports in importance. Offshore banking revenues, about which so much is heard, made a noticeable impact in only two countries, the Bahamas and Vanuatu, and the amounts involved were quite modest: $14.6 million in the former, and SDR 4.8 million in the latter (50b: p. 57; 63b: p. 56).

Overall, the importance of invisibles is underlined when it is realized that, at about $3.2 billion, commodity imports of these 17 countries are more than two and a half times their exports, and it is largely the invisibles (mostly tourism and to a lesser extent transfers, as has been seen) which make this level of imports possible. Without them, levels of living would be lower and growth rates slower, probably by substantial margins.

2. Exports

Turning to commodity exports, again one observes a rather uneven distribution. Two countries--Mauritius and Fiji--account for half of the commodity exports of the countries in question. Adding the Bahamas and Barbados accounts for over three fourths from just four countries with about half the aggregate population.

Of total exports about 45 percent consist of five commodities or commodity groups: sugar and molasses, copra and coconut products, cocoa, bananas, and fish (Table 5). By far the largest export is sugar, which makes up nearly a third of total exports and which comes from only three countries: Mauritius, Fiji, and Barbados. The other commodities fall into certain geographic patterns. Copra and fish come mostly from the Pacific and Indian Ocean islands, three fourths of the former from Vanuatu and the Solomons, and over four fifths of the latter from the Solomons and Fiji. Bananas come mostly from the Caribbean, and cocoa from Grenada, Sao Tome and Principe, and the Pacific, with the first two accounting for over four fifths.

Much of the commodity trade depends on special terms of market access. Bananas from the Caribbean receive preferential treatment in the United Kingdom. Sugar is exported under multilayered arrangements both to protected markets and to the world market, which is a residual. For example, Fiji sells over 70 percent its export volume under long-term arrangements fixing quantities and in some cases prices: in the EEC, a guaranteed price; in New Zealand, four fifths at fixed prices and the remainder at prices depending on world market conditions; in Malaysia and Singapore, at fixed prices; and in China at the world market price (55b: pp. 33-34). Mauritius for its part also sells to the EEC at a guaranteed price, and starting in 1982 also has a quota under the United States quota system where in 1982/83 the export price was expected to be 5 percent higher than the EEC price and substantially above the free market (57b: p. 56). All this institutional compartmentalization calls into question the relevance of such concepts as free market forces and competitive market prices for this trade.

The other three groups of primary exports (coconut products, cocoa, and fish) seem to be more directly influenced by ordinary market forces.

There is an International Cocoa Organization, to which some of the countries in this study belong (Dominica, Grenada, St. Vincent and the Grenadines, Samoa, and Sao Tome and Principe). But it does not appear to be effective, and the world market price remains below the Agreement's floor price. Of the three groups, only fish exports seem to have good prospects for future growth, subject as has been seen to short-term fluctuations. Another growth sector, albeit perhaps of a more modest magnitude, is the regional trade in produce, e.g., fruits and vegetables from the Bahamas to the United States and from Grenada to Trinidad. There is also, in the view of Asian Development Bank officials, scope for inter-island trade because of seasonal variations among them. Two countries in that area are identified by the ADB as having potential for cattle raising, namely, Vanuatu and the Solomon Islands.

This leaves, as the remaining export sector with some dynamism, the category of light manufactures, where some success has already been scored by Mauritius' Export Processing Zone (EPZ--set up with the help of East Asian investors) and by the various industries into which Barbados is diversifying (including most recently the transfer to it of the data processing center of a major American airline). The Bahamas hosts offshore manufacturing companies and is in the process of setting up a Free Trade Zone. In Antigua and Barbua manufactured exports represent 69 percent of total domestic exports (49b: p. 28). Manufactured exports from the present group of 17 countries can roughly be calculated at around $270 million. Of this total, a little over $100 million consists of clothing (larger than any primary export group except sugar), which comes largely from Mauritius (nearly three quarters) and Barbados (about a quarter), with small amounts coming from the Maldives and St. Lucia.

But Mauritius' development of exports of light manufactures is also a cautionary tale of the consequences of success. Having followed the standard general injunctions to go into exports of simple, labor-intensive manufactures, Mauritius has, upon attaining success, suddenly had to confront protectionist obstacles which are detailed by staff: an intensification of trade restrictions on Mauritian exports in EEC countries; an agreement with the United Kingdom for a "voluntary" limit on garment exports; "unduly long delays in customs clearance" in France, resulting in contract losses; an export restraint agreement with its fastest growing textile market, the United States (57a: p. 3; 57b: p. 57). How is Mauritius supposed to adjust? Sixty percent of its merchandise exports consist of sugar, whose market is depressed and which as has been seen is subject to quotas. Its most dynamic sector, exports from the EPZ, has turned stagnant in the face of protectionism in its major markets, even as the World Bank's SAL continues to call "for specific policy actions to promote export-oriented manufacturing . . ." and as the Fund staff more realistically if understatedly observes that, "The success of export-led growth originating in the EPZ will also depend on trade policies pursued by major industrial countries." Further borrowing on world capital markets is difficult because high interest rates have helped send up the debt service ratio (57a: pp. 3, 20-21, 23, 27; 57b: pp. 55, 60).

The protectionist restrictions are all the more distressing in view of the heavy imported inputs that go into the light manufactures and the very modest retained value ratio that results, as may be illustrated by the following cases.

Net Export Ratios

Bahamas		Mauritius	
Offshore Manufacturing Companies, 1981		Export Manufacturing Zone, 1981	
(In millions of U.S. dollars)		(In millions of Mauritian rupees)	
Exports, f.o.b.	80.4	Exports	1,087.1
Raw material imports	51.4	Imports (raw materials, machinery, and equipment)	681.8
Net exports	29.0	Net exports	405.3
Net export ratio (in percent)	36.1	Net export ratio (in percent)	37.3
Foreign expenses	5.8		
Retained value	23.2		
Retained value ratio (in percent)	28.9		

Sources of basic data: SM/83/65, p. 57; SM/83/67, p. 95.

It may be noted in passing that the ratios prevailing here seem to parallel that found for the tourist industry in Fiji (where it was seen earlier that over 70 percent of tourist revenue flows out again through imports and profit remittances). The net export or retained value ratios seem modest enough to raise some doubt about the wisdom of going into such lines of activity at all; perhaps the argument that may carry the day in any given instance is that, say, 30 percent of something is better than 100 percent of nothing.

3. Emerging achievements

We have seen that some of the better established small island countries have attained respectable levels of per capita income on the basis of past development, commodity exports, location, tourism, and special historical factors. From the level of development attained so far, they are diversifying--Mauritius and Barbados adding tourism and manufactures to sugar; Fiji, tourism and fisheries to sugar; and the Bahamas, manufactures, fisheries, and produce to tourism.

Other countries are at an earlier stage of diversification. The Seychelles broke out of a plantation production system concentrating on copra, cinnamon, and food production for local consumption with the economic boom via tourism which followed the opening of Victoria international airport in 1971. That boom raised per capita incomes to fairly high levels for a small island country but appears recently to have reached a plateau, and present official policy is to diversify the economic base. This is meeting with such problems as a lack of suitable land, the diversion of labor from agriculture to services, and the substantial capital requirements and start-up problems of the fishing industry (61b: pp. 1-9).

Antigua and Barbuda, too, gave top priority to tourism since the 1960s, at the expense of agriculture (sugar). Recent attempts to diversity by re-establishing the sugar industry have run into severe difficulties, including a sectoral labor shortage owing to the attraction of the services sector. Fishing, too, seems to have remained stagnant. However, some success has been achieved in export-oriented manufacturing industries (49b: pp. 2-6).

One country that is pointed out as having made rapid progress in very recent years is the Maldives. This came about from a rapid expansion in tourism (the single most important source of foreign exchange since 1979), rising productivity in fishing, exports from two new garment factories, and infrastructure projects financed by concessionary external loans largely from the Gulf area (56a: pp. 1-2; 56b: pp. 1-3, 7, 57). All this may already have moved the Maldives out of last place in per capita income in the list of countries covered by this paper.

Another country with emerging success in diversification is the Solomon Islands. It moved away from a pattern where in 1965 copra alone accounted for over 93 percent of total exports to one where it made up only 26.2 percent in 1978, while palm oil and fish rose from zero to 37 percent, and timber from 3 percent to 25 percent. Of the developing member countries of the Asian Development Bank, it was singled out as having "by far the best growth performance" in the latter half of the 1970s. The World Bank for its part said its economy "has demonstrated remarkable dynamism in recent years," and commented that,

> The sustained growth and increasing diversity of exports constitute the most significant developments in the country's economic history over the last two decades.

