

THE SMALL DEVELOPING COUNTRIES: AN INTRODUCTION

The purpose of this book is not only to provide a publication forum for the papers presented at the International Conference on Economic Development of Small Countries held in Malta, but also to continue the dialogue in the economic literature on the relevance of the size of countries to economic development.

Until recently, relatively little economic research and analysis has been carried out on the various economic problems faced by small countries view of their size, but there now seems to be a growing interest in the problems, characteristics and policies related to the economic development of such countries. An expression of this change in interest among economists and policy makers was the successful completion of the First International Conference on the Economic Development of Small Countries that took place in May, 1985 in Malta. The conference was intended to bring together a number of experts to discuss the problems faced by small countries. The purposes of the conference, as were envisioned by the conference organizers, were:

- (a) to identify and analyze obstacles relating to the economic development of small countries;
- (b) to discuss policy implications associated with such obstacles;
- (c) to develop models related to industrialization and trade of small developing countries.

Interest in the Problems of Small Countries

The subject of economic problems faced by small countries was discussed in a number of earlier fora. In 1957 at the Conference of the International Economic Association in Lisbon discussed the "Economic Consequences of the Size of Nations". As a result of the decolonization process that began after World War II and the emergence of 61 small countries a greater attention was given to the problems of these small countries/territories.

The fact that the creation of a large number of new small countries and territories was a result of a decolonization process of the British empire explains the special interest shown for the small countries by the Commonwealth Secretariat. In 1963, a seminar on the problems of smaller territories was organized by the Institute of Commonwealth Studies of the University of London. In 1972, a conference in Barbados addressed the question related to the development policy in small countries. Since the Lusaka meeting of the Commonwealth Heads of Governments, the Commonwealth Secretariat developed a program of action in favor of the smaller countries of the Commonwealth. In 1981, the Commonwealth Secretariat sponsored a conference organized by Alister McIntyre, Deputy Secretary-General of UNCTAD on the problems and policies in

small economies. In 1983, the Commonwealth Study Group discussing the world financial and trading system addressed the particular disadvantages of twenty mini-states with populations less than half a million.

The United Nations and Small Countries

Although no country is refused membership to the United Nations due to its size, the microstates receive very limited and indirect attention. Various United Nations and UNCTAD resolutions recognized and supported the study of problems related to inland and land locked developing countries. However, officially the UN has not passed resolutions to favor the economic development problems of small developing countries. The Caribbean and South Pacific are two regions with a large number of small countries. It is for this reason that much of the economic analysis of these two regions discusses the problems facing the small countries. The problems related to the development aspects of the small countries in these regions were addressed by many social scientists associated with the University of West Indies, the University of South Pacific and by regional institutions such as Caricom, the Caribbean Development Bank, the Organization of Eastern Caribbean States, the South Pacific Bureau for Economic Cooperation, the South Pacific Commission, the Pacific Islands Development Program at the East-West Center in Hawaii.

In 1945, when the UN was created, there were twelve small countries and only three islands (Cuba, Haiti and the Dominican Republic). In 1946, Iceland joined the UN followed by Ireland and Sri Lanka in 1955. It was with the admission of Cyprus in September 1960, an island state small in area and population (9,250 sq. km and 500,000 inhabitants respectively) that paved the way for the international fraternity to expand with the addition of new small states.

The decades of the 1950's and 1960's was a period when most of the economic development models theories, research and studies were developed and popularized. The model building was using as a base the socio-economic and political environment of the large developing countries. The problems, characteristics, cause-effects relationships discussed in the economic development models were more related to large countries, because those countries were the predominantly developing countries. The 1980's, however, is an era where the small developing countries are not in the minority but large in numbers and with new types of problems.

Special Constraints

Small countries are known to have certain characteristics which tend to act as development constraints. The special set of such constraints faced by the small countries according to A. J. Dolman typically include:

- Diseconomies of scale, with effects increasing exponentially as a function of insularity and isolation.

