Economic Progress in Central America and the Caribbean in the Past 30 Years

By
DeLisle Worrell

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Working Paper

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info@DeLisleWorrell.com

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Abstract

This study assesses the economic performance of Central American and a selection of Caribbean (CAC) countries over the past 30 years, using the Human Development Index as the measure of gains in the overall well-being of their populations. The majority of CAC populations are in the categories of High and Very High Human Development, and there has been steady improvement in almost every case. Growth in real GDP per capita was strongest in the countries that export manufactured goods, along with significant receipts from tourism and other activities. External economic shocks caused no lasting impairment of economic growth, except for some tourism-dependent economies, in the wake of the Global Recession. Although the extent of export diversification is limited by the small size of CAC countries, those countries whose main export is manufactured goods, with significant earnings from tourism and other sources, have been more successful than those which are heavily dependent on one main foreign currency earner. Costa Rica stands out as the CAC country that has been most consistently competitive, maintaining its market share and increasing the domestic share of returns on exports and tourism. Exchange rate policies had no discernible effect on relative prices.

JEL classification: O11, O54, E65

Keywords: Central America, Caribbean, economic growth, human development, small open economies, competitiveness, devaluation, exchange rate policy.

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Introduction

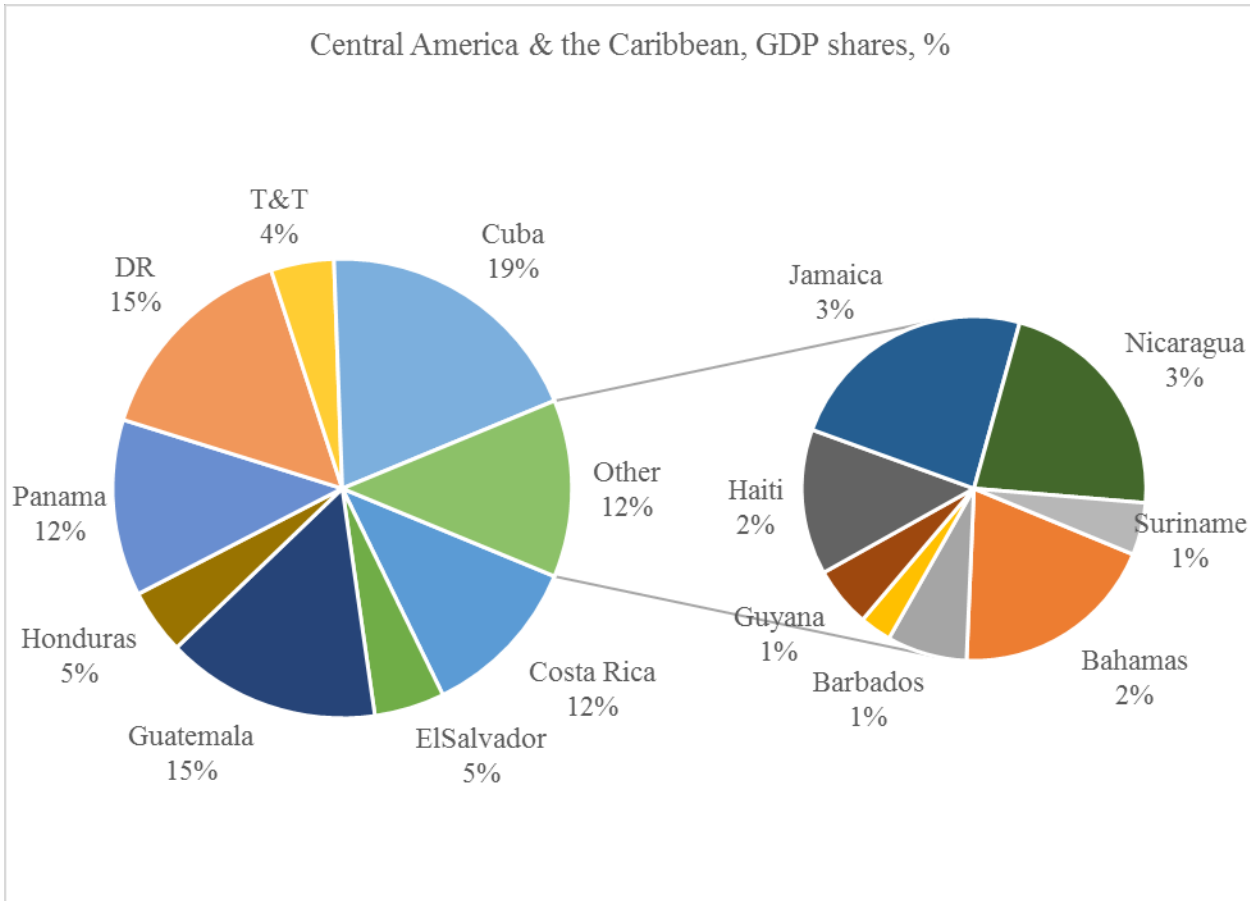
This study explores the reasons why some very small open economies do so much better than others, using a selection of countries from Central America and the Caribbean (CAC) as our case study. Although the countries are all very small, they offer a variety of production structures, from tourism-dependent economies to those mostly exporting agricultural or manufactured goods, as well as different exchange rate regimes and macroeconomic policies. This selection of countries therefore offers sufficient diversity of policy and circumstance to provide insight into the effects of different economic strategies in small open economies.

Our study encompasses the six Hispanic countries of Central America (Costa Rica, Guatemala, El Salvador, Honduras, Nicaragua and Panama) and the largest island nations of the Caribbean (The Bahamas, Barbados, Cuba, the Dominican Republic, Haiti, Jamaica and Trinidad and Tobago). The economies range in economic size from almost USD 5 billion (Barbados) to just under USD 100 billion (Cuba). They are all very open, producing a narrow range of internationally competitive exports, tourism and other services, the earnings from which finance a very wide array of consumer goods, materials, equipment, fuels and other intermediate and capital goods. Up until the 1960s these countries were all agricultural exporters, but by 1990, the starting date for our study, the main source of foreign exchange earnings in the smaller islands was tourism. The larger islands also exported some manufactured goods. In Central America, two countries remain agricultural exporters, and the other four have switched largely to light manufacturing, two of them with significant tourism sectors. Trinidad and Tobago is the only petroleum exporter.

Because imports are essential for all fixed investment, production and consumption, the prices and output of Central American and Caribbean countries were affected by the volatility of international commodity prices, the Global Recession of 2008, the economic fortunes of major commercial partners, the cost and availability of US dollar credit, and other economic events that are not within the control of local authorities. In the face of external challenges, countries of the region have employed a wide range of exchange rate strategies, from fixed pegs to the US dollar to various degrees of managed exchange rate. On occasion, the central bank has refrained from intervention in the foreign exchange market, and two countries (Panama and El Salvador) use the US dollar for all domestic transactions.

Figure 1 shows the relative sizes of countries included in this study. Cuba is the largest economy in the Central American and Caribbean region, with 19 per cent of regional GDP, followed by the Dominican Republic and Guatemala, with 15 per cent each. Panama and Costa Rica each account for 12 per cent. All other countries are less than 10 per cent, including Honduras and El Salvador, with five per cent each. The largest member countries of the Caribbean Community (CARICOM) are Trinidad and Tobago, four per cent of the CAC regional total, Jamaica, three per cent, and The Bahamas and Haiti, two per cent each. Together CARICOM countries account for 11 per cent of the CAC total.

Figure 1.



The preferred measure of economic well-being for international comparison is the Human Development Index (HDI), published annually since 1990 by the United Nations Development Programme (UNDP, 2019). It combines a measure of the real purchasing power of national income per person, with indicators of educational and health performance. These are three key elements that determine the material well-being of individuals and households in any country. The elements of the HDI are the best comparable data we have on the lived experience of citizens of countries worldwide, and are far superior to measures of GDP, which are commonly used to compare the performance of nations. Two examples clearly illustrate this point. As international media constantly remind us, Japan has experienced little or no growth in real GDP for more than two decades; in spite of this, it has among the world's highest HDI scores, standing at Number 19, ahead of France, Spain and Austria. This is consistent with the lived experience of the majority of Japanese. In the Caribbean, Guyana has been the fastest growing economy in recent years, but it still ranks Number 125 in the world on the HDI, the lowest in the region, except for Haiti. Guyana outperforms Japan in terms of GDP growth by a wide margin, but the quality of life of Japanese is far superior.

The performance of the CAC countries in our sample is matched against their peers and against Latin America and the Caribbean as a whole, based on the HDI. Against the background of each country's human development performance, this paper focusses on one element of the HDI, namely the real GDP. In order to avoid providing a distorted picture, the rate of growth of GDP has to be seen in the context of the country's human development, including the other elements which are included in the HDI, namely health and education. The growth rate also has to be evaluated in light of the level of GDP in 1990 and the rate of inflation, which affects the purchasing power of the national income.

Variety of production structures in CAC countries

Already by 1990 tourism had replaced agriculture as the leading source of economic sustainability and growth in the insular Caribbean, with the exception of Trinidad-Tobago. Export agriculture, which had performed this role for centuries, was by then reduced to a trivial activity. Consumption and investment in all small open economies are sustained by the sectors that earn foreign exchange, and these economies can grow only if they increase output and earnings from the foreign exchange sectors. The reason is that a small country contributes only a tiny fraction of the world's supply of tourist services, bananas, or other exports; it therefore has to be efficient enough to match the ruling price (for the quality of product or service it sells) on the international market. Small size means limited resources, which in turn means that the small economy can be internationally competitive in only a handful of activities. In contrast, the variety of supplies needed for household use and for the use of local businesses of all kinds is very wide. Except for the handful of internationally competitive activities, all these products are cheaper to import. The earnings from foreign exchange activities must be sufficient to cover all these imports (Worrell, 2012).

There are four *tourism* economies shown in Table 1. In The Bahamas and Barbados there are no major current foreign currency inflows other than tourism, which accounts for almost two-thirds of the total. There is some minor export of manufactured goods, and in the case of The Bahamas, also some fish. In Barbados income from abroad is significant, largely because of pension income of persons who worked overseas before retiring to Barbados. Tourism is the main source of foreign exchange in Cuba and Jamaica as well, but they both have at least one other major contributor to foreign inflows. In Jamaica's case it is remittances, which are almost as important as inflows from tourism. Cuba earns substantial foreign exchange from the export of pharmaceuticals and other manufactured goods. Remittances are also an important source of foreign exchange in Cuba, but much less so than in Jamaica.

There are four countries where *manufactured exports* are the most important source of foreign earnings: Costa Rica, where medical supplies are the largest export category; the Dominica Republic (DR), which also exports medical supplies, along with cigars and garments; Nicaragua, exporting mostly garments; and Panama, where the main items are medical supplies and chemical products, as well as some garments. Tourism is next in importance in the DR and Panama, and third in importance in Costa Rica, after business and financial services. These services are also important sources of foreign earnings for Panama. Remittances are Nicaragua's other main source of foreign currency inflows, with only a minor contribution from tourism.