Ward, covering the Pacific islands, writes that,

> Only the Solomon Islands has shown any significant trend away from dependence on agricultural exports in recent years with fish and timber contributing 45 percent of exports in 1978. (1: p. 379; 75: pp. 4, 9; 47: p. 25).

It will be noted in Table 4 that of all the countries under study it has the highest ratio of exports to imports, signifying the least dependence on invisibles to meet its import bill; indeed, its dependence on invisibles was not only low but in some items decreasing, in view of the phasing out of development assistance from the United Kingdom (62b: p. 19). The Solomons' commodity-oriented diversification effort, rather than the invisibles orientation more common among many island countries, may in part be due to the fact that among the countries in this study it has by far the largest land area, being over half again as large as the next largest country (Fiji) and almost double the third largest (Vanuatu). But this advantage only counts when appropriate policies are followed, as seems to have been the case here, which among other things must overcome geographic fragmentation and the resulting transportation problems.

4. Micro and macro

Examples abound of the dictum that micro is macro in small island economies, and of the related phenomena of concentrated localized risk and the lumpiness of individual projects, shipments, or events; only a few need be mentioned here. In St. Lucia investments associated with a company's oil terminal are roughly 90 percent of foreign private investment. In the same country, a hurricane in 1980 cut coconut output by nearly 60 percent and banana output by 35 percent, and reduced the share of agriculture in GDP by a full percentage point (from 14 percent to 13 percent) (58b: pp. 3, 27, 30, 34). On Dominica hurricanes in 1979 caused such damage that there were negative growth rates of GDP of 8 percent in 1979 and nearly 3 percent in 1980. This reflected the loss of two successive banana crops, damage to infrastructure, and closure of the main hotel and a number of businesses (54b: p. 1). In Grenada a single hotel fire in 1981 wiped out half the country's hotel capacity (2: p. E2). In the Maldives the modern manufacturing sector consists of two garment factories (56b: p. 9). In Sao Tome and Principe the purchase of one new fishing boat led to a virtual doubling of the fish catch (60b: p. 9). Even in the relatively much larger economy of Mauritius, cyclones and floods cut sugar output (which at the time provided 80 percent of export earnings) by one third from 1974 to 1975 and again from 1979 to 1980 (57d: pp. 4, 50).

The analytical point, of course, is that one should use macro ratios with great caution, since adverse events which in larger and more diverse economies are readily absorbed--a hurricane, a hotel fire, loss of a vessel--can in small, undiversified, and vulnerable economies result in such extreme readings as to render the ratios meaningless.

5. Sectoral imbalances

One of the more noticeable imbalances is the coexistence of labor shortages in certain sectors (usually agriculture) with a fairly high overall rate of unemployment. The phenomenon is most apparent in certain Caribbean islands, although this may be simply a reflection of better statistical services. It is, however, also seen on Mauritius, where tea, the second most important export crop, has suffered from underplucking and quality control owing to labor shortages; there, however, the overall rate of unemployment seems lower than in the Caribbean (57d: p. 6). Elsewhere in the Indian Ocean, one has already come across this phenomenon in the Seychelles.

Also already adverted to is the situation on Antigua and Barbuda where, with an unemployment rate of 21 percent, "a serious canecutters' shortage" meant that only 130 acres were harvested out of 500 which were planted, representing a setback to the effort to re-establish the sugar industry. The once important line of cotton lint production has also declined dramatically in part due to labor shortages. On the other hand, under a migrant workers' scheme agreement with Canada, 300 workers are recruited for seasonal work in Canada for between one and nine months a year (49b: pp. 4, 9). On St. Lucia, with a somewhat lower unemployment rate at 14 percent, agreements with the United States and Canada resulted in 486 agricultural workers being sent to Florida and 100 to Canada in 1981 (58b: p. 7). Increased labor mobility across international boundaries helps to soften economic discontinuities and is therefore a contribution to the adjustment process; perhaps it could be better integrated into an overall wage and labor policy.

6. Comparisons with associated departments or territories

The question of labor mobility leads to comparisons between small tropical island developing countries which are Fund members and those which maintain some sort of association with a metropolitan country, since one of the attributes of the latter group (in general; there may be particular features) is the free or relatively free migration of people; others are the free movement of goods, and the availability of budgetary transfers.

The literature points to the contrast in development between the British and French "sugar islands" (Mauritius, Fiji, and the "British" Caribbean on the one hand, and Guadeloupe, Martinique, and Reunion on the other). The first were given independence, the second were integrated with the metropolitan country by means of departmentalization (i.e., the grant of the same status as that of a metropolitan department). The former experienced changes in the structures and direction of trade, with a relative decline in Britain's share and an increase in those of other EEC members and Japan. Within their narrow resource base, the emerging pattern reflects the economic consequences of overpopulation and government welfare policy; economic growth is still to a large extent propelled by exports. The latter group were transformed from plantation economies into modern welfare economies on the French model, and there was a massive reallocation of labor and capital from agriculture to services:

> . . . Public expenditure . . . and private investment in commercial and residential buildings and hotels have replaced exports as the main engine for growth. (32: pp. 1,045-1,046)

What this article does not say, but what emerges from a comparison of the figures in Tables 1 and 2, is that the per capita incomes of the associated or dependent departments or territories in Table 2 are on average higher than those of the independent Fund member countries in Table 1, and this characteristic is not confined to the French islands but is found also in the British, Dutch, and American islands. It is possible to postulate that this is so because these islands have broader options for financing and adjustment in meeting economic changes. They have (again, in general), duty-free entry for their goods, mobility of people between metropolitan and associated territories (which applies equally to islanders seeking work on the mainland and to mainlanders going for vacations to the islands), and fiscal transfers. The burden of economic adjustment does not fall solely on the islands, but is a multilateral process involving both the economic policies and the finances of the metropolitan countries. Nor would it be true to say of at least some of these that public expenditure and real estate investment have replaced exports as the engine of growth. Offhand, this would not seem to apply to places like Bermuda, with its active tourist trade, or American Samoa, with its two large fish canneries. (None of this should be taken to imply that, e.g., immigration barriers were raised only after the grant of independence; there is some basis for the view that independence was accelerated by the prior imposition of such barriers.)

VI. What the Fund Has Done and Can Do

The Fund has been active in the past in assisting the small tropical island countries in a variety of ways, both quantitatively and qualitatively. Quantitatively, 11 of the 17 member countries under study have made purchases from the Fund under various tranches and facilities totaling over SDR 300 million (see Table 7). All of this has taken place since 1974 except for a small transaction of SDR 4 million by Mauritius in 1969. Half of the purchases were made under the credit tranche, and a little over one third under the compensatory financing facility. Countrywise, 63 percent of the purchases were made by Mauritius, the most populous in the group under study although not quite the largest economically measured by GNP.

Qualitatively, the countries under study have benefited from technical assistance extended through such Fund departments as the Central Banking Department, the Fiscal Affairs Department, and the Bureau of Statistics. All 17 countries, for example, have received technical assistance, in some cases including the recruitment of staff, from the Central Banking Department, directly or indirectly. The indirect assistance was coursed to the countries of the eastern Caribbean through the East Caribbean Currency Authority. The Fiscal Affairs Department has assisted 15 of the 17 with a variety of services ranging in duration from two weeks to 31 months comprehending taxes and tax legislation, budgets, administration, and accounting systems. The Bureau of Statistics has sent technical assistance missions to 16 of the 17. (See Attachments A, B, and C.)

What the Fund can do in the future for its small tropical island member countries within its functions and powers arises logically from what has been seen from the review of their economic characteristics.

It will be recalled, by way of summary, that the countries in question have open economies with severe factor constraints both as to material and labor inputs traceable to their limited land area and population. This precludes, for a fairly wide range of products, economies of scale and makes for high unit costs. Transport costs arising from remoteness, isolation, and fragmentation compound the disadvantages, which are further aggravated by developments in transport technology that marginalize small producing units. The resulting economic structure is characterized by dependence on a few primary exports subject to natural hazards and wide cyclical fluctuations and the most important of which are constrained in their growth by quantitative limitations in the main importing countries. The small island countries are thus rendered vulnerable in the provision of their basic needs by the instability of their capacity to import. Thanks to invisibles, especially tourism whose gross receipts alone surpass the commodity exports of the countries under study, they are able to maintain their import levels. The only areas of promise for these countries are those in which economies of scale play little part or in which these countries may have some resource advantage, and the major sectors which have so far been identified are tourism, light manufactures, and fisheries. Subsidiary sectors would be regional produce and high-value, low-bulk products. Not all the countries under study have the capability of going into the major growth sectors, because of locational, labor, and other factors. But even those countries that have succeeded in starting light manufactures have run into protectionist barriers, and both this line and tourism seem to have retained value ratios that are less than half the gross and seem to be closer to the 30 percent range.