- Limitations in natural resource endowments, not only in terms of commercially exploitable minerals but also, in the case of "low" islands, such basic resources as soil, water and vegetation.
- Dependence on a very narrow range of tropical agricultural products - typically sugar, bananas, copra, fruit and vegetables - and little or no influence on the terms of trade.
- Distance from markets, high external (and sometimes internal) transport costs and the need for the transshipment of goods.
- Serious balance of payments problems, often the result of stagnating export performance and rapidly growing volumes of imports, especially of food and energy.
- Very narrow range of local skills, with a critical shortage of trained manpower, problems of matching skills to available jobs, and a heavy reliance on expatriates.
- Dependence on one or a few large companies, often foreign-owned and operating on highly privileged terms.
- Limited access to capital markets and a heavy dependence on aid and external institutions.
- Proneness to certain types of natural disasters, especially cyclones which can have long-lasting effects in small islands.
- Highly fragile natural ecology and very vulnerable physical environment. The genetic diversity, and hence genetic resource base, is smaller on islands and species and sub-species of flora and fauna are more prone to extinction.

In addition to the above mentioned problems faced by small countries, reference can be made to another list of nineteen factors contributing to administrative problems of small countries. This list is brought forward from Jake Jacobs paper that appears in this volume.

First, the most obvious point to which I have already referred. Small states mean small manpower resources including shortages of skilled manpower and training facilities needed to produce them. *Second*, public services tend not to increase in direct proportion to population. There are diseconomies of scale in the administration of small states. *Third*, because populations are small, the public service clientele is small. This means that specialist services can often not be justified. *Fourth*, administrative organization of small states often reflects the organization inherited from the colonial power. Indeed they often differ very little from the colonial pattern. Colonial powers could afford to be less concerned with the costs of administration than their successors have to be. *Fifth*, independent states need to provide services which may not have existed in the era of dependence. (e.g., Planning foreign relations). *Sixth*, the distribution of population may create special administrative problems for small states. *Seventh*, excepting oil producers, small states have few natural resources, including manpower, already referred to. The range of those natural resources is also limited. This means increased vulnerability to natural disasters and world price fluctuations. *Eighth*, small populations know each other: are often related to each other. This poses special problems if the government is attempting to staff its public service by merit.

"Knowing each other" means knowing the political sympathies and political party affiliations. *Ninth*, individuals can affect small administrations in a manner impossible in larger states. The public has increased opportunities of access to ministers. Likewise, junior civil servants have access to politicians over civil service matters including often the "Rights" of appeal over disciplinary decisions. *Tenth*, and obversely to nine, in small countries political leaders have the opportunity - indeed are often expected to oversee administrative detail which elsewhere would be left to administrative discretion. This is what many an aggrieved public servant has called, "interference". *Eleventh*, in small administrations there is a tendency towards informal and often unrecorded means of communication. The resulting discontinuities can be inimical to efficient administration. *Twelfth*, the isolation of many small states - I do not refer exclusively to island states - has administrative implications. *Thirteenth*, the smaller the administration, the smaller the opportunities for a life-time career. This is exacerbated by, inter alia, a common profusion of cadres. *Fourteenth*, small administrations mean small spare capacity. This has important training implications. *Fifteenth*, we have already noted that small states cannot afford all the training institutions they would like. But international or regional schemes for training have proved very difficult to arrange successfully. *Sixteenth*, unjustifiably expensive forms of decentralization and local government have tended to be perpetuated without question more in small states than elsewhere. This has had severe administrative outcomes (the Lesotho case). *Seventeenth*, the capacity of small states to obtain appropriate technical assistance and use it effectively is directly related to size. *Eighteenth*, the very establishment of a Foreign Service with its concomitant overseas missions has a serious impact on the administration. This is compounded by the fact that Foreign Services are often staffed - quite mistakenly in my view - with the cream of the nation's administrators. *Nineteenth*, and finally, key people in small states, including officials and politicians, tend to be abroad more often than their peers in larger countries.

