ECONOMICS OF SMALL COUNTRIES AND DEVELOPMENT POLICY IN THE CARIBBEAN REGION

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INTRODUCTION

This paper discusses the vulnerability of the island countries in the Caribbean Region. It will show that, apart from purely economic considerations, these countries have to face serious constraints related to political and military developments. Their geographical position, in the middle of trade flows to and from powerful entities such as the United States, Mexico and Venezuela, render the Caribbean islands particularly exposed to political influences. It is suggested that these countries should seek cooperation between themselves to reinforce the mutual trade flows and relations.

THE "LIVABILITY" CONCEPT

The quick succession of violent events on the small Caribbean island of Grenada in October 1983 directed the view of the world to a region where, since the US-military intervention in the Dominican Republic in 1965, apparently nothing of political and economic importance had happened. However, since the establishment of the United States as a world power, the Caribbean region has been one of great strategic importance because (1) it is a part of the South wing of the North-American military defense line and (2) the American oil shipments - almost literally - pass by. President Reagan has recognized this importance by developing a financial aid program for the region, known as the Caribbean Basin Initiative. Although the intention was a political one, there are real economic motives for aid. During the last decade the Caribbean region was economically in a very difficult situation. Growth rates have been declining substantially and per capita incomes have been stagnating and even declining. Both of these are caused by a substantial fall in revenues from essential goods and services - like tourism - which are very sensitive for the economic recession in the Western developed countries, especially the U.S.

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Today, a great part of the attention given by politicians and scientists to the Caribbean region, in its most ample geographical dimension, has been directed to the field of tension lying in the permanent threat of an American military intervention in Nicaragua and, very recently, the economic trade embargo imposed by the U.S. Although this pure military field of tension concerns primarily the countries on the isthmus between Mexico and Colombia, the more maritime part of the Caribbean region, i.e. the former West-Indian archipelago, the Dutch and French Antilles and the Guyana's clearly belongs to the U.S. military influence region, as has been proved by the Grenada case mentioned above. But the factor that makes these, mainly island countries, extremely vulnerable within this political scenario, is the smallness of their economies.

The Commonwealth island countries, the French and Dutch Antilles and Suriname contain no more than half a million inhabitants each. It does, however, not mean that they are poor countries, because for many of them per capita GNP lies above the IDA-threshold for granting development aid, i.e. US$ 800, although this figure does not say anything about income distribution. Their volume of international trade is large in relation to gross national product and for their needs of most consumption and capital goods they are dependent on the more advanced countries, because their domestic market is generally too small for an import-substituting domestic industry producing on the optimum level of output. This aspect of smallness leads to the following question: Which measures need to be taken in order to guarantee the human rights of self-determination, democracy and fulfillment of basic needs within this field of tension? Or, to quote Butter [2] : "How will the Caribbean countries find their way to "livability" for her population, especially the poor people?"

SMALLNESS AND DEPENDENCE

The "dependencia" theory has been developed by Latin-American scientists, giving an explanation of the economic backwardness of the Central - and Latin-American countries in relation to Europe and the US based on historically established relations. According to this view, the explanation of the backwardness of the Caribbean countries lies particularly in their "plantation character" [5]. This has not been caused by the fact that these countries started as plantations but that, after the abolishment of slavery in the 1860's and the restructuring process towards a more capital-intensive way of production, they remained dependent on foreign developed countries for their exports of agricultural goods and raw materials and for the purchase of capital goods and durable consumption goods. Generally the plantations contained a large land area on which large quantities of goods were produced. The plantation, however, was small in the sense that any fulfilment of slaves' subsistence took place in the near proximity of the plantation itself. This corresponds with the type of smallness characteristic of European urban life before the economic-political system, known as Mercantilism, reigned in the 16th and 17th centuries.

The postwar view that in former colonies any development process could be stimulated by importing capital goods and managerial technological knowledge from the more developed parts of the world ("industrialization-by-invitation") and, consequently, the welfare that was induced by this process would "trickle-down" to all lower and lowest income groups of the population, originally found response in the Caribbean region in the same way as it did in Asia and Africa. Multinational firms, especially the large American ones, accepted these "invitations" attracted by advantages such as the proximity of the own domestic market, the location of deep water, the political climate of law-and-order and the low wage-costs. But in fact, the governments of the Caribbean countries, where this kind of industrialization took place, accepted a situation in which a great part of decision-making took place outside the borders of the country. During the last decade they became more aware of this situation, partly influenced by new development philosophies like the "self-reliance" theory.

However, the possibility of any small developing country, aiming to develop her economy to a production and trade structure based on its own natural resources, is very small. The only suitable policy instruments could be - within a range of side conditions - imposing or cancelling import and export restrictions on tradeable goods and/or foreign currency. Moreover, planning incentives are generally frustrated by the fact that, in a small community, the distance between political leaders and their citizens is a relatively small one.