In the macropolicy field, exchange rate policy leans to some relevant peg in order not to compound trade fluctuations with exchange fluctuations, and must tread a narrow path between maintaining competitiveness and promoting price stability. Fiscal policy must depend for its revenue base on the external sector, where the major income flows are located, but recognizing the cyclical nature of this sector must set a steady growth path on the expenditure side that can be sustained by offsetting downturns and upturns. Monetary policy, too, must recognize the dominant role of world demand and the limiting influence of domestic supply conditions, and therefore must be determined in its broadest sense (i.e., including the buildup of financial infrastructure) by long-run development strategies rather than by short-run macroeconomic considerations. Interest rates must operate within a range whose upper limit is defined by domestic bankable projects. Account must be taken of oligopolistic features of financial systems. Reflecting the narrow scope for the exercise of monetary policy, only five of the countries under study have central banks, the remainder operating under currency boards or monetary authorities. Some of these, however, may opt to establish full-fledged central banks in the future, and the East Caribbean countries decided to institute a regional central bank in October to replace the former Currency Authority.

With the situation of the small island countries in mind, Fund action could proceed along the following lines:

A. <u>Clearing the way for international macropolicy</u>

The Fund must reiterate more vigorously than ever its competence to deal with obstacles to the working of international macroeconomic policy, specifically, trade restrictions. The Fund has been entrusted by its member countries with overseeing the world payments system. It has direct jurisdiction where payments restrictions and exchange rates are concerned. But its mandate cannot be fully effective unless its international macropolicy prescriptions have a reasonably clear field for proper functioning. Trade barriers are the biggest obstructions to contend with, and Fund authorities have spoken out frequently and vigorously against them. The Fund can hardly, in good conscience, prescribe export-oriented exchange rate action if the main export markets are restricted, and this is the case with several small island economies, whose main traditional exports (accounting for anywhere from 50 to 90 percent of exports) are in substantial measure subject to restrictions, and whose growth sector in manufactures also has to contend with protectionist barriers. (Exchange rate action is usually effective on the import side given sound domestic policies, but where there are poor export prospects this could merely add to inflation, and a country may prefer to resort to fiscal action on the import side which will at least generate revenue.) Recent announcements about closer cooperation between the Fund and organizations like GATT are welcome (see, e.g., <u>Morning Press</u> of Oct. 26, 1983), but the point being made here is that the Fund's interest is not in trade restrictions qua trade problems alone, and its role is not merely auxiliary to that of other organizations, but that it has a primary interest in clearing the channels of obstructions to the proper working of international macropolicy and it has a leading role to play, both through the surveillance process and in various international fora. In a sense this would continue the thrust of the Managing Director's GATT speech of November 24, 1982, especially the point that "protectionism is obstructing the adjustment process."

B. Adjustment and related problems

Since small island economies suffer from severe factor constraints, a limited range of output, narrow domestic markets, and high unit costs stemming from diseconomies of small scale, and from high transport costs, their ability to adjust quickly to sudden external shocks and to changes in demand is extremely limited and has even been described as marginal (10: p. 298). Even something relatively straightforward like shifting from perishable to nonperishable commodity exports has time and cost dimensions and structural implications which are more serious than in large and more diverse economies. The adjustment process is therefore something that would require more time than in more diversified economies, and would have to be financed on more concessional terms. The question has even been raised whether adjustment measures can be meaningful without some prior diversification of these economies. Put differently, adjustment would have to provide for some diversification which involves certain costs associated with creating a trade infrastructure; this would give a development dimension to the process (which it will be recalled should also be the dominant consideration in monetary policy), which in turn signifies the need to finance appropriately the payments imbalances that almost inevitably will arise in the course of diversification.

This means that adjustment cannot be achieved by the small island country alone, nor even by that country working with the Fund alone, but must be a multilateral process involving the World Bank, the regional development banks, GATT, UNCTAD, and above all, the metropolitan donor countries. The financing of this process would probably have to be a package of different but related elements, and the sources of finance would range from the standard Fund, World Bank, and regional development bank facilities through bilateral ODA and on, perhaps, to G-77 suggestions for increased access by adjusting small quotas and a facility financed from SDR allocations accruing to developed countries (65d: pp. 8-9). Logically a counterprotectionist facility funded by major countries with trade restrictions should also be part of the package, and something like it seems to be favored by certain advocates of protectionism (22: p. B4). Obviously these are not matters for purely technical consideration but would involve the exercise of political will. Whether it would require the organization of an "adjustment consultative group" for small island countries is a related consideration.

The essential point to bear in mind is that adjustment for small tropical island countries is a longer-term process with developmental dimensions requiring concessional financing and multilateral participation, and this should be borne in mind both in devising adjustment strategies and in financing them.

In this connection it may be recalled that even those who see no special claim to preferential attention on the basis of "small islandness" do recognize that natural disasters and their nationally encompassing effects are characteristic of most small tropical island countries, and this would seem to be recognition of the need for some device to finance recovery from the effects of such disasters. A superficially simple suggestion would be the establishment of a natural disaster fund or facility. But perhaps this can be accommodated within the ambit of the existing compensatory financing facility, which is supposed to finance shortfalls in current account receipts not only from export price movements associated with cyclical changes in demand in industrial countries but also from volume changes "resulting from special factors such as drought and frost" (65e: p. 46). Hurricane damage which is national in scope could well be considered one of these special factors. A staff-suggested study which will be mentioned later could well provide the empirical basis for deciding whether to finance natural disaster recovery in small island countries, and if so, what form the financing should take and what features it should incorporate as to maturity, cost, etc.

C. Recent Economic Developments (REDs) prepared by the Fund staff have been found decidedly useful by the small island countries and should be continued. For those suffering from shortages of trained research and administrative personnel, these are often the only regular annual reports on their economies. This highlights the importance of the consultation process, especially for those countries that do not have Fund programs.

Some obvious improvements could be introduced. For example, expressing external sector figures in a common unit of account would facilitate comparisons, whereas now some are carried in U.S. dollars, some in SDRs, and a few in local currencies. Analytical improvements can be made such as are mentioned in D.5 and E.2 below. A clearer focus could also be given to the role of re-exports (important in such economies as Antigua and Barbuda); should they be involved in ratios to macro magnitudes, or should such ratios be confined to domestic exports? Offhand, one would surmise that where there is value added there is a difference in degree rather than in kind from manufactures using imported inputs. The classification of bunkering (important in countries like Cape Verde) likewise could benefit from more precision; is it a commodity re-export (as indicated in the text and a statistical table) or an invisible export (as indicated in another statistical table)?

D. Points to consider in consultations and programs

In discussions with individual small island countries, some points arising from this survey could be usefully stressed.

1. Verify whether or not there are differential subsidies for various modes of transportation, as these may have a distortive effect on precisely those modes (sea transport) which would be most useful to small island countries.

2. Help to identify whether changes in terms of trade are cyclical or secular. Small island economies are vulnerable to cyclical fluctuations, and vulnerable also to less frequent but potentially more damaging long-term changes in their terms of trade. With less room for maneuver than larger economies, small islands should have the benefit of the most informed analysis in order to devise appropriate policy responses. The Commodities Division can assist by making periodic reviews of commodity price trends. For most of the countries in question, as this survey has shown, the commodities are few in number.

3. Improved linkages between tourism and the domestic economy. This is already mentioned in some REDs (49b: p. 41; 58b: p. 36) but merits even more attention.

4. Carefully examine whether a country's financial system is competitive or oligopolistic, since the policy prescriptions may differ depending on which situation obtains in any given instance. This would include evaluating which funds are internationally mobile, e.g., do savings depositors have a propensity to move their funds across international borders?

5. Since invisibles, especially tourism, are quantitatively more important on the receipts side than commodity exports, and since the geographic pattern of tourism seldom coincides with that of trade, the use of trade weights in analyzing effective exchange rates may not be appropriate. Tourism weights are included for Antigua and Barbuda, Grenada, St. Vincent, and the Seychelles. But alternative analytical approaches should still be employed. One of them is the "supply" framework for exchange rate determination described in connection with Sudan by Fund staff member K. Nashashibi which derives the cost structure of the economy by focusing on the production costs of major productive activities (36: pp. 29-30). As has been seen, these are quite few in small island economies. Incidentally, national officials with well-founded doubts about the applicability of purchasing power parity formulas may find this analytical approach more convincing. The applicability of PPP-based formulas is even more doubtful in countries where totals for imports by commodity do not agree with balance of payments data provided from customs, and where widespread price controls affect the representativeness of price indices (60b: pp. 13, 34).