There are also other factors that need to be incorporated in the analysis of small countries. As described in this volume by Dr. Mellah, "Is Kuwait a Small State?" demographic factors such as the distribution of population (important in the analysis of the communication factor) and the degree of urbanization must be added to the list. In Kuwait, Dr. Mellah adds "psychological factors probably played a not inconsiderable role in the demographic growth. The collective fear of being "overrun" by foreigners and the anguish aroused by a fragile position vis-a-vis three powerful neighbors certainly gave rise to positive reactions in terms of demography." The above might be described as a "smallness syndrome" that acts upon collective conscience and determines the State's choices, in terms of population growth, industrialization process and communication methods and skills.

Many writers considered small countries as independently not viable political and economic entities, unless they had a population of several million inhabitants. After World War II many colonies passively or

actively demanded their self-determination or self-government. This drive for independence led to the creation of several new small countries or island nations which brought pressures on social scientists and policy makers to address new ways of dealing with the increasingly specific problems presented by these new small states. The number of new states grew as their land area and their demographic weight diminished.

Small Countries in an International Context

The appendix to this Introduction shows the number of states by size of population, area and per capita income. It groups the countries by population as those with a population under one million; one to five million; five to ten million; and over ten million. The accompanying table summarizes all countries and territories by population size, area and per capita income.

It is rather revealing to many observers that today there are 61 countries/territories, or 33 percent of all countries, with a population less than one million. There are 36 states with populations of one to five million, and 33 countries with population five to ten million. That is, there are 130 countries/territories or 70 percent of all countries/territories that have populations less than ten million. There are 57 countries or 30 percent of all countries with population over ten million.

However, the 61 countries with a population under one million, have a total population of about 0.3 of one percent of the total world population. The 130 countries, with a population of less than ten million people each, share only 7.6 percent of the total world population. About 92.4 percent of the world population lives in countries with a population over ten million. The legitimate question is whether the economic literature will continue addressing the problems of the majority of people living on fewer large countries or the problem concerning a large number of small countries in which less than eight percent of world population lives.

Countries with less than one million population occupy an area of about three percent of the total world living area. The average per capita income of small countries with a population less than one million, excluding three oil producing countries, was estimated for 1983 to be \$2,990. Compared to the world average per capita income the small countries per capita income is only 88.2 percent of that of the world average income. However, eleven of the small countries had a per capita income less than \$500, fourteen countries had a per capita income of \$500-\$1000; eight countries had a per capita income of \$1000-\$2000; twenty countries averaged a per capita income of \$2000-\$10,000 and eight countries showed over \$10,000 per capita income.

According to the *World Development Report* of the World Bank, there are forty-five countries with population less than one million and with a surface area of less than 5,000 m². Most of these countries are islands. There are also five countries with less than 5000 m² and a population

over one million. In theoretical terms a "small country" is one that is small enough so that the quantity of goods and services it produces is too small to affect their prices. In other words, the small country, from a micro point of view, is a "price taker." At the macro-economic level, smallness might be defined as such that the country's expansion or contraction will not influence the overall economic activity in the rest of the world. There are some obvious exceptions to such a general definition. Such is the case of some small oil producing countries which happen to produce a great share of the total world production of a highly inelastic product. However, the classical criteria of smallness are: population area and the size of the economy as measured by total GDP. In this volume, Hein's paper deals mainly with the subject matter of defining microstates.

Need for Further Research

D. Seers in his renowned article, "The Limitations of the Special Case" incorporates mostly the views that this volume subscribes to, that is most of the theories of development implicitly assumed the institutional content of large industrialized countries which bear little resemblance to the reality of developing countries, let alone small ones. In many economic development models, trade or foreign sector is ignored or is treated as a secondary factor. In most of the small countries, trade is very important and in many cases, the import/GNP ratio is greater than one. It was suggested that the economies of small states should begin with a focus on international trade and foreign sector and treat the domestic economy as a dependent aspect of the foreign sector economy; this is basically the approach taken by Briguglio in his article on Malta in this volume. The study of microstates would require a diversion from the traditional economic concepts to new principles more applicable to the small economies environment.