Table 1. Country Classification

1	**Tourism driven economies: tourism + minor activities, % of FX inflows**				
	Bahamas	Tourism, 62	Mfg, 6.5	Fish, 3	
	Barbados	Tourism, 59	Income, 13	Mfg mainly, 12	
2	**Tourism with other major drivers, % of FX inflows**				
	Jamaica	Tourism, 33	Remittances, 31	Minerals, 6	
	Cuba	Services CR, 47	Mfg mainly, 29	Remittances, 13	
3	**Exports, mainly mfg, with other drivers, % of inflows**				
	Costa Rica	Exports, 47	Oth svcs, 19	Tourism, 16	
	Nicaragua	Exports, 55	Remittances, 22	Other services, 10	Tourism, 7
	Panama	Exports, 45	Tourism, 16	Other services, 12	Income, 9
	DR	Exports, 36	Travel, 25	Remittances, 24	
4	**Mainly agr exports, with other drivers, % of inflows**				
	Guatemala	Exports, 47	Remittances, 33	Travel, 7	
	Honduras	Exports, 64	Remittances, 19	Travel, 6	
5	**The mineral exporter, % of inflows**				
	T&T	Exports, 86, of which petroelum products c 66			
6	**Remittances, mainly**				
	Haiti	Remittances, 68	Exports, 2017, mainly garments (1997), 22		
	El Salvador	Remittances, 42	Exports, mainly garments, 35		

Source: UN ECLAC, *Statistical Yearbook 2019.*

Guatemala and Honduras are *agricultural exporting* countries; the only other major source of foreign earnings in both countries is remittances from abroad. Guatemala's main exports are bananas, sugar and coffee, while Nicaragua mainly exports coffee, fish and palm oil. Tourism earnings are significant, but comparatively small.

Trinidad and Tobago is the only exporter of *petroleum and related products*, mainly natural gas, ammonia, methanol and fertili1zers. The petroleum sector and related activities account for 86 per cent of the country's foreign inflows.

Two countries, Haiti and El Salvador, depend mainly on *remittances* as a source of foreign exchange. In both cases garment manufacturing is important, but its contribution to foreign inflows is much less than that of remittances.

Human development in CAC countries

The quality of lives in the Caribbean (except Guyana and Haiti), and in Panama and Costa Rica, is comparable to those in advanced economies. Barbados and The Bahamas have HDI scores which place them in the highest category (Very High) of human development, comparable to Ireland, Iceland, the US, Canada and the UK. Small open economies in this category include Singapore, Malta, Cyprus and the Seychelles. (HDI scores of CAC countries are shown in Table 2).

Panama, Costa Rica and every other Caribbean country except Guyana and Haiti have HDI scores which put them in the second highest category, High Human Development. China, Brazil and South Africa are in this category.

Guyana and the other Central American countries are in the Medium category. India, Ghana, Kenya and Morocco are in this category.

Haiti is the only country in the region with Low Human Development, a category which includes most African countries.

Table 2. Components of the Human Development Index

	HDI	LIB	MYS	GNI pc
Barbados	0.813	79.1	10.6	15,912
Bahamas	0.805	73.8	11.5	28,395
Trinidad and Tobago	0.799	73.4	11.0	28,497
Panama	0.795	78.3	10.2	20,455
Costa Rica	0.794	80.1	8.7	14,790
Cuba	0.778	78.7	11.8	7,811
Dominican Republic	0.745	73.9	7.9	15,074
Jamaica	0.726	74.4	9.8	7,932
El Salvador	0.667	73.1	6.9	6,973
Guatemala	0.651	74.1	6.5	7,378
Nicaragua	0.651	74.3	6.8	4,790
Honduras	0.623	75.1	6.6	4,258
Haiti	0.503	63.7	5.4	1,665

HDI: Human Development Index
LIB: Life expectancy at birth
MYS: Median years of schooling
GNI pc: Gross National Income per capita

Source: UNDP, *Human Development Report 2019.*

The Very High HDI countries

Barbados is the leading CAC country in the global rankings at No 56; it scores exceptionally on life expectancy (79 years, same as for the US) and years of schooling (10.6, about the same as for Italy, Spain and Greece). However, their incomes afford Barbadians relatively modest purchasing power when compared with advanced economies.

Bahamas, with Trinidad and Tobago, records the highest Gross National Income (GNI) in the region, in terms of purchasing power. On average Bahamians spend 11.5 years in school, which puts them in the company of Malta and Singapore. These elements compensate for the Bahamian life expectancy of 74 years, which is on the low side for countries in this category.

High HDI countries

Three countries in the High HDI category, Costa Rica, Cuba and Panama, stand out for their very high life expectancy at birth, 80, 79 and 78 years, respectively. Costa Rica has the region's highest life expectancy. Life expectancy at birth is 74 years for the DR and Jamaica. Life expectancy in Trinidad and Tobago is the lowest in this HDI category, at 73 years.

Cubans remain in school the longest in this category, with an average of 11.8 years. Education and health support the quality of life in Cuba and propel the island into the category of High Human Development even though the purchasing power of average income, at less than US$8,000 per year, is among the lowest in the category. Apart from Cuba, countries with High HDI scores remain in school for 8 to 11 years.

The purchasing power of countries with high human development ranges widely, from US$7,000 (Belize) to US$28,000 for Trinidad & Tobago.

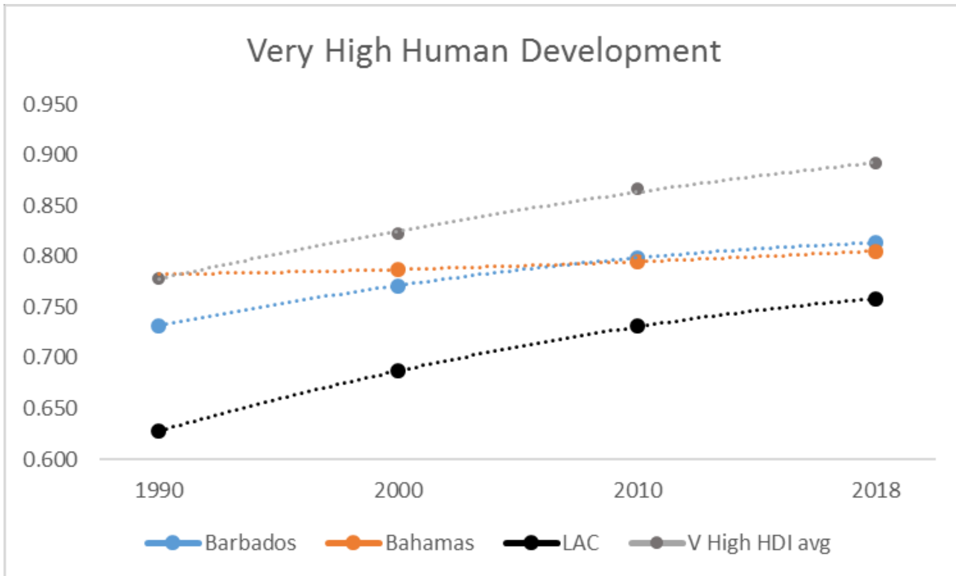
Medium HDI countries

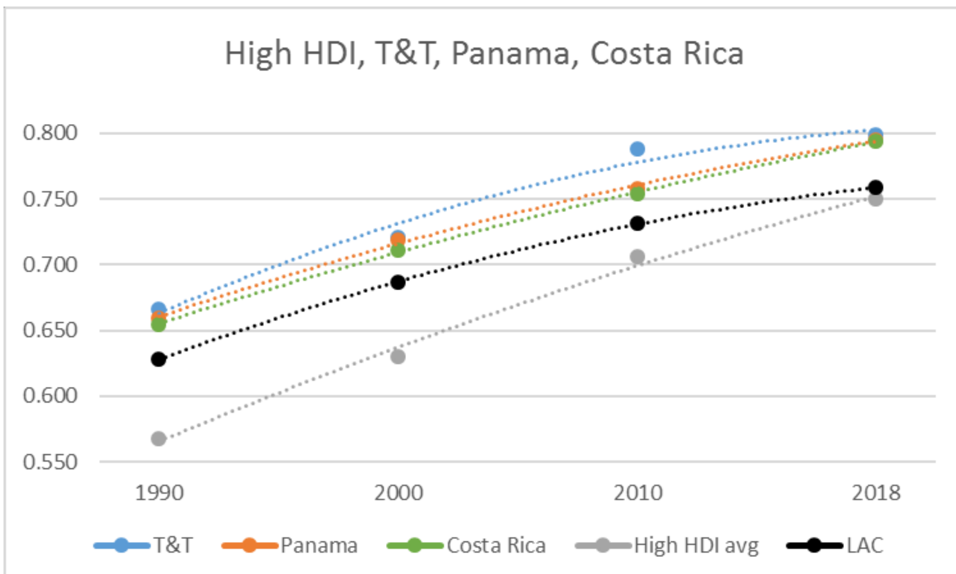
Life expectancy for these countries was between 70 and 75 years, but years of schooling were noticeably lower than in the High HDI category, at about 7 years for the most part. Guyanese are in school for longer, 8.5 years on average, but the country is let down by its health statistic, with life expectancy at 70 years, the lowest among its peers in this group. The purchasing power of incomes in this group ranges from US$4,000 to US$8,000 per year.