6. Sectoral labor imbalances (the presence of shortages in certain sectors despite a high overall unemployment rate) have been identified as one of the difficulties in the diversification effort, and more thought should be given to better coordination or integration of wage, labor, and migration policies. Actually this should be done in the context of an overall view of factor returns rather than taking wage policy on one side, interest as a return to scarce capital separately on another side, and with little consideration of the return to entrepreneurship which is the scarcest factor of all (see also 27: p. 3).

E. Statistical upgrading

Some upgrading of statistical efforts and figures will help both the small island countries and the Fund in analyzing their problems.

1. Improved statistical coordination between the Fund and the World Bank. Statistical divergences, some of them substantial, have been mentioned as between Fund and Bank data. Fund-Bank coordination in policy would be more reassuring if there were prior Fund-Bank coordination in statistics.

2. Assist in improving national income and product figures. This is especially important where analysis is couched so much in terms of ratios to GDP, since the analysis cannot rise above the level of the basic statistics, and where these are of widely differing reliability the comparability of derivative figures is affected.

3. Assist in improving balance of payments statistics, especially on invisibles whose importance to small island countries has already been shown, and most especially on remittances, which have been identified as an item particularly difficult to calculate or estimate.

4. Assist in improving statistics on fisheries, which are considered one of the few growth sectors open to small island countries but whose dispersed operations make statistical collection and estimation difficult.

5. Calculate, for as many countries as possible, value added and/or retained value figures for (a) manufacturing and (b) tourism. For manufacturing, a policy consideration is that owing to high transportation costs arising from geographic isolation (a point widely recognized in the literature and in staff documents; see, e.g., 57a: p. 3), prospective growth of output depends on producing goods with high value added content; from an analytical point of view, retained value can be more stable over time than export statistics based on gross value suggest, and can also be less significant in national income (24: p. 166). For tourism, the net figure represented by the retained value may change its relative ranking vis-a-vis other invisibles, especially remittances where presumably gross is net. (All of this is not to imply

that activities with only a modest retained value should be completely avoided, since the net is "embedded" in the gross and must be "dug out" of it, but rather that efforts should be stepped up to improve the "recovery ratio.")

6. Fiscal (or financial) dependence has been identified as an important characteristic of some small island countries, but a uniform measure or indicator is lacking and should be devised. Among the questions to be faced are whether to include only current or also capital expenditures in the calculation, whether normal foreign borrowings by countries with market access should be comprehended in the concept, etc. (There are indications that analytically small island countries' "precautionary" debt service ratio ceilings are regarded as being somewhat lower than for other countries owing to their narrow resource base; this in itself would justify the separate treatment of small island countries' economic problems.)

7. Protectionism has been identified as probably the biggest obstacle to the growth of small open economies, and some measure or indicator of its intensity for individual countries should be devised. In fairness, account may be taken of special market access which, despite its allocation-distorting effects, may partly counterbalance the effects of protectionist barriers.

F. Background studies

Some background studies of special interest to small island countries could be undertaken by the Fund, in some cases jointly with the World Bank.

1. Containerization has been pinpointed as a major factor affecting small island countries and it involves some major enforced restructuring in the operation of both import and export trades. Studies should be made of these effects, as some exports are vulnerable, because of competition from substitutes, to cost increases and there should be more relevant information in order to respond to rapidly changing circumstances.

2. Since parastatals, because of circumstances and quite apart from the sociopolitical philosophies of the governments involved, seem to have an especially important role in small island economies, it would be helpful to have a study showing how they can best contribute to development, the adjustment process, foreign exchange earnings, and the revenue effort. (Public enterprises in the Bahamas, Barbados, Dominica, and St. Lucia are included in a recent study by R. P. Short of the Fiscal Affairs Department, DM/83/34, "The Role of Public Enterprises: an International Statistical Comparison." What is being proposed here would cover more numerous aspects of a smaller number of countries within a specific classification.)

3. Sectoral credit programs can be devised for sectors of particular interest, especially those with some growth potential. One particular sector which seems to require special institutional mechanisms is fisheries, in part because the wide dispersal of the operating units makes debt collection difficult. (Without wishing to anticipate conclusions it is reasonable to surmise that fishery credit schemes may have to be linked to the construction and/or operation of refrigerating plants, both for purposes of debt repayment and of revenue collection.)

4. Bankability is a problem where real estate collateral is not available for social or institutional reasons, such as communal landholding in some Pacific islands and absentee landownership in parts of the Caribbean, and a study should be made on whether financial instruments can promote bankability and risk taking. Specifically, what comes to mind are guarantee funds. For example, if a small island country should go into a program to transfer land from absentee owners to domestic farmers, the government representing the absentee owners, or perhaps a regional or international financial institution or even an ad hoc fund put up by interested donor countries, could pay them off in their home currency and receive from the host countries the equivalent in local currency as a long-term deposit (say, 50 years) at a concessional interest rate. While amortization by the farmers proceeds, this would be operated as a joint guarantee fund by the participating entities, or even as a medium-term loan fund making, say, five- to seven-year loans in conjunction with working capital provided by the normal financial intermediaries. The funds would therefore revolve within the framework of the long-term deposit. Because of the country's small size, the absolute amount involved would probably not be large in the international context.

The difficulties of such schemes should not be minimized. Collateral is a borrower's equity; a guarantee is not, so the incentive to repay is much less. Such devices have in practice worked quite well in industry, but less so in agriculture. There is a fund of experience to draw from, and one of the troubles has been identified as overbureaucratization of the credit process. Success is not guaranteed, but it seems worthwhile to make the effort, or at least to make the study that would evaluate the prospects of success, so that bankability can be promoted either in conjunction with land reform or without disrupting systems of communal tenure which countries may wish to preserve in the interest of social and political stability. (Some writers appear to believe that if economic progress is to be made, the trend toward the individualization of tenure is inexorable, but at the Asian Development Bank the perception is that since political independence further movement to individualized tenure is unlikely.)

5. The economic implications for small island countries of the 200-mile Extended Economic Zones should be studied.

6. An examination could be made of the applicability of the findings and implications of this study to non-island non-oil economies of comparable size.

G. Study topics suggested by staff readers

A number of topics for study arising from this paper have been suggested by staff readers of an early draft. They include the following, but are simply listed without recommendation:

1. The experience of recent decades as regards the effect of natural disasters on the small countries' productive apparatus and the time it takes to restore output to pre-disaster levels.

2. *Should these countries have exceptionally large access to* Fund resources in relation to conventional measurements of economic size?

3. Should their development priorities be evaluated according to special criteria, e.g., giving overriding priority to facilities for international transportation (airports, harbors) considered absolutely essential to end geographic isolation?

4. The interaction of smallness and the relative impact of different macroeconomic instruments.

5. Statistical investigation of whether the economic variance within islands (net of the effect of size) is smaller than the variance between islands and non-islands.

6. Comparison of economic characteristics and performance of small island and small non-island economies.

7. Prospects for development of agriculture for the domestic markets in the small island countries.

8. Separate and expanded analysis of services and transfers, and within transfers between public and private, as they respond to different economic and other factors.

9. The role and effectiveness of price stabilization schemes for major exports.

10. The adequacy of reserves to offset volatile movements in export earnings.

11. Constraints on diversification arising from inappropriate wage, exchange rate, or foreign investment policies.

12. Analysis of the compensatory financing facility by small island economies.

13. A concrete proposal for special status: preferential export treatment for small island countries.

14. A brief discussion on dumping practices.

15. A separate paper on statistical discrepancies between REDs and World Bank papers.

Table 1. Independent Small Tropical Island Countries, by Region

(1980)

Region and Country	Area (sq. km.)	Population (thousands)	GNP (millions of U.S. dollars)	GNP Per Capita (U.S. dollars)
Caribbean and Western Atlantic				
Antigua and Barbuda	440	75	100	1,270
Bahamas 1/	13,942	241	800	3,300
Barbados	431	249	760	3,040
Dominica 2/	751	83	50	620
Grenada	344	110	80	690
St. Lucia	616	124	110	850
St. Vincent	388	107	60	520
Africa and Indian Ocean				
Cape Verde 3/	4,533	324	100	300
Comoros	1,862	353	100	300
Maldives 4/	298	154	40	260
Mauritius	2,045	958	1,020	1,060
Sao Tome and Principe 5/	964	113	60	490
Seychelles	443	66	120	1,770
Pacific IMF member countries				
Fiji	18,274	630	1,160	1,850
Solomon Islands	28,446	229	110	460
Vanuatu	14,763	117	60	530
Western Samoa 6/	2,849	156	(101)	(650)
Nonmember countries				
Kiribati	931	59	50	770
Nauru 7/	21	8	(191)	(23,863)
Tonga	699	97	50	520
Tuvalu	25	8	4	570

Sources: 1981 World Bank Atlas for demographic and economic data; National Geographic Atlas, Fifth Ed. (1981) for areas, supplemented by various REDs and by the Gazetteer of Webster's New Collegiate Dictionary.