Whatever criteria are being used to define small countries, the groupings of these countries show a large number of other varied characteristics. If, for example, we take into account mini-states, countries with a population of 200,000 to 500,000 inhabitants. Iceland, Luxemburg, Surinam, Gambia, Cape Verde, the Bahamas, Barbados, the Comores and Malta, are included. However, these countries are experiencing a variety of climatic conditions, physical and human resources, welfare levels, political, social and cultural characteristics. This indicates that the study of small countries should not just focus on generalities but should also cover the analysis of the particular economic and other conditions in these countries.

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APPENDIX TO INTRODUCTION

AN ANALYSIS OF COUNTRIES/TERRITORIES BY POPULATION, AREA AND PER CAPITA INCOME

Size of Countries and Territories by Population	Number of Countries		1983 Population		Area		1983 Per Capita Income	
	Absolute	Percent	Absolute (in millions)	Percentage	km ²	Percentage	Average Per Capita	Percentage World Average
Under 1 million	61	33	15.5	.33	4,091,181	3.04	\$3,959*	111.40
1 to 5 million	36	19	100.3	2.16	10,523,158	7.83	3,766	105.96
5 to 10 million	33	18	237.8	5.11	10,891,554	8.10	3,028	85.20
Over 10 million	57	30	4,300.4	92.40	108,961,515	81.03	3,292	92.60
Total	187	100	4,654.0	100.00	134,467,408	100.00	\$3,554	

*Average Per Capita Income, excluding three oil producing countries, is estimated to be \$2,990 for 1983, or 88.2 percent of world average.

Source: The World Bank, "World Development Report," various years, and the World Bank Atlas, World Bank, Washington, DC, various issues.

INDIVIDUAL COUNTRIES/TERRITORIES BY POPULATION,
LAND AREA AND PER CAPITA INCOME

POPULATION LESS THAN 1 MILLION

Countries territories	1987 Population (thousands)	Land area (sq. km.)	1987 Average per Capita Income(\$)
Guinea-Bissau	922	36,260	160
Gambia, The	797	11,295	220
Sao Tome and Principe	115	964	280
Cape Verde	344	4,003	500
Guyana	797	214,970	390
Solomon Islands	293	28,530	420
Grenada	100	344	1,340
St. Vincent and the Grenadines	120	388	1,000
Swaziland	712	17,363	700
Botswana*	998	600,372	920
St. Christopher and Nevis	44	269	1,700
Dominica			
St. Lucia	142	616	1,440
Belize	176	22,963	1,240
Mauritius*	993	2,045	1,160
Antigua and Barbuda	83	442	2,540
Fiji	722	18,274	1,570
Seychelles	67	280	3,120
Suriname	420	163,265	2,270
Malta	345	316	4,190
Cyprus	680	9,251	5,200
Gabon*	695	267,667	3,950
Barbados	254	431	5,350
Bahamas	240	13,935	10,280
Iceland	246	103,000	16,600
Bahrain	445	622	*10,510
Luxemburg	371	2,586	18,550
Brunei	235	5,765	15,390
Qatar	332	11,000	12,430
Comoros	426	2,171	370
Djibouti	370	22,000	*125
Equatorial Guinea	389	28,051	*125
Maldives	196	298	300
Vanuatu	150	11,880	*460

POPULATION LESS THAN 1 MILLION (continued)