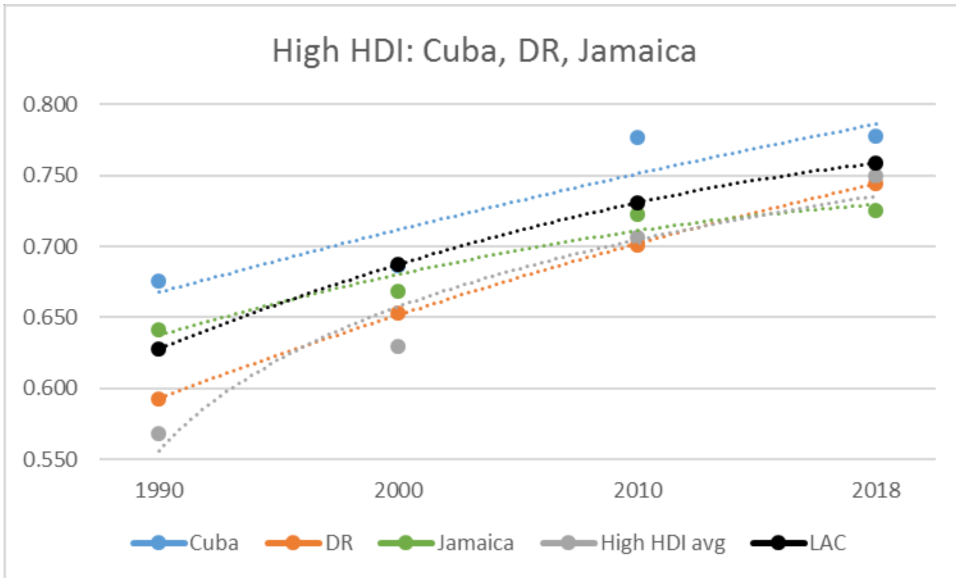
Haiti

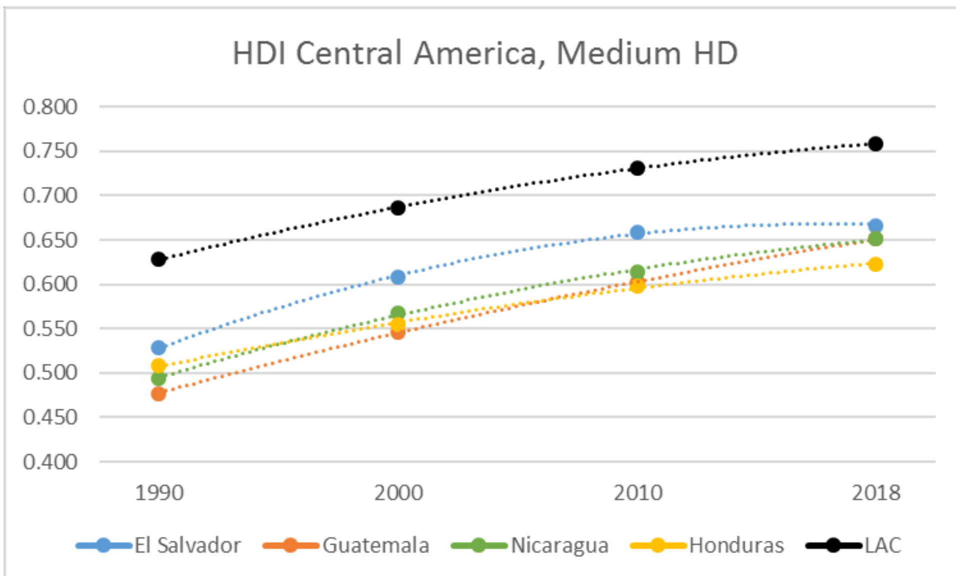
The data reflect the poor quality of life in Haiti: life expectancy is only 64 years, 20 years less than in Japan and Hong Kong; Haitians attend school for only five years on average, half the time spent by students in Cuba, The Bahamas and Trinidad & Tobago; and Haitians' average annual income, which purchases only US$1,700 of goods and services, is just 39 per cent of the GDP per capita of Honduras, the CAC country that ranks just above Haiti in the HDI.

Figure 2. Human Development Index, Changes 1990-2018









Improvement in the quality of life since 1990

In 2018, six CAC countries – Barbados, The Bahamas, Trinidad and Tobago, Panama, Costa Rica and Cuba – recorded HDI scores that indicated a quality of life superior to that for the average of all countries in Latin America and the Caribbean (LAC). Material well-being improved in the LAC region as a whole in the past three decades, although gains in the HDI became more difficult to achieve with every passing decade. In the 1990s decade the index for the region improved by nine per cent; in the 2000s by six per cent; and to 2018 by four per cent. (See Figure 2). In this section we evaluate CAC countries' performances in comparison with the LAC region as a whole.

The Very High HDI countries

Barbados’ HDI followed a pattern similar to that for LAC. In 1990 the island's HDI was 17 per cent above the regional average; the improvement in Barbados' index was slower than for the region, however, and in 2018 its advantage was seven per cent.

The Bahamas' index has remained little changed over the last two decades. In 2000 The Bahamas’ HDI was slightly ahead of Barbados; by 2018 it was slightly behind.

The High HDI countries

Trinidad and Tobago, Panama and Costa Rica, already somewhat ahead of the LAC average in 1990, all improved on their relative positions, and were even further in advance of the regional average in 2018. Cuba’s HDI remained above the LAC average even though, like Barbados, their margin of advantage narrowed. Jamaica and the DR had contrasting fortunes: Jamaica, which had a two per cent advantage on the region in 1990, had fallen four per cent behind by 2018; the DR, trailing by six per cent in 1990, had caught up with the LAC average by 2018.

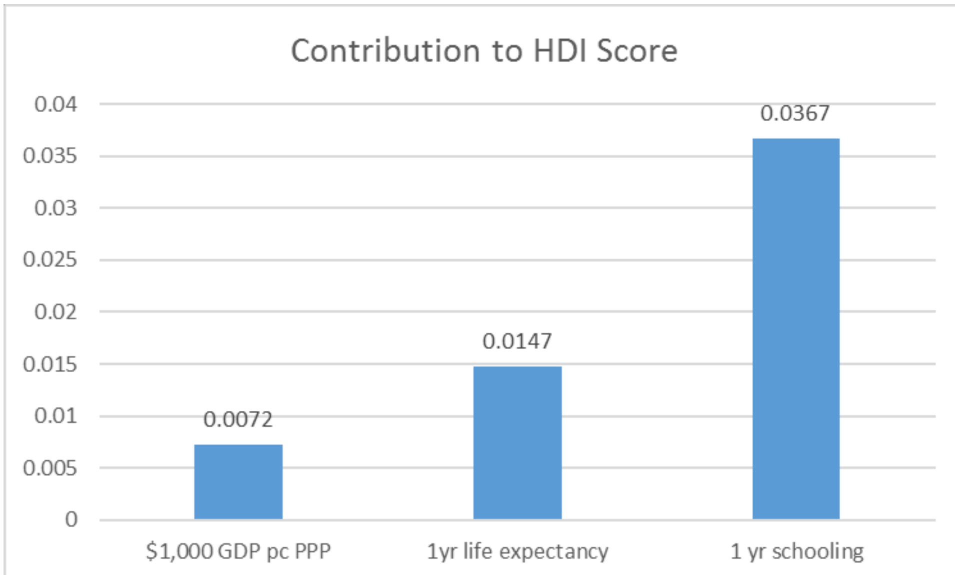
The Medium HDI countries in Central America

El Salvador, Guatemala, Nicaragua and Honduras generally kept pace with the average gains in LAC HDI, but none of these countries significantly improved their relative levels of human development. In 1990 their HDI's ranged from 24 per cent below the LAC average for Guatemala, the worst performer, to 16 per cent below the average for El Salvador. By 2018 El Salvador remained the best performer in the Medium category, now 12 per cent below the regional average, while the weakest performer, Honduras, was 18 per cent below the average.

How important is per capita income in the overall HDR score?

Since the present study focusses only on the national income, it is important to know how important the income contribution is, compared with the health and education indicators, in the HDI score. Figure 3 shows the improvement on HDI score for (a) $1,000 higher GNI per capita (at purchasing power parities), (b) life expectancy at birth that is one year higher, and (c) one extra year of schooling. The estimates are based on data for Central American and Caribbean countries, for 2018. An income per capita of $2,000 has the same impact as life expectancy which is one year higher; it takes about $5,000 to push up the HDI score by the same amount as an extra year of schooling. This comparison reflects how much more important education and health are, in determining the level of human development, than is the level of average income, or the goods that income can buy.

Figure 3.

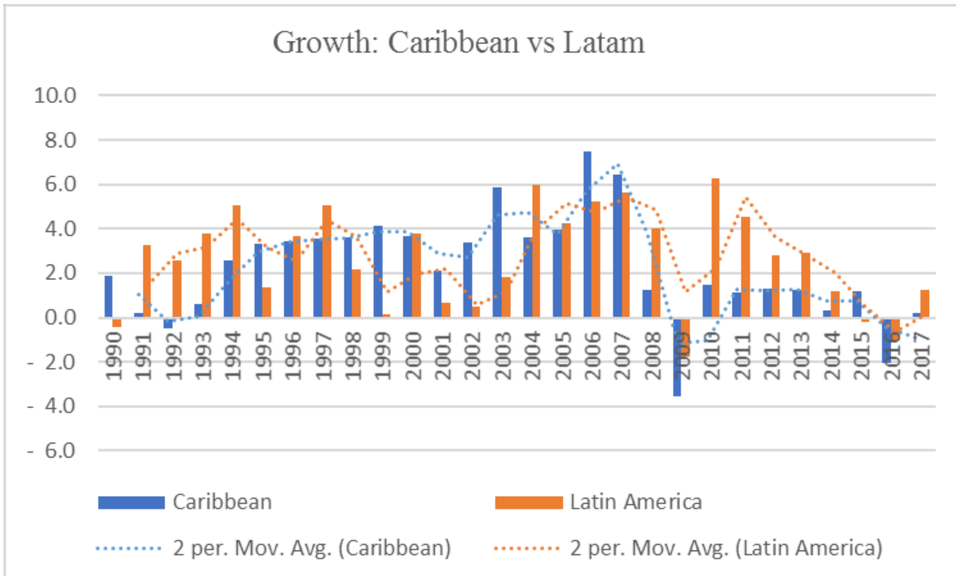


CAC growth rates, 1990-2018

The global economic events that impacted CAC countries may be identified by comparing growth performances of Caribbean countries with those of the entire Latin American and Caribbean region (Figure 4). There are four episodes which have depressed economic activity everywhere: the first Gulf War of 1990-1991, which led to brief GDP contraction in LAC as a whole; the destruction of the New York World Trade Center in 2001, the economic effects of which cut Latin America's GDP growth to less than one per cent; the Global Recession of 2008, which caused a sharp fall in regional GDP; and global trade tensions, which have caused an economic slump in LAC since 2016.

Latin American economies experienced modest growth averaging three to five per cent in the intervals between these downturns, from 1991 to the late 1990s, from 2004 to 2008, and from 2010 to 2013. By the end of the period, real GDP per capita for the region as a whole was 43 per cent higher than it was in 1990.

Figure 4.



The tourism economies

Except for Cuba, changes in per capita GDP made no significant contribution to the Human Development Indices for the economies that depend heavily on tourism earnings. Barbados, which has the highest HDI score of CAC countries, registered an improvement of only 18 per cent in real per capita GDP in almost 30 years. For Jamaica the improvement was 16 per cent. Per capita GDP in The Bahamas was eight per cent lower than it was in 1990, after taking account of inflation. Cuba was the exception: after a disastrous start, with a loss of one third between 1990 and 1993, the Cuban GDP per capita grew steadily to recover these losses by 2005. A sharp acceleration of growth from 2004 to 2008, followed by persistent more modest expansion for the rest of the period, left Cuba ahead of the LAC average, with a 56 per cent gain in per capita real GDP by 2018. (See Table 3).

Exporters of manufactured goods

Growth in real per capita GDP made a substantial contribution to gains in the HDI scores of all four countries where manufactured goods was the largest export. The countries where tourism was also an important source of foreign exchange - Panama, Costa Rica and the DR - were among the strongest performers in LAC, ending the period with per capita GDP gains ranging from 100 per cent for Costa Rica to 188 per cent for Panama. These three are in the High Human Development category. Nicaragua, also a manufactured goods exporter, registered a 77 per cent gain in real per capita GDP, significantly better than the LAC average of 43 per cent.