1/ SM/82/71 puts the mid-1980 population at only 209,500 and the 1981 GDP as $1,325 million. This yields a per capita GDP of $6,325 or nearly double the World Bank Atlas figure for per capita GNP. For 1978 the World Bank had given (in "Economic and Social Indicators for Selected Caribbean and Pacific Islands") a per capita GNP of $2,322 while the per capita GDP figure resulting from IFS data was more than double at $4,801.50.

2/ SM/82/130 puts the 1981 population at 74,100 (per census), the GDP at SDR 55.9 million, and per capita GDP at SDR 755.

3/ SM/82/166 puts the 1980 population at 296,093 (per census) and the 1981 estimated per capita GDP at SDR 186.

4/ SM/82/52 puts the 1981 GDP at $67 million and the per capita GDP at $424.

5/ SM/82/109 puts the 1981 population at 100,000 and the per capita GDP at SDR 240, resulting in a total GDP of SDR 24 million. The National Geographic Atlas puts the population at 83,000.

6/ Per capita GDP attributed by the World Bank to an Australian National University estimate. SM/83/5 estimates per capita GDP at SDR 500 for 1982, while EBS/83/105 issued less than five months later puts it at SDR 560.

7/ GDP per capita for 1976 given in UNCTAD document TD/B/841, p. 9.

Table 4. Selected Characteristics of Small Tropical Island IMF Member Countries

(1981)

Caribbean and Western Atlantic

Antigua and Barbuda

Imports: $139.3 million
Exports: $ 33.6 million
Ratio of I to E: 4.15
Principal exports: Textiles and garments; rum
Invisibles: Tourism ($46.5 million); official capital ($16.1 million); private transfers ($6.5 million net)
Tourist capacity: 35 hotels (3,706 beds); 32 apartments and cottages; 20 guest houses
External fiscal financing: 115 percent of overall public sector deficit
Unemployment rate: 21 percent

Bahamas

Imports: $783.3 million
Exports: $176.2 million
Ratio of I to E: 4.45
Principal exports: Offshore manufactures ($80 million); fish, fruits, and vegetables; petroleum re-exports
Invisibles: Tourism ($632 million); offshore companies ($118 million in local expenses)
Tourist capacity: 12,000 rooms
Unemployment rate: 14.3 percent

Barbados

Imports: $507.1 million
Exports: $148.5 million
Ratio of I to E: 3.41
Principal exports: Electrical parts (26 percent); sugar (17.3 percent); clothing (17 percent); chemicals (8.1 percent)
Invisibles: tourism ($262 million); private transfers ($33 million); official capital ($17.5 million net); miscellaneous services ($79.6 million)
Tourist capacity: 13,400 beds
External fiscal financing: 77.9 percent of overall consolidated public sector deficit
Unemployment rate: 12.6 percent

Table 4 (continued). Selected Characteristics of Small Tropical Island IMF Member Countries

(1981)

Dominica

Imports: $50.7 million
Exports: $18.9 million
Ratio of I to E: 2.68
Principal exports: Bananas (49 percent); soap (45 percent); citrus (2.8 percent); coconut (0.6 percent); vegetables (0.6 percent)
Invisibles: Public sector transfers ($10 million); private transfers ($8.5 million); tourism ($3.8 million)
Tourist capacity: 140 rooms
External fiscal financing: 95 percent of overall public sector deficit
Unemployment rate: 15-20 percent

Grenada

Imports: $58 million
Exports: $18.8 million
Ratio of I to E: 3.09
Principal exports: Cocoa (37.3 percent); nutmeg (24.9 percent); bananas (20.7 percent); mace (4.7 percent)
Invisibles: Public capital ($20.6 million); tourism ($17.5 million)
Tourist capacity: 180 rooms
External fiscal financing: 70.8 percent of consolidated public sector deficit
Unemployment rate: One third of labor force plus underemployment

St. Lucia

Imports: $138.1 million
Exports: $ 40.4 million
Ratio of I to E: 3.42
Principal exports: Bananas (37 percent); paper and paperboard (9.3 percent); garments (6.4 percent); coconut oil (5.8 percent); beer and ale (3 percent)
Invisibles: Tourism ($35 million); private transfers ($14.8 million); official transfers ($7 million)
External fiscal financing: 22.3 percent of overall deficit
Unemployment rate: 14.5 percent

Table 4 (continued). Selected Characteristics of Small Tropical Island IMF Member Countries

(1981)

St. Vincent

Imports: $58.3 million
Exports: $26.8 million
Ratio of I to E: 2.18
Principal exports: Bananas (35 percent); flour (24 percent); postage stamps (8.2 percent); arrowroot (4 percent)
Invisibles: Tourism ($25.2 million); private transfers ($8.1 million)
External fiscal financing: 87 percent of overall deficit; foreign loans and grants = 49.5 percent of current revenue
Unemployment rate: 20 percent

Africa and Indian Ocean

Cape Verde

Imports: SDR 73 million
Exports: SDR 5.2 million
Ratio of I to E: 14.04
Principal exports: Bananas; fish; bunkering
Invisibles: Official transfers and capital (SDR 33.5 million); emigrant remittances (SDR 30.5 million)
External fiscal financing: 69 percent of fiscal deficit; grants = 87 percent of total revenue
Unemployment rate: 39-67 percent

Comoros

Imports: SDR 19.2 million
Exports: SDR 13.9 million
Ratio of I to E: 1.4
Principal exports: Vanilla; ylang-ylang essence; cloves; copra
Invisibles: ODA (SDR 22.5 million)
Tourist capacity: 87 rooms
External fiscal financing: 96 percent of adjusted federal deficit; external grants = 390 percent of domestic revenues

Table 4 (continued). Selected Characteristics of Small Tropical Island IMF Member Countries

(1981)

Maldives

Imports: $41.4 million
Exports: $14.3 million
Ratio of I to E: 2.9
Principal exports: Fish; garments
Invisibles: Tourism ($18.3 million)
Tourist eapacity: 37 resorts (> 3,200 beds)
External fiscal financing: 121 percent of overall deficit; grants = 10.5 percent of revenue

Mauritius

Imports: SDR 424 million
Exports: SDR 288 million
Ratio of I to E: 1.47
Principal exports: Sugar (65 percent); molasses; tea; textiles
Invisibles: Tourism (SDR 40 million)
Tourist capacity: 38 hotels (3,888 beds)
External fiscal financing: 39 percent of overall deficit
Unemployment rate: 8 percent (1978)

Sao Tome and Principe (1980)

Imports: SDR 23.3 million
Exports: SDR 13.6 million
Ratio of I to E: 1.71
Principal exports: Cocoa (92 percent); copra; coffee; palm kernel
External fiscal financing: ". . . It must be assumed that external borrowing played a significant role in financing the government's deficit . . . ."
Unemployment: "The data suggest . . . that unemployment was not a serious problem."

Table 4 (continued). Selected Characteristics of Small Tropical Island IMF Member Countries

(1981)

Seychelles

Imports: SDR 67 million
Exports: SDR 5.5 million
Ratio of I to E: 12.18
Principal exports: Copra (57 percent); fish (25 percent); cinnamon (7 percent)
Invisibles: Tourism (SDR 45 million)
Tourist capacity: 2,680 beds
External fiscal financing: 69 percent of overall deficit; grants = 7.6 percent of revenue
Unemployment rate: 13.8 percent

Pacific

Fiji

Imports: SDR 462.9 million
Exports: SDR 239.4 million
Ratio of I to E: 1.93
Principal exports: Sugar (68 percent); fish; gold; coconut oil
Invisibles: Tourism (SDR 121.3 million)
Tourist capacity: 3,903 rooms (10,994 beds)
External fiscal financing: 80 percent of overall deficit; foreign grants = 2.7 percent of revenue
Unemployment rate: 11.3 percent

Solomon Islands

Imports: SDR 64.3 million
Exports: SDR 56.1 million
Ratio of I to E: 1.15
Principal exports: Fish (38 percent); timber (25.5 percent); copra (14 percent); palm oil (12.3 percent); cocoa (1.6 percent)
External fiscal financing: 33 percent of overall deficit; grants = 25.8 percent of domestic revenue

Table 4 (concluded). Selected Characteristics of Small Tropical Island IMF Member Countries

(1981)

Vanuatu

Imports: SDR 34.3 million
Exports: SDR 13.5 million
Ratio of I to E: 2.54
Principal exports: Copra (76 percent); beef; cocoa; coffee; fish
Invisibles: Tourism (SDR 14.7 million); offshore banking
Tourist capacity: 11 hotels (425 rooms, 959 beds) in Port Vila
External fiscal financing: 11.7 percent of fiscal deficit; foreign grants = 137.8 percent of domestic revenue
Unemployment rate: "Negligible"

Western Samoa

Imports: SDR 47.7 million
Exports: SDR 8.4 million
Ratio of I to E: 5.68
Principal exports: Copra (52 percent); cocoa; bananas; taro; beer; cigarettes
Invisibles: Government transfers (SDR 12.2 million); private transfers (SDR 11.5 million); tourism (SDR 0.9 million)
External fiscal financing: 45 percent of overall deficit; external grants = 62.6 percent of total revenue

---

Sources: Various REDs; International Financial Statistics; World Bank, Report No. 3825 GRD; and Milton Bass, "Grenada."