Countries/ territories	1987 Population (thousands)	Land area (sq. km.)	1987 Average per Capita Income (\$)
Western Samoa	166	2,935	550
American Samoa	36	197	*4,130
Bermuda	56	55	*13,320
Channel Islands	136	236	*10,110
Cook Islands*	17	240	1,170
Faeroe Islands	47	1,340	*9,850
French Guiana*	65	90,909	3,180
French Polynesia	179	4,000	*8,190
Gibraltar	30	6.5	*5,420
Greenland	54	2,175,600	1*0,390
Guadeloupe	337	1,779	*3,940
Guam	128	549	*6,070
Isle of Man	63	588	*4,910
Kampuchea, Dem (Cambodia)*	230	181,035	6,290
Kiribati*	61	690	460
Macao	429	16	*2,560
Martinique	329	1,100	*4,270
Montserrat*	13	15.5	*2,360
Neth. Antilles	190	1,821	*4,160
New Caledonia	158	22,139	*7,790
Niue*	3	259	1,020
Pacific Islands Trust Terr.*	145	1,779	1,000
Tokelau*	2	10	610
Tonga*	104	997	780
Tuvalu*	7	158	630
Virgin Islands (U.S.)*	110	153	8,810
Wallis and Futuna*	10	207	1,150
TOTALS	16,404	4,091,181	3,482

POPULATION 1 TO 5 MILLION

Countries/ territories	1987 Population (millions)	Land area (sq. km.)	1987 Average per Capita Income (\$)
Bhutan	1.3	46,620	150
Chad	5.3	1,284,000	150
Lao PDR	3.8	236,804	170
Lesotho	1.6	30,460	370
Liberia	2.3	111,370	450
Mauretania	1.9	1,030,700	440
Yemen PDR	2.3	322,968	420
Honduras	4.7	112,088	810
Papua New Guinea	3.7	461,691	700
Nicaragua	3.5	130,000	830
Costa Rica	2.6	50,700	1,610
Congo, People's Rep.	2.0	342,000	870
Jamaica	2.4	10,991	940
Paraguay	3.9	406,750	990
Lebanon*	2.6	10,360	1,500
Mongolia*	1.8	1,564,619	1,600
Jordan	3.8	97,740	1,560
Panama	2.3	77,080	2,240
Uruguay	3.0	176,215	2,190
Puerto Rico	3.8	8,860	2,890
Israel	4.4	20,720	6,800
Singapore	2.6	618	7,940
Trinidad and Tobago	1.2	5,128	4,210
Oman	1.3	212,380	5,810
Libya	4.1	1,759,540	5,460
Kuwait	1.9	17,818	14,610
United Arab Emirates	1.5	83,600	15,830
Ireland	3.6	70,282	6,120
New Zealand	3.3	268,676	7,750
Finland	4.9	337,113	14,470
Norway	4.2	324,219	17,190
Albania*	2.8	28,748	3,275
Burundi	5.0	27,834	250
Central African Rep.	2.7	622,984	330
Togo	3.2	56,980	290
Benin	4.3	112,622	310
Sierra Leone	3.8	71,740	300
TOTALS	113.4	10,523,158	3,565

POPULATION OVER 5 MILLION

Countries/ territories	1987 Population (millions)	Land area (sq. km.)	1987 Average per Capita Income (\$)
Mali	7.8	1,240,000	210
Burkina	8.3	240,200	190
Malawi	7.9	118,484	160
Niger	6.8	1,267,000	260
Somalia	5.7	637,657	290
Rwanda	6.4	26,338	300
Guinea	6.5	245,957	*300
Haiti	6.1	27,749	360
Madagascar	10.9	592,900	210
Senegal	7.0	196,192	520
Bolivia	6.7	1,098,581	580
Yemen Arab.Rep.	8.5	194,250	590
Zambia*	6.3	752,614	580
El Salvador	4.9	21,041	860
Ivory Coast	11.1	322,463	740
Zimbabwe	9.0	391,090	580
Cameroon	10.9	475,439	970
Guatemala	8.4	108,780	950
Tunisia	7.6	163,610	1,180
Dominican Rep.	6.7	48,734	730
Ecuador	9.9	283,561	1,040
Angola*	8.2	1,246,700	1,420
Cuba*	9.8	114,471	1,450
Syrian Arab.Rep.	11.2	185,180	1,640
Greece	10.0	131,944	4,020
Hong Kong	5.6	1,064	8,070
Belgium	9.9	30,540	11,480
Austria	7.6	83,835	11,980
Denmark	5.1	43,076	14,930
Sweden	8.4	449,964	15,550
Switzerland	6.5	41,228	21,330
Bulgaria	8.9	110,912	11,280
TOTALS	254.6	10,891,554	3,429