Exporters of agricultural products

Bananas, sugar, coffee and palm oil are Guatemala's main exports; Honduras' largest export is coffee, along with lesser values of seafood, palm oil and bananas. The other significant source of foreign exchange in both countries is remittances; tourism accounts for less than 10 per cent. The agricultural exporters are both in the Medium category of the HDI, and they made similar gains in per capita real GDP, 44 per cent for Guatemala and 46 per cent for Honduras, very close to the regional average.

Others

The escalation in oil prices from the late 1990s, which was brought to an end by the Global Recession, was reflected in Trinidad and Tobago's per capita real GDP. All the gains since 1990 were made during this period, and since 2009 real per capita GDP has fallen somewhat. Still, the gain since 1990 was 134 per cent.

Exports, mainly of garments, are El Salvador's main export, but their contribution of exports to foreign inflows (35 per cent) is overshadowed by remittances, which provide 42 per cent. The country's per capita GDP growth was significantly above the LAC rate, for a gain of 91 per cent since 1990.

Remittances are even more central to economic performance in Haiti, where remittances provide over two-thirds of the supply of foreign exchange. Haiti has lost ground in the past three decades, with real per capita GDP which is 21 per cent lower than in 1990.

Table 3. Change in Real GDP Per Capita, 1990 – 2017

RATIOS, 1990=100	
Barbados	1.18
Bahamas	0.92
Cuba	1.56
Jamaica	1.16
Panama	2.88
Costa Rica	1.99
DR	2.76
Nicaragua	1.77
Guatemala	1.44
Honduras	1.46
T&T	2.34
El Salvador	1.91
Haiti	0.79
LAC	1.43

Source: ECLAC Statistical Yearbook 2019

Impact of spillovers from the global economy

In this section we examine what impact major global crises have had on the economies of CAC countries, and how well the countries have reacted in each case. The major episodes to be discussed are the First Gulf War, the attack on the World Trade Center, and the Global Recession of 2008.

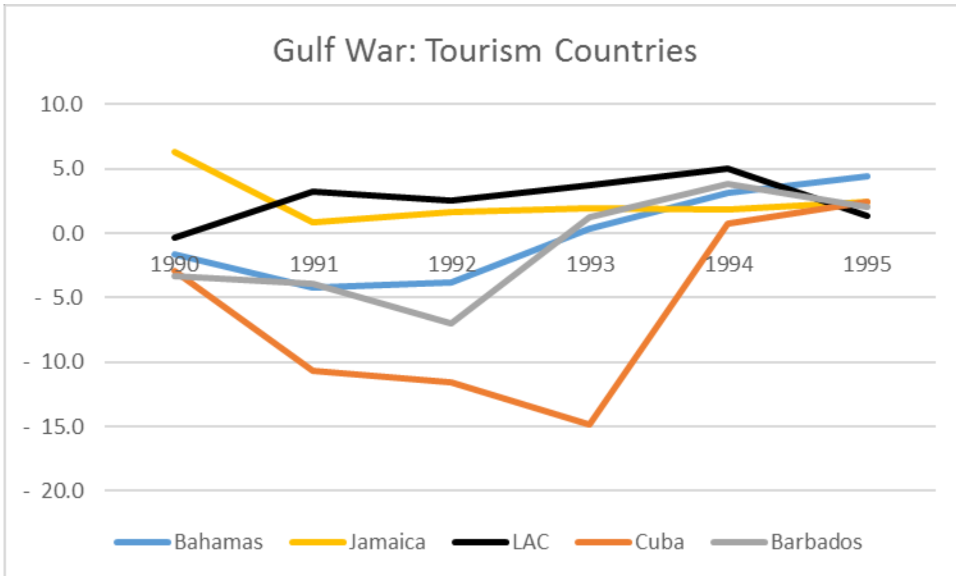
The First Gulf War

The tourism-dependent economies were adversely affected by the First Gulf War: economic growth in Jamaica slowed in 1991, and the growth rate remained low for several years, while output fell in The Bahamas, Barbados and Cuba. Barbados and The Bahamas did not return to significant growth until 1994; Barbados' contraction was the steeper of the two, largely because the external shock was aggravated by a balance of payments crisis brought on by poor fiscal policies in the late 1980s. The crisis came at an unfortunate time for Cuba, in the wake of the collapse of the Soviet Union, the country's most important international trading partner. The country's economy contracted every year until 1993. (See Figure 5.)

The countries that exported manufactured goods were not severely affected by the economic fallout from the First Gulf War. Growth rates in Panama in the early years of the 1990s were extraordinarily high, peaking at 9.4 per cent in 1991. Costa Rica experienced a slowdown in 1990 and 1991, but growth rose to 9.2 per cent in 1992, moderating to almost five per cent by 1995. The DR experienced a one-time contraction in 1990, recovering in 1991 and 1992 to mirror Costa Rica's experience. Nicaragua was the exception, with economic stagnation lasting until 1993, but by 1995 its performance was on par with the other countries in the group.

The Gulf War does not appear to be the main force behind growth in the Trinidad-Tobago economy, which fluctuated widely between 1990 and 1995, from a high of eight per cent in 1992 to a one per cent contraction in 1995. Of the agricultural exporters, Guatemala's growth seems to have been largely unaffected, while Honduras experienced relatively strong growth, except for 1990. El Salvador experienced strong growth for all six years, with particularly good performance from 1992 to 1995.

Figure 5.


Gulf War: Tourism Countries
10.0
5.0
0.0
- 5.0
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- 15.0
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Bahamas
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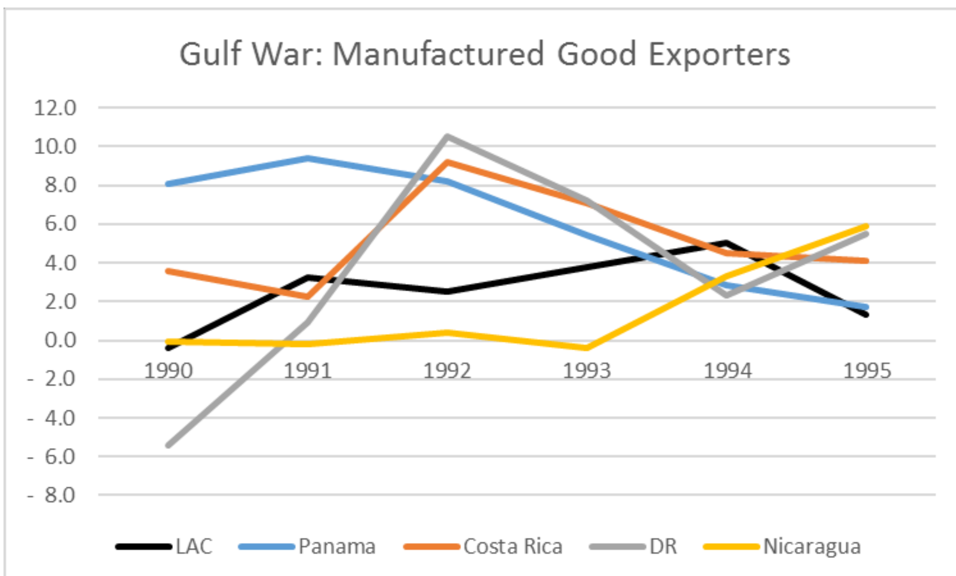
Barbados


Gulf War: Manufactured Good Exporters
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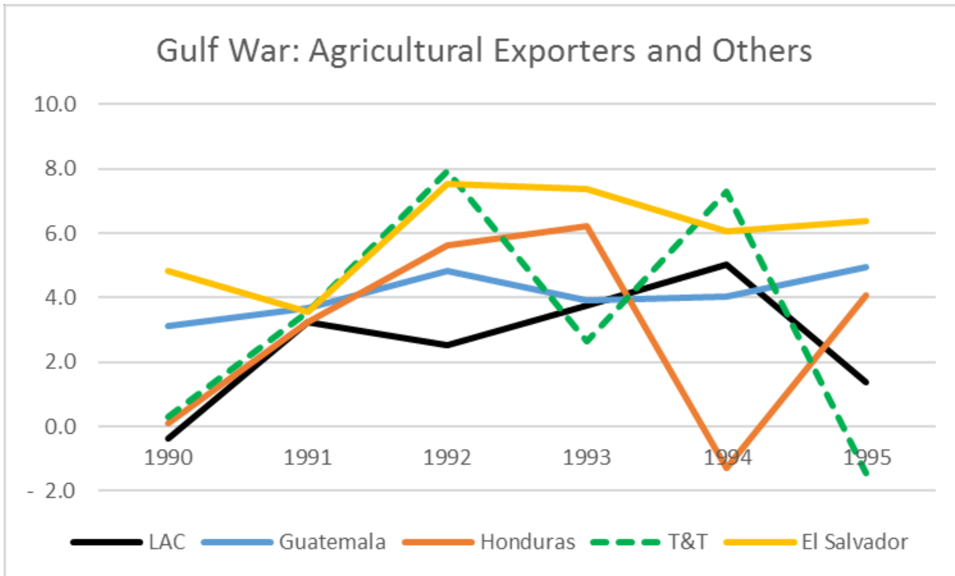
DR
Nicaragua



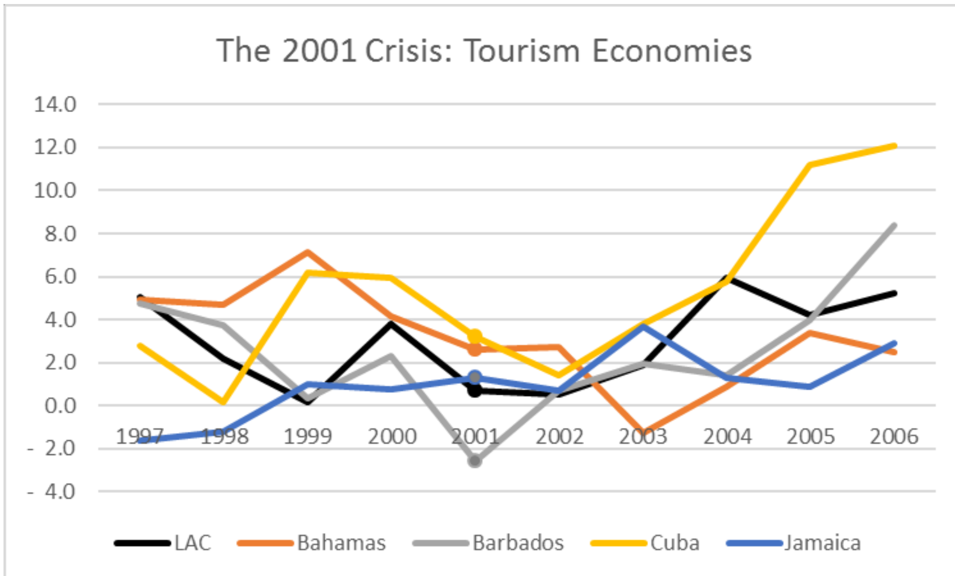
The 2001 crisis

This crisis interrupted growth in The Bahamas and Cuba, and drove the Barbadian economy into contraction. The recoveries were staggered: Barbados' began in 2002, with the growth rate strengthening to 8.4 per cent by 2006. Cuba's recovery started in 2003, and was especially strong, reaching a rate of 12.1 per cent by 2006. The recovery in The Bahamas started the following year, and was the weakest of the three. Jamaica was the only tourism economy that seems to have been unaffected by this crisis, but growth in Jamaica was weak, both before and after. (See Figure 6).

