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EBD/83/325
Correction 1

May 3, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Small Tropical Island Countries - An Overview

The following corrections have been made in EBD/83/325 (12/19/83):

Page 4, 3rd full para., line 7: for "(44: p. 131)" read "(44: p.13)"

Page 33, para. 4, line 6: for "Corporation's" read "Cooperation's"

Page 62, Table 6, line 3: for "March 31, 1983" read "August 31, 1983"

Page 63, Table 7, column 2: for "Reserve Purchases"
read "Reserve Tranche Purchases"

Corrected pages are attached.

Att: (4)

Other Distribution:
Department Heads

MEMORANDUM FOR THE DIRECTOR

DATE: 1/15/54

RE: [Illegible]

[Illegible typed text]

RE: [Illegible]

(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, micro-states, 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. 13). 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

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 Cooperation'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 Barbuda.

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).

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
<u>Caribbean</u>					
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		
<u>Africa and Indian Ocean</u>					
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	
<u>Pacific</u>					
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

August 31, 1983

(In millions of SDRs)

<u>Caribbean and Western Atlantic</u>	
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
<u>Africa and Indian Ocean</u>	
Cape Verde	3.0
Comoros	3.5
Maldives	1.4
Mauritius	40.5
Sao Tome and Principe	3.0
Seychelles	2.0
<u>Pacific</u>	
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 Pur- chases (1)*	Reserve Tranche Pur- chases (2)	CFF (3)	Buffer Stock (4)	Oil Facil- ity (5)	Cre- dit Tranche (6)	EFF (7)
<u>Caribbean and Western Atlantic</u>							
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	--
<u>Africa and Indian Ocean</u>							
Comoros	1.3	1.3	--	--	--	--	--
Maldives	--	--	--	--	--	--	--
Mauritius	196.8	16.8	51.5	3.6	--	124.9	--
<u>Pacific</u>							
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. XXXVI, 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
<u>A. Caribbean and Western Atlantic</u>			
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
<u>B. Africa and Indian Ocean</u>			
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