Table 5. IMF Small Tropical Island Member Countries: Principal Primary Exports, 1981

(In millions of U.S. dollars)

Region and Country	Sugar and Molasses	Copra and Coconut Products	Bananas	Cocoa	Fish
Caribbean					
Barbados	29.80				
Dominica		0.10	9.10		
Grenada			3.70	7.04	
St. Lucia		2.40	14.90		
St. Vincent		0.40	9.40		
Africa and Indian Ocean					
Cape Verde (1980)			0.49		1.90
Comoros		0.27			
Maldives					6.60
Mauritius	204.85				
Seychelles (1980)		2.60			1.44
Sao Tome and Principe		0.98		5.78	
Pacific					
Fiji	163.30	7.45			22.93
Solomon Islands		9.20		1.05	24.79
Vanuatu		11.99		1.30	
Western Samoa		4.63	0.35	1.39	
Total	397.95	40.02	37.94	16.56	57.66

Sources: Various REDs. Totals should be regarded as suggesting orders of magnitude rather than as exact sums.

Table 6. Quotas of Small Tropical Island IMF Member Countries

March 31, 1983

(In millions of SDRs)

Caribbean and Western Atlantic	
Antigua and Barbuda	3.6
Bahamas	49.5
Barbados	25.5
Dominica	2.9
Grenada	4.5
St. Lucia	5.4
St. Vincent	2.6
Africa and Indian Ocean	
Cape Verde	3.0
Comoros	3.5
Maldives	1.4
Mauritius	40.5
Sao Tome and Principe	3.0
Seychelles	2.0
Pacific	
Fiji	27.0
Solomon Islands	3.2
Vanuatu	6.9
Western Samoa	4.5

Source: International Financial Statistics, Vol. XXXVI, No. 10 (October 1983), pp. 16-17.

Table 7. IMF Small Tropical Island Member Countries: Purchases from the Fund

(In millions of SDRs to August 31, 1983)

Country	Total Purchases (1)*	Reserve Purchases (2)	CFF (3)	Buffer Stock (4)	Oil Facility (5)	Credit Tranche (6)	EFF (7)
Caribbean and Western Atlantic							
Antigua and Barbuda	0.7	0.7	--	--	--	--	--
Barbados	44.3	5.0	19.1	--	--	20.2	--
Dominica	11.8	0.4	2.9	--	--	--	7.6
Grenada	8.7	0.7	2.1	--	0.5	4.3	1.1
St. Lucia	5.2	0.7	2.7	--	--	1.8	--
St. Vincent	2.1	0.3	1.3	--	--	0.4	--
Africa and Indian Ocean							
Comoros	1.3	1.3	--	--	--	--	--
Maldives	--	--	--	--	--	--	--
Mauritius	196.8	16.8	51.5	3.6	--	124.9	--
Pacific							
Fiji	24.6	4.2	20.0	--	0.3	--	--
Solomon Islands	5.1	0.7	2.7	--	--	1.8	--
Western Samoa	10.9	0.9	5.9	--	0.4	3.7	--
Total	311.5	31.7	108.2	3.6	1.2	157.1	8.7

Source: International Financial Statistics, Vol. XXXV1, No. 10 (October 1983), pp. 18-23.

* (1) is the sum of (2) to (7) inclusive.

Small Tropical Island Countries:
Assistance by the Fiscal Affairs Department

Country	Year	Period	Field
A. Caribbean and Western Atlantic			
Antigua	1982-84	18 months	Fiscal advisor
	1983	6 weeks	Survey of tax structure
Bahamas	1971-74	30 months	Fiscal advisor
	1971	6 weeks	Tax mission
	1973-74	17 months	Customs advisor
	1973-76	31 months	Customs advisor
	1975	6 weeks	Tax mission
	1975	3 weeks	Customs legislation
Barbados	1972-73	7 months	Customs advisor
	1974	3 weeks	Budget mission
	1975-76	18 months	Budget and accounting advisor
	1975	3 weeks)	
	1976	1 week)	Tax mission
	1978	6 weeks	Tax mission
	1978-80	18 months	Budget advisor
	1983	4 weeks	Accounting system review
Dominica	1979-81	30 months	Fiscal advisor
	1981-83	24 months	Accounting advisor
	1982	6 weeks	Tax mission
	1982	1 week)	
	1983	2 weeks)	Tax mission
Grenada	1978	6 weeks	Study of fiscal structure
	1979	4 weeks	Customs mission
	1979	4 months	Tax administration advisor
	1979-80	13 months	Budget advisor
	1980-81	12 months	Budget advisor
St. Lucia	1979	1 week	Accounting and financial reporting review
	1980-82	24 months	Accounting advisor
B. Africa and Indian Ocean			
Cape Verde	1980	9 months	Customs advisor
Comoros	1978-80	26 months	Fiscal advisor
	1980	6 weeks	Tax mission
	1981-83	26 months	Tax advisor

(Concluded). Small Tropical Island Countries:
Assistance by the Fiscal Affairs Department

Country	Year	Period	Field
Maldives	1981-83	18 months	Budget advisor
Mauritius	1972	6 weeks	Tax policy review
	1973	6 months	Tax administration advisor
	1978-79	18 months	Fiscal advisor
	1979-80	12 months	Fiscal advisor
	1979	4 weeks	Tax mission
	1980-81	8 months)	
	1982-83	11 months)	Tax advisor
	1980-81	5 weeks	Tax legislation
	1981-83	18 months	Budget advisor
	1983	4 weeks	Tax mission
Seychelles	1978	6 weeks	Tax policy and administration mission
	1981	6 weeks	Budget mission
	1982	7 months	Budget advisor
C. Pacific			
Fiji	1980	4 weeks	Fiscal mission
	1980	3 weeks	Tax mission
	1980-82	24 months	Budget advisor
	1981	2 months	Tax legislation
	1981-82	8 months	Stores advisor
	1981	4 weeks	Customs mission
	1983	9 weeks	Tax mission
	1983	2 weeks	ADP survey
	1983	3 weeks	Income tax legislation
Solomon Islands	1981	6 months	Tax advisor
	1983	6 weeks	Financial management systems review
Vanuatu	1981	4 weeks	Tax mission
	1983-84	6 months	Budget advisor
Western Samoa	1973	1 month	Review of budgetary and reporting systems
	1981	6 weeks	Tax survey and review of incentives

Source: Fiscal Affairs Department.

Small Tropical Island Countries:
Assistance by the Central Banking Department

Country	Year	Period	Field
A. Caribberan and Western Atlantic			
Bahamas	1972	2 weeks	Mission to establish a central bank
	1972	3 weeks	Mission to establish research department
	1973	2 weeks	Mission to draft general banking legislation
	1973-79	5 years + 5 months	Advisor, research
	1973-74	15 months	Advisor, bank supervision
	1975-76	17 months	Advisor, operations
	1976-81	5 years	Director of Research
	1978-present	5.5 years	Chief Accountant
	1981-82	1 year	Advisor, Gov. Central Bank (Ops.)
	1983-present	6 months	Advisor, bank supervision
Barbados	1971	10 days	Mission, central banking legislation
	1971	5 weeks	Consultant, monetary arrangements
	1972-73	16 months	Advisor, General Manager (Central Bank)
	1973-78	5 years	General Manager
	1973-75	2 years	Advisor, research
	1974-76	2 years	Director, banking inspection
	1977	3 weeks	Mission, general banking legislation
	1978	2 weeks	Mission, general banking legislation
	1980-82	2 years	Advisor, research
Bermuda	1978	10 days	Mission on guarantees of small business loans
Cayman Islands	1975-present	8 years	Inspector, banks and trust companies

(Continued). Small Tropical Island Countries:
Assistance by the Central Banking Department