Economic growth slowed noticeably in Panama, the DR and Nicaragua at the time of the 2001 crisis; only in Costa Rica was there no impact. Recovery in Panama began in 2002 and exhibited a classic V-shape, rising rapidly from a low GDP growth rate of 0.6 per cent in 2001 to eight per cent by 2006. Nicaragua's growth rate reached a nadir of 0.8 per cent in 2003, and its recovery was weaker, reaching a plateau of about four per cent average growth for 2004-2006. After falling from over five per cent annually for the years before the crisis to 1.8 per cent in 2001, the DR's economy appeared to have recovered in 2002, only to contract in 2003. The DR saw a steep rise out of recession in 2005, with a growth rate that reached 10.7 per cent a year later.

The Trinidad-Tobago economy suffered a modest slowdown in growth in 2001, but that was immediately followed by a rapid recovery, thanks to the trends in international energy prices. The agricultural exporters - Guatemala and Honduras - experienced a slowdown in 2001, followed by a slow but steady recovery over the following five years. The impact of the crisis on El Salvador appears to have been mild; growth in 2001 was 1.7 per cent, about one percentage point below the country's five-year average at the time.

Figure 6.


The 2001 Crisis: Tourism Economies
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12.0
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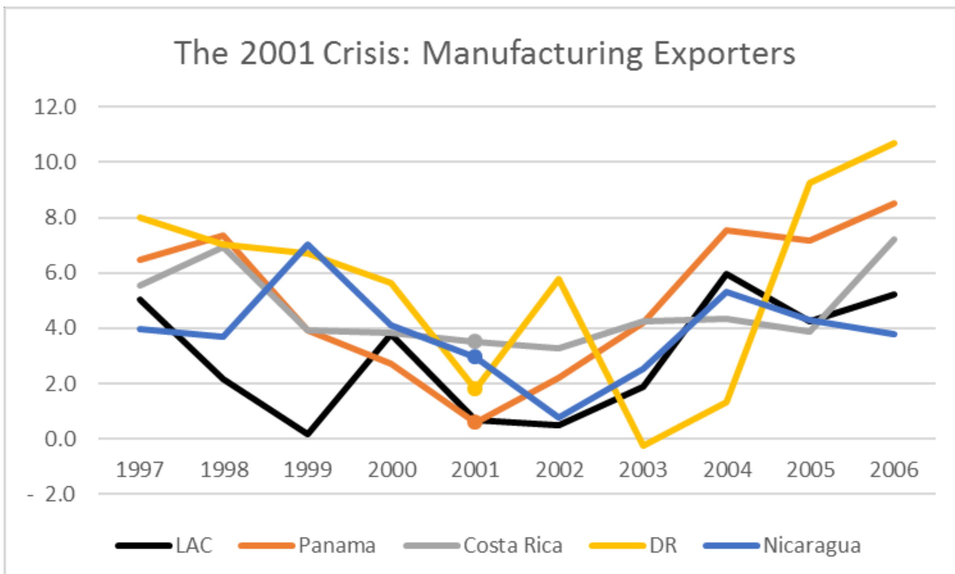
The 2001 Crisis: Manufacturing Exporters
12.0
10.0
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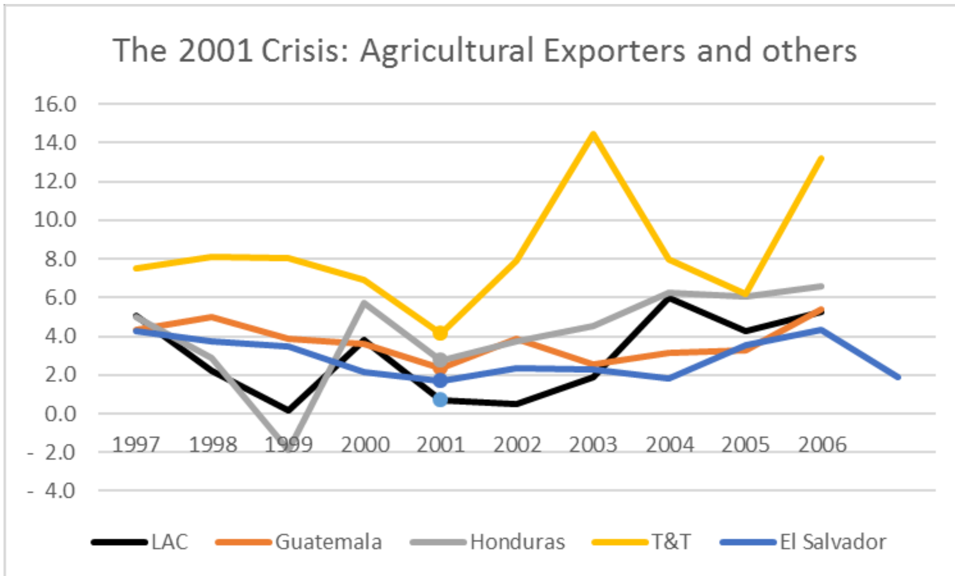


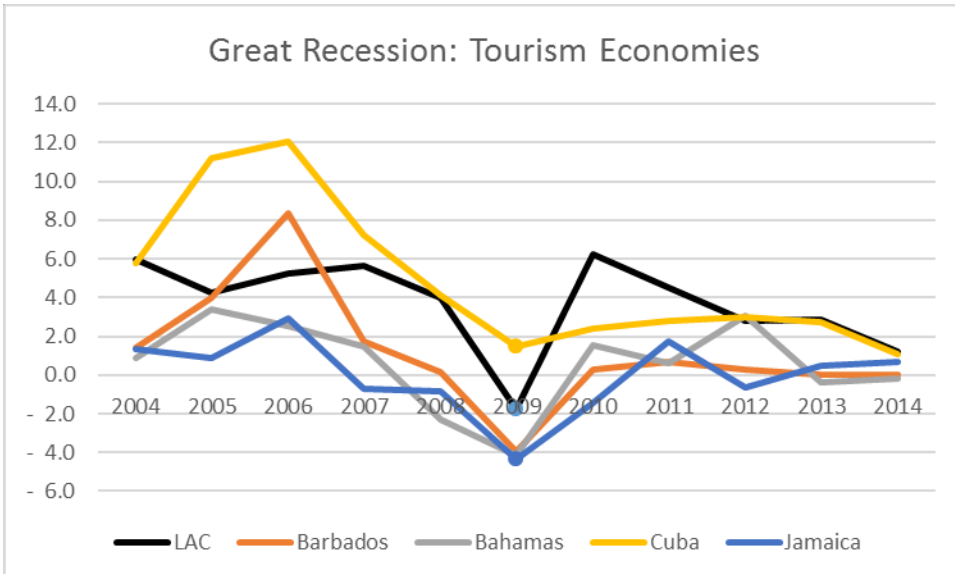
The Great Recession, 2008-09

The tourism-dependent countries all took a big hit from the Global Recession brought on by the US financial crisis of 2008/09. In 2009 real GDP contracted by about four per cent each in Barbados, and Jamaica. In Cuba growth rates which had averaged eight per cent a year in the previous five years, fell to 1.5 per cent in 2009. What is more, the Recession had lasting adverse effects on the growth of all these economies. Cuba's growth rate fell to an average of only two per cent over the subsequent five years, while the economies of the Bahamas, Barbados and Jamaica remained more or less stagnant. (See Figure 7).

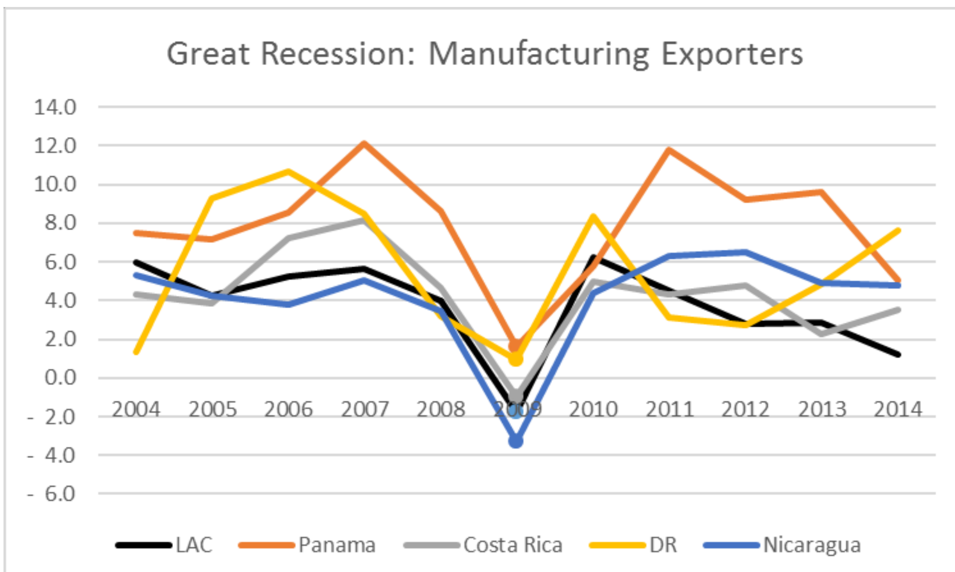
The countries whose largest export was manufactured goods fared much better. In 2009 real GDP growth rates were about six percentage points below the 2008 figure in all four countries. However, all four countries recovered just as quickly, and by 2010 they had all recouped the losses of the previous year. Growth rates were comparable, on average, before and after the impact of the Global Recession.

Trinidad-Tobago, Guatemala, Honduras and El Salvador all registered a V-shaped pattern for the impact and recovery from the Global Recession. However, experiences differed with respect to the lasting effects. Average annual real growth rates in El Salvador and Guatemala were similar for the five-year period before and after the Recession. In the case of Trinidad-Tobago post-2009 growth rates were lower by six percentage points, to an average of only one per cent. Post-recession growth rates in Honduras were less severely affected, down two percentage points to an average of 3.5 per cent per annum.