POPULATION OVER 10 MILLION

Countries/ territories	1987 Population (millions)	Land area (sq. km.)	1987 Average per Capita Income (\$)
Ethiopia	44.8	1,221,900	130
Bangladesh	106.1	143,998	160
Nepal	17.6	140,791	160
Zaire	32.6	2,345,409	150
Burma	39.3	676,552	*180
Uganda*	13.9	235,885	220
Tanzania	23.9	942,623	180
India	797.5	3,287,590	300
China	1068.5	9,561,000	290
Ghana	13.6	238,538	390
Sri Lanka	16.4	65,610	400
Kenya	22.1	582,646	330
Pakistan	102.5	803,943	350
Sudan	23.1	2,505,813	330
Afghanistan*	17.2	647,497	400
Mozambique*	13.1	783,030	410
Viet Nam	65.0	329,707	*420
Indonesia	171.4	2,027,087	450
Egypt, Arab. Rep.	50.1	1,001,449	680
Morocco	23.3	446,550	610
Philippines	58.4	300,440	590
Nigeria	106.6	923,768	370
Thailand	53.6	514,820	850
Peru	20.2	1,285,216	1,470
Turkey	52.6	780,576	1,210
Colombia	29.5	1,138,914	1,240
Korea Dem. Rep.*	19.2	121,129	390
Malaysia	16.5	131,313	1,810
Chile	12.5	756,945	1,310
Brazil	141.4	8,512,100	2,020
Korea, Rep. of	42.1	98,500	2,690
Argentina	31.1	2,766,889	2,390
Portugal	10.2	92,082	2,830
Mexico	81.9	1,972,547	1,830
Algeria	23.1	2,381,471	2,680
South Africa	33.1	1,221,037	1,890
Yugoslavia	23.4	255,804	2,480
Venezuela	18.3	912,050	3,230
Iran, Islamic Rep.	47.0	1,648,000	*1,250
Iraq	17.1	434,924	*1,110

POPULATION OVER 10 MILLION (continued)

Countries/ territories	1987 Population (millions)	Land area (sq. km.)	1987 Average per Capita Income (\$)
Saudi Arabia	12.6	2,149,690	6,200
Spain	38.8	504,782	6,010
Italy	57.4	301,223	10,350
United Kingdom	56.9	243,977	10,420
Netherlands	14.7	40,844	11,860
Japan	122.1	372,313	15,760
France	55.6	547,026	12,790
Germany, Fed. Rep.	61.2	248,577	14,400
Australia	7.6	7,686,848	11,980
Canada	25.9	9,976,139	15,160
United States	243.8	9,372,614	18,350
Hungary	10.6	92,980	2,240
Czechoslovakia*	15.4	127,870	5,330
German Dem.Rep.*	16.7	108,178	6,710
Poland	37.7	312,612	1,930
Romania	22.9	237,499	*5,100
USSR*	272.5	22,402,200	6,380
TOTALS	4572.2	108,961,515	3,157

Note: 1987 figures not available for all countries.

(*) beside a country indicates 1983 figures for population and per capita income;

(*) beside per capita income indicates 1983 figure for only this indicator.

Source: World Bank, *World Development Report 1989*, The World Bank, Oxford University Press, 1989.