Any attempt to formulate policy recommendations may include the danger of inventing the wheel once again. For instance, the importance of regional co-operation with other small countries in the same geographical area can hardly be exaggerated, and has obtained ample support in world literature on this subject. Even so the priority must be given to maintaining and stimulating the export sector because it is the only present source of foreign exchange. Since, however, small countries are not a "standardized" group, but countries with very different characteristics, it is necessary to be more specific about measures of development policy.

INVESTMENT IN HUMAN TECHNOLOGY

When countries develop and grow richer, the opportunities for investment become more numerous. In small countries however, there are physical limitations to some kinds of large-scale investment. But "large" in agriculture is different from "large" in industry. Agricultural investments need large surfaces of land area, and are directly linked to the natural resources of the country, i.e. land and climate. On the contrary, industrial investments need profitability by domestic sales - small volumes, but certainty - and export sales - large volumes, but many risks. So it is important for industrial investments to be directly linked to natural resources. The best possibility is investment in "human capital", which means human skills, and high priority to the development of education, technological knowledge and organizing (managerial) capacity. This is the best approach for realizing "economies of small scale" [1] as Blackman says, because human technology is to be fitted to every scale of production. To quote De Gregori [4] "in this instance, the first resources were the ideas, skills and behavior that created the first tools". According to this view, investments should be made in knowledge-intensive industries. The best way for locating these activities is an urban environment, as it possesses advantages of agglomeration, also called "symbiosis", i.e. the possibilities for a continuous exchange and application of ideas on a small surface of land area. In this sense, the urban environment behaves like a "breeding ground" for originating and exchanging technological knowledge. Investments in (semi-) manufactured goods needing a larger scale of production and, consequently, a suburban location should be primarely made in sectors where are bottlenecks in meeting domestic and foreign demand.

Investment in managerial capacity is not only profitable in industries, but is needed in the public sector, which lays a heavy burden on small populations because of the indivisibility and nontradability of public goods [2]. An institutional framework should be established in the way Japan - and afterwards South-Korea and Singapore - realized their enormous industrialization programs, namely by establishing a real "tri-unit" between the Ministry of Economic Affairs, the large industrial producers and organized trading companies.

ESTABLISHING A "LIFE-LINE" TOWARDS ONE OF THE RICHER COUNTRIES IN THE REGION

The view that small developing countries are in some way able to aspire after any form of autarky must be rejected. Dependence on the advanced countries will remain for a number of necessary manufactured goods. But there is no necessity for any disadvantage of smallness if the import needs are canalized to one, maybe two, advanced countries. The connections with the former European mother countries are very strong historically: Demas points to the fact that during the world crisis of the thirties, resulting in falling prices of raw materials in the former Caribbean colonies, their only "life-line", was the trade connection with the European mother countries and not with other Central- and South-American countries [3]. (When this life-line was temporarely cut during the Second World War, domestic agriculture and industries grew!)

However, in a crisis situation such as the present one, the former mother countries are far away geographically. But, as an alternative, the CONTADORA- countries Colombia, Mexico, Panama and Venezuela could be suitable trade partners, as a group as well as individual countries. As a group they took initiatives for obtaining a permanent "detente" of the political situation in Central-America. As individual countries they belong to the richer Latin-American ones and their political systems are based on the principles of democracy. A treaty between one or two small island economies and one near-situated CONTADORA- country should contain, at least, mutual abolishment of any restriction on import and export of goods, services and foreign currency as well as financing facilities for the purchase of capital goods.

Trade flows to and from the CONTADORA-countries, affecting the Caribbean island countries, could generate pure offshore service management, harbors, freight shipment, repairs, banking, insurance either for international trade or assembly of heavier goods. The profits gained from these activities may result in domestic agricultural and industrial production of goods which are demanded by the international markets, not only the North-European and North-American ones but especially the CONTADORA - and neighboring developing countries.

When the economic relationship grows strong enough, it may be advantageous for the small country to peg its currency to the "life-line" partner's one and not to the US-dollar like most Caribbean countries do at present.

THE ROLE OF EUROPE

Although geographically distant, Europe as a political and economic power can still play an important and stimulating role, not only because it gave birth to the Caribbean political and economic set ups, but also for the interest of its own political goodwill in Central- and Latin-America too. The European Community is giving strong moral support to the CONTADORA initiative as to maintaining peace and to diminishing the domination by the super-powers. Within this aim of world importance, the next target should be the stimulation and coordination of the economic process in the Caribbean region, enabling this part of the world to handle smallness as a livability-philosophy, on which development policy may be founded.

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