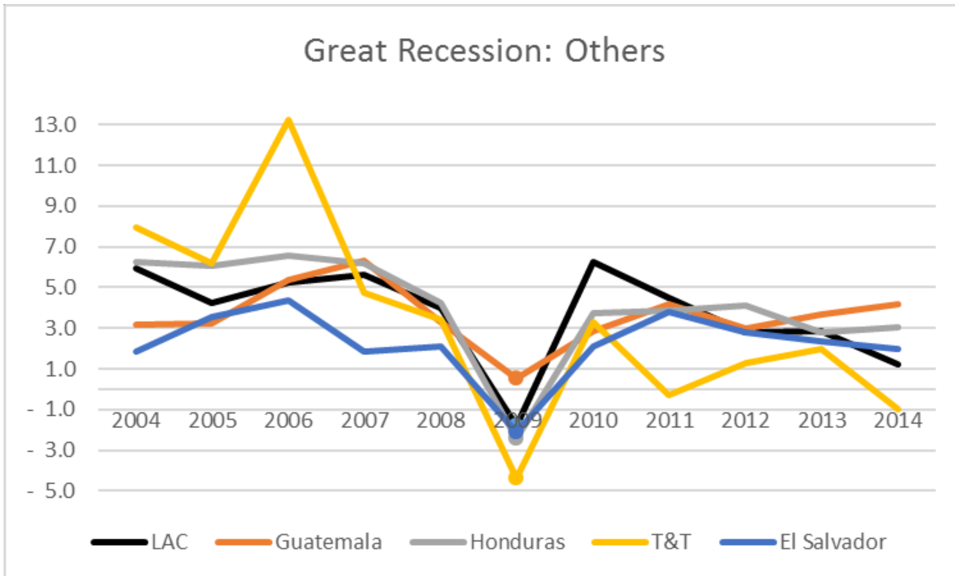
Figure 7.



Great Recession: Tourism Economies
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
- 2.0
- 4.0
- 6.0
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
LAC
Barbados
Bahamas
Cuba
Jamaica



Great Recession: Manufacturing Exporters
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
- 2.0
- 4.0
- 6.0
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
LAC
Panama
Costa Rica
DR
Nicaragua



Comparing economic recovery and economic structure

The countries that were mainly dependent on tourism suffered the most lasting effects of the First Gulf War and the Global Recession. In the five years after the Gulf War the Bahamas economy stagnated, the Barbados economy contracted, growth in the Jamaican economy was anaemic, and the Cuban economy continued in steep decline. After the Global Recession the economies of The Bahamas, Barbados and Jamaica stagnated, while the Cuban growth rate was cut by two-thirds. The picture is somewhat different for the impact of the September 11, 2001 events: The Bahamas was the only one of these countries where growth rates were noticeably lower after the event, while Cuba's growth rate strengthened in the aftermath. (See Table 4).

Apart from the two episodes affecting tourism-dependent economies, the economic shocks we have analysed show remarkably little by way of lasting impairment of growth in the aftermath of the major economic shocks affecting the global economy since 1990. None of the other groups of countries shows a consistent pattern of lower growth in the wake of any one of the three crises that all countries would have encountered.

Table 4. Growth Rates Before and After Shocks

	Gulf War, After	2001, Before	2001, After	G. R., Before	G.R., After
Tourism economies					
Barbados	-0.8	3.0	3.3	3.1	0.2
Bahamas	0.0	5.0	1.6	1.2	0.9
Cuba	-6.8	4.6	6.9	8.1	2.4
Jamaica	1.8	-0.3	1.9	0.7	0.2
Exporters of manufactured goods					
Panama	5.5	4.6	5.9	8.8	8.3
Costa Rica	5.4	4.3	4.6	5.7	4.0
DR	5.3	6.9	5.4	6.6	5.3
Nicaragua	1.8	5.0	3.3	4.4	5.4
Agricultural exporters					
Guatemala	4.3	4.0	3.6	4.3	3.6
Honduras	3.6	3.1	5.4	5.9	3.5
Others					
T&T	1.4	7.5	9.9	7.1	1.1
El Salvador	6.2	3.1	2.9	2.7	2.6
Haiti	-2.2	2.5	0.1	0.9	2.0

G. R: Global Recession

Source: UN ECLAC, *Statistical Yearbook 2019*

How has the production structure changed over the past four decades?

Tourism economies

In *The Bahamas*, over the decade of the 1980s the share of exports declined from one-third to only 13 per cent of total foreign exchange inflows. Tourism grew in absolute and relative importance, from a little over half to two-thirds of foreign exchange inflows. Major hotel investment in the previous decade contributed an average of about 15 per cent of foreign inflows between 2005 and 2010. Receipts under other categories, including remittances, are all less than four per cent of the total. (The analysis in this section uses balance of payments data from the ECLAC *Statistical Yearbook 2019*, summarised in Table 5).

Export agriculture and manufacturing slowly collapsed in *Jamaica*, from 1980 when these activities contributed two-thirds of the island's foreign inflows, to just 15 per cent in 2018. Tourism has become the principal source of foreign exchange earnings, contributing one-third of the total. Jamaica is now equally dependent on remittances from abroad, as the only other major source of foreign exchange. Investment inflows in the 2010s averaged just over 10 per cent of inflows.

The *Cuban* economy has switched from an export manufacturing base to a tourism base, beginning in the mid-1990s. Physical exports reached a nadir in 1993, after years of falling output, and there was no growth in earnings for a decade after. Receipts from tourism and related services exceeded exports for the first time in 1995, and this sector grew steadily for the remainder of the decade. There was some contraction in 2000-2001 before tourism revived a year later, expanding rapidly until 2007. By then tourism accounted for two-thirds of foreign inflows, with the remainder mainly from exports.

In 1980, *Barbados'* exports of sugar and light manufactured goods made a contribution to foreign exchange inflows, rivalling inflows from tourism. By 2000, the value of exports had diminished greatly, and their contribution was only one-third of that of tourism. The decline in the importance of exports continued and by 2019 their contribution was only 11 per cent. The international business and financial services sector showed promise as a growing source of foreign earnings in the 1990s, and by 2000, its contribution to foreign inflows was equal to that of exports. However, ever since the Global Financial Crisis the sector has come under relentless pressure from international regulators, and it continues to shrink in importance. By 2000, income from abroad, accounting for 12 per cent of foreign exchange inflows, was the second most important source of foreign exchange to the island. A large proportion of this income consists of pensions of Barbadians who lived abroad before retiring to Barbados. Foreign investment inflows have been anaemic, accounting for eight per cent of inflows (1.8 per cent of GDP) in 2019. Barbados benefitted from the property boom in the UK in the early 2000s before the crisis, when many Britons bought holiday homes in the island. The UK property market was a major casualty of the Global Financial Crisis. When the UK property market collapsed, investment in Barbados fell along with it.

The exporters of manufactured goods

In 1980 most of *Panama's* foreign inflows came from income, mainly the operations of the Canal company. That revenue fell sharply in the 1980s, and by 1988, at its nadir, it was only 22 per cent of the 1980 amount. By then exports of clothing, pharmaceuticals, cosmetics and beverages had taken over as the main source of foreign earnings, contributing almost two-thirds of the total. Exports continued to be by far the largest source of foreign currency inflows well into the new century.

Although Panama has long been known as an international commercial and financial hub, that sector's contribution to foreign inflows was relatively modest until a decade ago; the sector has grown recently, providing 21 per cent of the total foreign currency inflows in 2018. Panama experienced a boom in construction in the last decade. Investment inflows accounted for 18 per cent of the foreign currency supply in 2018. By then income from Canal operations and other services accounted for only nine per cent of inflows. Tourism remains a minor activity in Panama, providing only seven per cent of foreign currency supply in 2018.

Costa Rica has an almost unbroken record of real GDP growth since 1990, with the sole exception of 2009. That expansion has been powered mainly by the export of medical instruments and supplies, and agricultural products, mostly fruit. Exports provided 79 per cent of foreign currency inflows in 1980. The economy has become more diversified over the past 40 years, with the growth of tourism and international business services. In 2018 these activities contributed 16 per cent and 19 per cent of foreign inflows, respectively. Investment inflows have also been robust, accounting for 12 per cent in 2018.

In the *Dominican Republic*, tourism earnings rose four fold in the decade of the 1980s, and by 1990 the value of tourist inflows was almost as great as that of exports. Emigrants' remittances were then third in importance, with about half the value of the leading items. The recovery after 1990 was thanks to a resurgence of manufacturing for export and a burgeoning of tourist accommodation and facilities. Comparatively high real growth rates in the past two decades were fuelled by rapid expansion in receipts from the export of appliances, cigars, clothing, bananas and other items (36 per cent of inflows in 2018); tourist revenues (25 per cent); and emigrants' remittances (24 per cent).

Social and political instability depressed economic activity in *Nicaragua* in the 1980s, and exports in 1992 had fallen to only 50 per cent of their value in 1980. In 1992 emigrants' remittances were the largest source of foreign currency inflows, exceeding exports by 20 per cent. Growth since the mid-1990s has been fuelled by foreign currency from the expansion of export sales, which continued through to 2014, with a slight pause in 2009. Since then there has been little growth; in 2018 exports of garments, meats and fish, sugar, electrical cable and other items constituted 55 per cent of total inflows. The other large contributor to the supply of foreign exchange is remittances, with 22 per cent of the total. Tourism and other services are minor, with seven per cent and 10 pe rcent, respectively.

Trinidad-Tobago

The Trinidad-Tobago economy has remained wholly dependent on petroleum products since 1980, and its fortunes reflect the fluctuations in world oil prices over the last four decades. At the beginning of the 1980s, when world oil prices spiked, the economy grew at an average of six per cent a year, but the collapse of oil prices in 1983 brought on a 10 per cent contraction in the economy, and economic activity continued to shrink, though much less drastically, for the remainder of the decade. The First Gulf War brought on another bout of oil price inflation, which drove a turnaround in the Trinidad-Tobago economy. Growth rates, often in excess of five per cent, were recorded until the Global Recession brought an end to the oil-related bonanza. Exports provide 86 per cent of Trinidad-Tobago's foreign exchange, compared to only four per cent for tourism, mainly in Tobago. Trinidad nowadays exports little crude or refined petroleum. The principal petroleum products exported are natural gas, ammonia, methanol and fertilisers.

The agricultural exporters

Agricultural exports have remained the mainstay of the economies of Guatemala and Honduras since the 1980s, accounting for 50 per cent or more of both countries' foreign currency inflows. There was a slump in exports in both countries which caused a contraction in real income in 1983 and 1984; those years apart, economic activity has expanded steadily in Guatemala. Bananas, sugar, coffee and palm oil account for over half of Guatemalan exports, and garments for another 15 per cent. Honduras' main agricultural exports are coffee, seafood and palm oil. Tourism is a minor activity in both countries, with less than 10 per cent of foreign currency inflows. The secondary source of foreign exchange is remittances, with 33 per cent and 19 per cent in Guatemala and Honduras, respectively.