Country	Year	Period	Field
ECCA	1975-present	8 years	Advisors, Operations
	1976	2 weeks	Mission, central bank legislation
	1979	4 weeks	Mission, visited all members re: Central Bank agreement
	1982	2 weeks	Mission, interest rate study
	1983-present	2 months	Director, banking Supervision
Netherlands Antilles	1975	3 weeks	Mission, capital markets
B. Africa and Indian Ocean			
Cape Verde	1980	2 months	Advisor, operations
	1983-present	2 months	Consultant, balance of payments statistics
	1983-present	2 weeks	Mission, development financial structure
Comoros	1979-82	3 years	Advisor, monetary and banking matters
	1980-present	3.5 years	Advisor, statistics
Maldives	1978	2.5 years	Mission, monetary and banking arrangements
	1979	2 weeks	Mission, establish monetary authority
	1979-83	4 years	Advisor, monetary arrangements
	1981	3 months	Consultant, administrative and organizational procedures
	1981-present	3.25 years	Advisor, statistics
	1982	3 months	Consultant, regulations
	1982-present	14 months	Advisor, accounting

(Continued). Small Tropical Island Countries:
Assistance by the Central Banking Department

Country	Year	Period	Field
Sao Tome and Principe	1976	1 week	Mission, technical assistance discussions
	1976	4 months	Consultant, organization of central bank
	1977-78	18 months	General operations advisor
Seychelles	1976	2 weeks	Mission, exploratory
	1978	2 weeks	Mission, central banking legislation
	1978-82	4.5 years	Advisor, money and banking
	1979-present	3.5 years	Director/advisor, research
	1980, 1981-83	11 months	Advisor, bank supervision
	1981	3 weeks	Mission, general banking and offshore legislation
C. Pacific			
Fiji	1970	1 week	)
	1972	2 weeks	) Mission, central banking legislation
	1972-80	8 years	General Manager
	1973-74	1 year	Banking Manager
	1974-present	8 years	Research Manager
	1982-	3 weeks	Mission, financial structure
Solomon Islands	1975-81	7 years + 4 months	Chairman/Managing Director, monetary authority
	1979-present	4.5 years	Manager, operations
	1981-present	2 years	Manager, research
	1982	1 week	Mission, central banking legislation
	1983-present	8 months	Advisor, foreign exchange

(Concluded). Small Tropical Island Countries:
Assistance by the Central Banking Department

Country	Year	Period	Field
Vanuatu	1980	1 week	Mission, monetary arrangements
	1980-present	2 years + 10 months	General manager, central bank
	1980-present	2 years + 10 months	Deputy General Manager, Central Bank
	1981-present	2.5 years	Manager, research
	1981	4 months	Advisor, foreign exchange
Western Samoa	1973	3 weeks	Mission, banking arrangements
	1975-76	1 year	Secretary, Monetary Board
	1978	2 weeks	Mission, interest rate study
	1979	2 weeks	Mission, survey monetary arrangements

Source: Central Banking Department.

Small Tropical Island Countries:
Technical Assistance Missions by the Bureau of Statistics

Country	Year	Field
A. Caribbean and Western Atlantic		
Antigua	--	
Bahamas	1973	Money and banking
	1976	Government finance
	1979	General economic data
	1980	Data processing
	1981	Balance of payments
	1981	Government finance
	1982	International banking
	1983	International banking
Barbados	1974	Money and banking
	1974	Government finance
	1975	Money and banking
	1975	General economic data
	1976	Government finance
	1983	Government finance
Dominica	--	
Grenada	1978	Money and banking
	1979	General economic data
	1981	Balance of payments
St. Lucia	1982	General economic data
St. Vincent	1982	General economic data
B. Africa and Indian Ocean		
Cape Verde	1982	Money and banking
	1983	Money and banking
Comoros	1983	Money and banking

(Continued). Small Tropical Island Countries:
Technical Assistance Missions by the Bureau of Statistics

Country	Year	Field
Maldives	1979	Money and banking
	1982	General economic data and balance of payments
Mauritius	1972	Money and banking and general economic data
	1972	Money and banking
	1972	General economic data
	1973	Money and banking and general economic data
	1976	Government finance
Sao Tome and Principe	1981	Balance of payments
	1982	General economic data
Seychelles	1981	General economic data
C. Pacific		
Fiji	1972	Money and banking
	1972	Money and banking
	1973	General economic data
	1977	Money and banking
	1978	Government finance
	1980	Money and banking
	1982	Balance of payments 1/
Solomon Islands	1981	Money and banking
	1981	General economic data
	1982	Balance of payments
Vanuatu	--	

(Concluded). Small Tropical Island Countries:
Technical Assistance Missions by the Bureau of Statistics

Country	Year	Field
Western Samoa	1972	Money and banking and general economic data
	1972	Money and banking and general economic data
	1973	General economic data
	1973	Money and banking
	1974	Money and banking
	1975	Money and banking
	1975	General economic data
	1980	Money and banking
	1983	Money and banking and national accounts

Source: Bureau of Statistics.

1/ This refers to the Sub-Regional Training Course on Balance of Payments Statistics, which was organized by the South Pacific Commission and attended by participants from several of its member countries and territories, including Fiji and the Solomon Islands. Two staff members of the Bureau of Statistics served as principal lecturers.

References

A. Collections of articles

I. Jalan, Bimal, ed., Problems and Policies in Small Economies (London and Canberra: Croom Helm, 1982).

II. Shand, R. T., ed., The Island States of the Pacific and Indian Oceans: Anatomy of Development (Canberra: Australian National University, 1980).

III. World Development, Vol., No. 12, December 1980: "Islands."

These three collections summarize, discuss, or refer to much of the earlier writing on small and island economies. The individual articles are listed separately for ease of reference.

B. Books and articles

1. Asian Development Bank, South Pacific Agricultural Survey 1979. Pacific Agriculture : Choices and Constraints (Manila: ADB, Provisional Printing, July 1979).

2. Bass, Milton, "Grenada, Lost in Space and Time," The Washington Post, February 6, 1983, pp. E2-E3.

3. Bennathan, Esra, "A Note on Transport Issues in Small Economies," pp. 209-219 in I.

4. Bernstein, Richard, "Samoa: A Paradise lost?", The New York Times Magazine, April 24, 1983, pp. 48-69.

5. Bhaduri, Amit, Anjan Mukherji, and Ramprasad Sengupta, "Problems of LongTerm Growth: A Theoretical Analysis," pp. 49-65 in I.

6. Blazic-Metzner, Boris and Helen Hughes, "Growth Experience of Small Economies," pp. 85-101 in I.

7. Britton, Stephen G, "Tourism and Economic Vulnerability in Small Pacific Island States: The Case of Fiji," pp. 239-263 in II.

8. Brookfield, Harold, "The Transport Factor in Island Development," pp. 201-238 in II.

9. Caldwell, John C., Graham E. Harrison, and Pat Quiggin, "The Demography of Micro-States," pp. 953-967 in III; also pp. 121-143 in II.

10. Caribbean Development Bank, Officers of the, "Problems of External Finance: The Experience of the Caribbean Development Bank," pp. 293-312 in II.

11. Chandavarkar, Anand G., "Some Aspects of Interest Rate Policies in Less Developed Economies: The Experience of Selected Asian Countries," in Staff Papers, International Monetary Fund (Washington) (March 1971), pp. 48-112.

12. Chen-Young, Paul, "Tourism in the Economic Development of Small Economies: Jamaica's Experience," pp. 221-229 in I.

13. Cleland, John G. and Susheela Singh, "Islands and the Demographic Transition," pp. 969-993 in III.

14. Cole, R. V., "The Anatomy of Credit for Pacific Island Nations," pp. 267-292 in II.

15. Commonwealth Secretariat, "A Commonwealth Program of Cction to Assist Island Developing and Other Specially Disadvantaged Countries," pp. 459-464 in II.

16. Crusol, Jean and Louis, "A Programme for Agriculture in Island Plantation Economies," pp. 1,027-1,033 in III.

17. Dommen, Edward, "External Trade Problems of Small Island States in the Pacific and Indian Oceans," pp. 179-199 in II.

18. ____________, "Some Distinguishing Characteristics of Island States," pp. 931-943 in III.

19. Fry, Maxwell J., "Financial Sectors in Some Small Island Developing Economies," pp. 185-207 in I.

20. Garnaut, Ross, "Economic Instability in Small Countries: Macroeconomic Responses," pp. 313-331 in II.

21. Grant-Suttie, R. I. and R. Vaez-Zadeh,"Interest Rate Structure and Policy in the ECCA Region" (unpublished, International Monetary Fund, July 29, 1982).

22. Hager, Wolfgang, "Let Us Now Praise Trade Protectionism," The Washington Post, May 15, 1983, pp. B1, B4.

23. Hawkins, Edward K., "Economic Development Issues of the Pacific Island Economies," paper presented at the Commonwealth Secretariat/World Bank Seminar on Adjustment Policies, Marlborough House, London, April 27-30, 1982.