Remittances as the most important source of foreign exchange

El Salvador exports mainly garments and small appliances. In 1980 these exports contributed 83 per cent of foreign currency inflows. However, civil war and subsequent political instability caused a decline in production in the early 1980s, and with it a severe contraction in overall output. Exports stagnated for the remainder of the 1980s decade, and growth rates were anaemic. Renewed growth of exports spurred healthy growth rates in the 1990s, but now an even more important contributor to the supply of foreign exchange came from remittances. There was a crisis in the export sector in 1998, and exports fell to half their value of the previous year, leaving remittances the largest item. Exports recovered in 2004, and continued to grow to the present, except for a dip in 2008. In the meanwhile, remittances continued to increase in value without interruption, and by 2018 they provided 42% of the foreign currency supply, compared with 35% for exports.

In 1980 *Haiti* already depended heavily on remittances as a source of foreign currency, deriving 33% from remittances, compared with 45% from exports, mainly of garments, and 16% from tourism. Foreign inflows from all sources stagnated in the 1980s, and there was no economic growth recorded during that decade. Foreign inflows from all sources fell sharply in the early 1990s, a period of political turmoil, and the economy contracted by almost 20% between 1991 and 1994. There was something of a recovery in exports and tourism in the second half of the 1990s, but by then remittances were far and away the main source of foreign exchange, and the main fuel for economic growth. Tourism had dwindled to almost nothing by the turn of the century, and although exports have risen, albeit quite slowly, by 2017 remittances provided two-thirds of Haiti's foreign currency inflows. Exports of garments, paper products, coffee and fruit contributed 22%.

Table 5. Largest Source, % of Total Foreign Currency Inflows

	1980	**1990**	**2000**	**2010**	**2018**
Tourism Economies					
Barbados	43	53	49	41	53
Bahamas	53	68	57	48	61
Cuba					
Jamaica	16	29	28	25	33
Manufactured goods exporters					
Panama	33	62	67	67	45
Costa Rica	79	57	56	51	47
DR	61	31	51	42	36
Nicaragua	72	64	49	53	55
Agricultural goods exporters					
Guatemala	76	68	60	51	49
Honduras	88	73	67	76	79
Others					
T&T	79	86	79	87	85*
El Salvador, Exports	83	45	30	41	35
El Salvador, Transfers	4	36	42	44	42
Haiti, Exports	45	52	30	14	22**
Haiti, Transfers	33	38	69	82	68**
	* 2016	** 2017			

Source: UN ECLAC, *Statistical Yearbook 2019*

Competitiveness of exports and tourism

We employ a measure of competitiveness which combines each country's price (relative to that of Latin America and the Caribbean, LAC) with its share of the tourism or export market of the LAC. The analysis is based on an assessment of where the country's tourism or exports sit in a 2x2 matrix as follows:

A1	B1
A2	B2

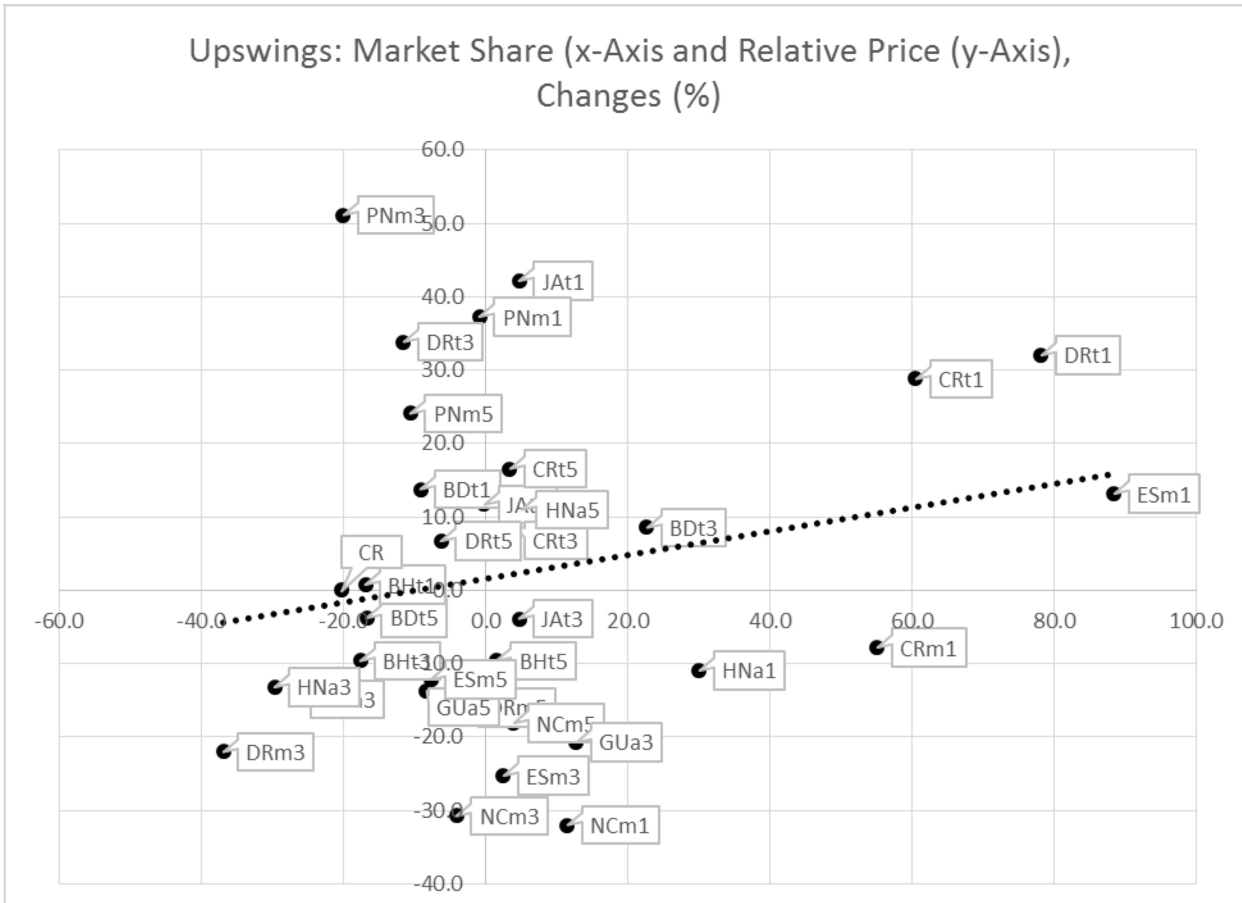
There is a zero vertical line between the *A* and *B* column, and a zero horizontal line between *Row 1* and *Row 2*. Market shares are measured horizontally and relative prices are measured vertically. Values fall into *Cell A1* therefore, if the relative price has increased (above the horizontal zero line) *and* market share has fallen (to the left of the vertical zero line). Values fall into *Cell B1* if the relative price increases and the market share has also risen. In *Row 2* the relative price has fallen (all values are below the horizontal zero line); in *A2* the market share has also fallen, while in *B2* the market share has risen.

The cell *B1* represents the most desirable outcome: here the country has improved its share of the market in spite of the fact that its prices have risen faster than the competition. That suggests that the country has succeeded in improving product quality or building brand loyalty to attract a larger custom, price notwithstanding. This may be thought of as the hallmark of successful competition. The contrast, at the other end of the spectrum, is represented by activities which fall in *Cell A2*. Here the country's market share is falling, at the same time that its exports or tourist services are being offered more cheaply. The country is unambiguously losing competitiveness in export trade and tourism, when it falls into this cell.

The remaining cells offer a less clear-cut assessment of competitiveness. A data point that falls into *Cell B2* will have a price which has fallen, relative to the region, and a market share which is rising. Lowering the sale price to secure larger market share is what many people think of as typical competitive behaviour. However, this strategy may not be sustainable. If there is no increase in local productivity to permit companies to reduce price and still make a normal profit, companies will have to absorb losses which will eventually drive them into bankruptcy. If there is an increase in local productivity, it is arguable that the country is better off keeping prices in line with the competition and retaining productivity gains to be employed or distributed locally, rather than surrender those gains to foreign consumers. The remaining cell, *A1*, also represents an unsustainable outcome, in the long run, because countries in this cell are losing market share. If the fall in market share is small, compared with the increase in relative price, income may be preserved in the short run. However, if the slide in market share is not arrested and prices cannot be brought into line with the competition, the country will be forced out of the markets for exports and tourism.

An analysis along these lines is shown in Figures 8 and 9, and the results are summarised in Table 6. Based on an examination of growth patterns in LAC since 1990, this period is divided into six sub-periods, three each of upswings (trough to peak) and downswings (peak to trough). For each country we plot on the *x-axis* the percentage change in tourism earnings or export receipts, as a share of the total for LAC. For the relative prices we use the deflators for value added in the sectors corresponding to tourism, manufactured goods or agriculture, whichever are the country's principal sources of foreign earnings. Relative prices are plotted on the *y*-axis. The results are plotted separately for upswings and downswings.

Figure 8.



Countries BH: Bahamas; BD: Barbados; CR: Costa Rica; DR: Dominican Republic; ES: El Salvador; GU: Guatemala; HN: Honduras; JA: Jamaica; NC: Nicaragua; PN: Panama.