24. Helleiner, G. K., "Balance of Payments Problems and Macro-economic Policy in Small Economies," pp. 165-184 in I.

25. Jalan, Bimal, "Introduction" and "Classification of Economies by Size," pp. 1-15, 39-47 in I.

26. Kearney, R. E. "Some Problems of Developing and Managing Fisheries in Small Island States," pp. 41-60 in II.

27. Khatkhate, Deena R., "False Issues in the Debate on Interest Rate Policies in Less Developed Countries," DM/78/96 (unpublished, International Monetary Fund, October 31, 1978).

28. ____________________, "National and International Aspects of Financial Policies in LDCs: A Prologue," World Development, Vol. 10, No. 9, pp. 689-694.

29. ____________________, and Brock K. Short, "Monetary and Central Banking Problems of Mini States," pp. 1,017-1,025 in III.

30. ____________________, Sergio Pereira Leite, and Charles Collyns, "A Study of the Financial System of Fiji," (unpublished, International Monetary Fund, May 20, 1982).

31. Lall, Sanjaya and Surojit Ghosh, "The Role of Foreign Investment and Exports in Industrialisation," pp. 143-163 in I.

32. Lamusse, Roland, "Labour Policy in the Plantation Islands," pp. 1,035-1,050 in III.

33. Lawson, Rowena M., "Development and Growth Constraints in the Artisanal Fisheries Sector in Island States," pp. 61-85 in II.

34. Lloyd, P. J. and R. M. Sundrum, "Characteristics of Small Economies," pp. 17-37 in I.

35. McCarthy, Ian S., "Hosting Offshore Banks: Benefits and Costs," (DM/79/32), Finance and Development, International Monetary Fund (Washington), Vol. XVI, No. 4 (December 1979), pp. 45-48.

36. Nashashibi, Karim, "A Supply Framework for Exchange Reform in Developing Countries: The Experience of Sudan," Staff Papers, International Monetary Fund (Washington), Vol. 27, No. 1 (March 1980), pp. 24-79.

37. Persaud, B., "Agriculture in the Economic Development of Small Economies," pp. 125-141 in I.

38. Robicheck, Walter E., "The IMF's Experience in Facilitating Adjustment in the Commonwealth Caribbean" (London, April 29, 1982).

39. Selwyn, Percy., "Smallness and Islandness," pp. 945-951 in III.

40. Sevele, Feleti V., "The Benefits of the Integrated Programme for Commodities for Island Developing Countries," UNCTAD Document TD/B/891, (August 3, 1982).

41. R. T. Shand, "Island Smallness: Some Definitions and Implications" and "Issues and Prospects", pp. 3-20, 487-502 in II.

42. South Pacific Bureau for Economic Co-operation, Officers of the, "A General Perspective of Problems of Pacific Island Countries: The SPEC Experience," pp. 465-483 in II.

43. Thomas, Ian, "The Industrialisation Experience of Small Economies," pp. 103-124 in I.

44. United Nations Conference on Trade and Development, "Progress in the Implementation of Specific Action Related to the Particular Needs and Problems of Island Developing Counties, Note by the UNCTAD secretariat," Document TD/B/841 (January 19, 1981).

45. United Nations General Assembly, "United Nations conference on Trade and Development. Progress in the Implementation of Specific Action in Favour of Island Developing Countries, Report of the Secretary General," UN Document A/37/196 (October 21, 1982).

46. Wace, Nigel, "Exploitation of the Advantages of Remoteness and Isolation in the Economic Development of Pacific islands," pp. 87-118 in II.

47. Ward, R. Gerard, "Agricultural Options for the Pacific Islands," pp. 23-39 in II.

48. Youn, Hwa-Jin, "The Asian Development Bank's Assistance to the South Pacific Development Member Countries (SPDMCs)," A Note Prepared for the Seminar on Adjustment Policies for the Caribbean and the Pacific to be held on 27-30 April 1982 in London.

C. <u>IMF country documents</u>

49. <u>Antigua and Barbuda</u>

a. SM/82/56, March 30, 1982 - Article IV Report 1982
b. SM/82/62, April 7, 1982 - RED

50. Bahamas

a. SM/83/64, April 20, 1983 - Article IV Report 1983
b. SM/83/65, April 29, 1983 - RED
c. SM/82/59, April 1, 1982 - Article IV Report 1982
d. SM/82/71, April 14, 1982 - RED

51. Barbados

a. EBS/82/153, August 31, 1982 and Corr. 1
September 2, 1982 - Request for Stand-By Arrangement
b. SM/83/82, May 19, 1983 - RED

52. Cape Verde

a. SM/82/149, July 26, 1982 - Article IV Report 1982
b. SM/82/166, August 11, 1982 - RED

53. Comoros

a. SM/82/216, November 19, 1982 - Article IV Report 1982
b. SM/82/220, November 22, 1982 - RED

54. Dominica

a. EBS/82/116, July 2, 1982 - Article IV Report 1982 and Review of
Extended Arrangement
b. SM/82/130, July 9, 1982 - RED

55. Fiji

a. SM/82/242, December 29, 1982 and Suppl. 1, January 11, 1983 -
Article IV Report 1982
b. SM/83/8, January 10, 1983 - RED

56. Maldives

a. SM/82/39, February 19, 1982 - Article IV Report 1982
b. SM/82/52, March 16, 1982 - RED

57. Mauritius

a. EBS/83/78, April 20, 1983 - Article IV Report 1983 and Request
for Stand-By Arrangement
b. SM/83/67, May 4, 1983 - RED
c. SM/81/58, March 16, 1981 - Article IV Report 1980
d. SM/81/79, April 8, 1981 - RED

58. St. Lucia

a. SM/82/21, January 28, 1982 - Article IV Report 1981
b. SM/82/22, February 2, 1982 - RED
c. SM/83/78, May 13, 1982 - Article IV Report 1982
d. SM/83/79, May 17, 1982 - RED

59. St. Vincent and the Grenadines

a. SM/83/20, January 25, 1983 - Article IV Report 1982
b. SM/83/30, February 10, 1983 - RED

60. Sao Tome and Principe

a. SM/82/102, May 28, 1982 - Article IV Report 1982
b. SM/82/109, June 11, 1982 - RED

61. Seychelles

a. SM/82/65, April 5, 1982 - Article IV Report 1982
b. SM/82/72, April 14, 1982 - RED

62. Solomon Islands

a. SM/82/199, October 4, 1982 - Article IV Report 1982
b. SM/82/203, October 12, 1982 - RED
c. EBS/83/81, April 22, 1983 - Request for Stand-By Arrangement

63. Vanuatu

a. SM/83/3, January 3, 1983 - Article IV Report 1982
b. SM/83/13, January 19, 1983 - RED

64. Western Samoa

a. SM/82/245, December 30, 1982 - Article IV Report 1982
b. SM/83/5, January 7, 1983 - RED
c. EBS/83/105, May 25, 1983 - Request for Stand-By Arrangement
d. EBS/83/106, May 25, 1983 - Compensatory Financing Facility

65. Miscellaneous papers and publications

a. SM/82/183, August 31, 1982 - Currency Unions
b. SM/82/190, September 17, 1982 - Report on a Commonwealth Secretariat/ World Bank Seminar on Adjustment Policies
c. SM/83/83, May 16, 1983 - Buffer Stock Financing Facility - Report on the 1977 International Sugar Agreement
d. SM/83/89, May 19, 1983 - Fifth Ministerial Meeting of the Group of 77

e. Hooke, A. W. The International Monetary Fund: Its Evolution, Organization and Activities, IMF Pamphlet Series, No. 37 (Washington: International Monetary Fund, 2d ed., 1982).

f. International Monetary Fund, International Financial Statistics, Vol. XXXVI, No. 10 (Washington: IMF, October 1983).

D. World Bank publications, reports, and documents

66. 1981 World Bank Atlas (Washington: The World Bank, 1982).

67. "Caribbean Group: Current Situation and Prospects," Report No. 3937 (CRG, May 24, 1982).

68. Chenery, Hollis B. and Donald B. Keesing, The Changing Composition of Developing Country Exports, World Bank Staff Working Paper No. 314 (Washington: The World Bank, January 1979).

69. Les Comores: Problemes et perspectives d'une economie insulaire de petite dimension (Washington: The World Bank, July 1979).

70. "The Comoros: Current Economic Situation and Prospects," Draft Report No. 3432-COM, 2 vols.

71. "Economic and Social Indicators for Selected Caribbean and Pacific Islands," Program Review Division, Policy Planning and Program Review Department (March 5, 1982).

72. "Economic Memorandum on Grenada," Report No. 3825 GRD (August 4, 1982).

73. Mauritius: Economic Memorandum: Recent Developments and Prospects (Washington: The World Bank, January 1983).

74. Seychelles: Economic Memorandum (Washington: The World Bank, July 1980).

75. The Solomon Islands: An Introductory Economic Report (Washington: The World Bank, April 1980).