Sectors a: agricultural exports; m: manufactured goods; t: tourist receipts

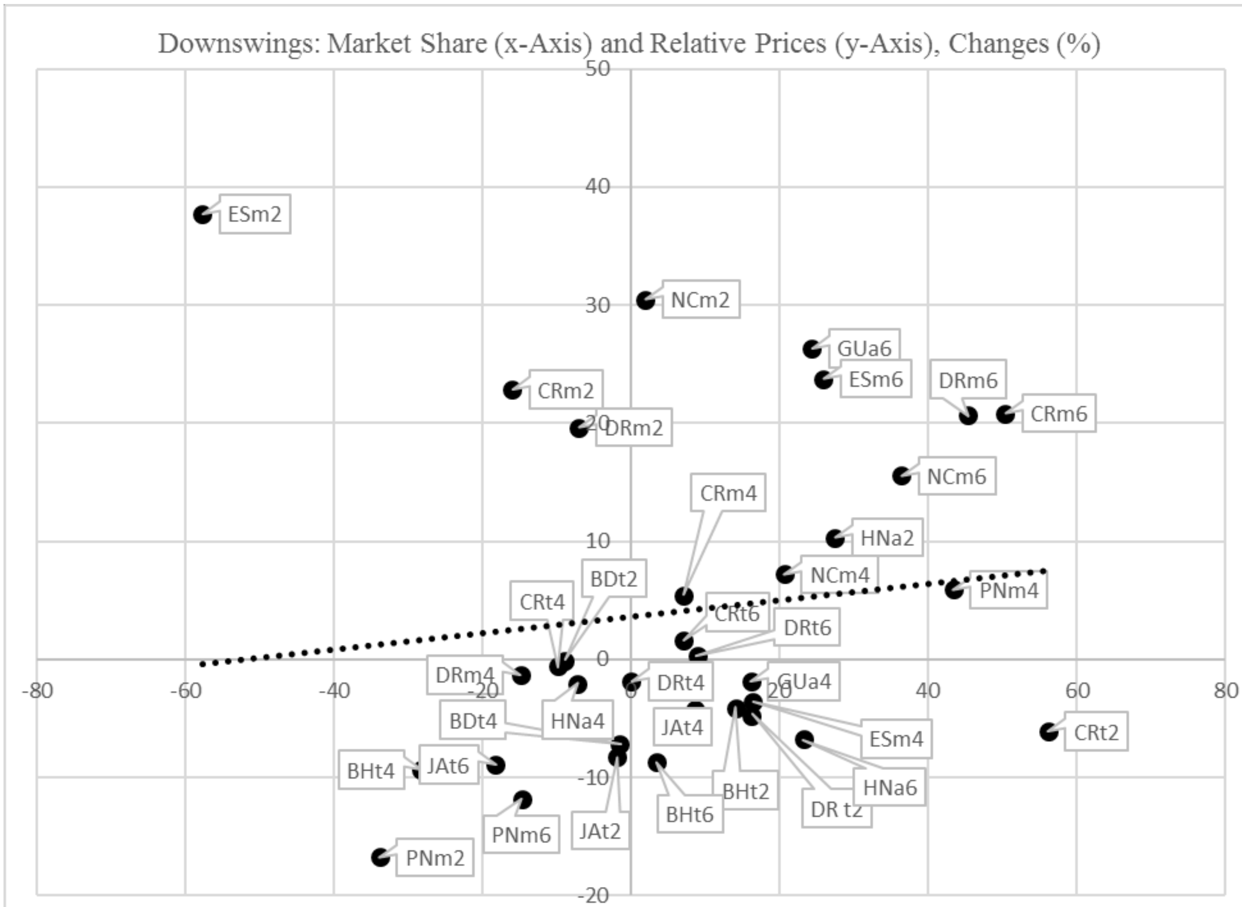
Periods 1: 1990-2007; 3: 2002-2007; 5: 2009-2011

The trendline that is plotted on each chart indicates a similar pattern in upswings and downswings: on both charts increases in a country's relative prices are mildly associated with rising market share. This is consistent with our expectation that this is, of all the outcomes, the most desirable. It is an observation that should give pause to those who advocate exchange rate devaluation and other price strategies as tools to improve national competitiveness.

Costa Rica is outstanding in Table 6 as the only country that has consistently achieved gains in market share with relative prices that increased relative to the competition. Costa Rica's share of the region's tourism earnings improved in every upswing period, and also in the 2011-2016 downswing. The country's share in manufactured goods exports also improved, with relative price increases during downturns in the 2000s and a relative price decrease in the 1997-2002 upswing.

No country consistently lost market share over all economic cycles. Results ranged across the entire spectrum, from "best" outcomes in *Cell B1* to lagging market shares and lower relative prices in *Cell A2*, across all three sectors and during upswings and downswings. The main inference that may be drawn from this analysis is that price adjustment strategies do not seem to have affected the competitiveness of Central American and Caribbean countries consistently in the past 30 years, judging by changes in shares of the LAC market.

Figure 9



Periods 2: 1997-2002; 4: 2007-2009; 6: 2011-2016

Table 6.

	Market Shares and Relative Prices, Changes			
	Best , B1	*B2*	*A1*	*Worst, B2*
Tourism destinations				
Upswings				
1. 1990-97	CR, DR, JA		BD, BH	
3. 2002-07	BD, CR	JA	DR	BH
5. 2009-11	CR	BH	DR, JA	BD
Downswings				
2. 1997-2002		BH, CR, DR	BD	JA
4. 2007-09		DR, JA		BD, BH, CR
6. 2011-16	CR, DR	BH		JA
Manufactured goods exporters				
Upswings				
1. 1990-97	ES	CR, NC	PN	
3. 2002-07		ES	PN	CR, DR, NC
5. 2009-11		NC	CR, PN	DR, ES
Downswings				
2. 1997-2002	NC		CR, DR, ES	PN
4. 2007-09	CR, NC, PN	ES		DR
6. 2011-16	CR, DR, ES, NC			PN
Agricultural exporters				
Upswings				
1. 1990-97		HN		
3. 2002-07		GU		HN
5. 2009-11	HN			GU
Downswings				
2. 1997-2002	HN			
4. 2007-09				HN
6. 2011-16	GU	HN		

Key: BH-Bahamas, BD-Barbados, CR-Costa Rica, DR-Dominican Republic, ES-El Salvador, GU-Guatemala, HN-Honduras, JA-Jamaica, NC-Nicaragua, PN-Panama.

Competitiveness and the exchange rate

A reasonable inference from the foregoing analysis is that the exchange rate regime and the changes in exchange rates have had no impact on competitiveness. It is necessary to expand on this relationship, if only because the notion that exchange rate devaluation improves competitiveness persists in the international media and in policy discussions, including in the staff reports of the International Monetary Fund and World Bank. The logic of this argument is that a devaluation reduces the relative price of local production, and this secures additional volumes of exports and tourist arrivals sufficient to increase revenues. The evidence of the previous section is inconsistent with the second part of the argument (that lower prices yield more revenue); here we examine the evidence of the effect of exchange rate depreciation on the relative prices of exports and tourism. In Table 7 we compare the change in the value of local currency between 1990 and 2018 for each country, with the change in the relative prices of tourism, manufactured goods and agriculture.

Table 7.

Changes in Exchange Rates and Relative Prices 1990-2018 (%)		
Fixed Exchange Rate Countries		
	ΔER	ΔRP
Bahamas	0.0	-34.9
Barbados	0.0	8.9
Panama	0.0	106.5
Other Countries		
Costa Rica tourism	381.7	55.4
Costa Rica mfg	381.7	23.7
DR tourism	269.4	69.2
DR mfg	269.4	-17.1
El Salvador	-87.5	22.1
Honduras	285.2	-10.7
Jamaica	1155.8	26.1
Nicaragua	4019.4	-43.0

Sources: IMF, International Financial Statistics, *ECLAC* Statistical Yearbook 2019, author's calculations

There are two countries (The Bahamas and Barbados) whose currencies remained pegged to the US dollar at an unchanged value for this entire period, and one country, Panama, which has always used the US dollar as its domestic currency. Even though there was no change in the US dollar exchange rates for these three countries, the range of their relative price changes by the end of the period varied from a decline of 35 per cent, compared to the regional average, to a gain of over 100 per cent. There is an even greater disproportion between exchange rate changes and changes in relative prices for countries that did not have fixed pegs. The loss of value of local currencies has been immense, from just under 270 per cent (the Dominican Republic) to over 4,000 per cent in the case of Nicaragua. The corresponding changes in relative prices were modest by comparison, and they did not all decline, as would have been expected. For example, in Jamaica, where the local currency depreciated by over 1,000 per cent for the period, the relative price of tourism and other services increased by 26 per cent. The range of relative price outcomes was from a decline relative to the regional average of 43 per cent for Nicaragua's manufactured products, to an increase of 69 per cent for the Dominican Republic's tourism. El Salvador presents a special case: in 2001 the country abandoned the domestic currency, and joined Panama as one of the small number of independent countries which do not issue a currency of their own. The local currency at the time of the changeover was worth 12 US cents. Although this is recorded as an appreciation of the currency, the local value which was converted was very low after conversion, so a decline in relative prices might have been expected, rather than the 22 per cent increase that was recorded.

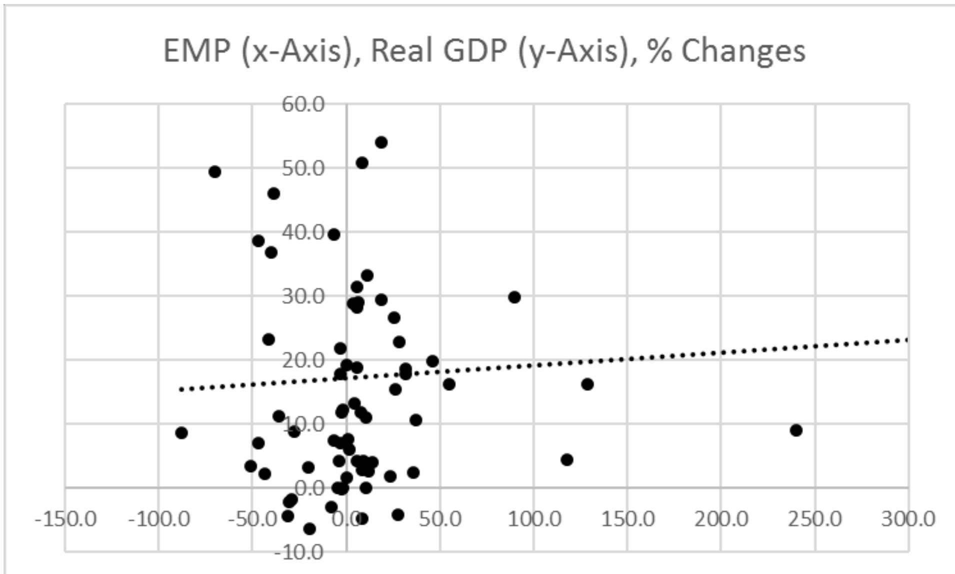
Macroeconomic stability and growth

The external accounts provide the surest indicator of macroeconomic stability in the small open economy (SOE). That is because, in such economies, inappropriate fiscal, monetary or exchange rate policies invariably create imbalances in the external accounts, instead of the inflationary or deflationary consequences we would expect in closed economies. The prices of tradable goods, whether they are final consumption items or fuels, materials or other inputs for production, are beyond the influence of the SOE. If there is an imbalance of the demand and supply of tradables caused by domestic policy error (or for any other reason, but this section is concerned with domestic policy), the surplus or deficit will be traded abroad. It can be shown that disequilibria in the demand and supply of non-tradables will also affect the balance of external payments, through their impact on labour and financial markets (Worrell 1992, 11-15). For example, an increase in the cost of services of plumbers and hairdressers (which are non-tradable services), if large enough, reduces the purchasing power of wages, causing upward pressure on all labour costs, including the cost of producing exports, whose selling prices are out of the control of local producers. The volume of exports falls, as marginal producers drop out of production, and pressure on the foreign exchange market intensifies. Equally, if domestic interest rates are out of synch with international trends, there is an incentive for inflows or outflows of finance, depending on the expectations of future changes in the domestic rate and the exchange risk premium.

We take advantage of the relationship between domestic policies and the balance of external payments to employ a composite indicator of appropriate macroeconomic policy in CAC countries that is based on the demand and supply of foreign exchange. The Exchange Market Pressure (EMP) indicator combines changes in foreign exchange reserves with changes in interest rates and changes in the exchange rate, policy variables that affect the demand and supply of foreign exchange. The logic underlying the indicator is as follows: changes in the overall balance of payments will result in increases or decreases in foreign reserves, all else being equal, so the change in reserves is an obvious element in the calculation. However, faced with demand pressure that might result in a loss of foreign reserves, a country's central bank might raise domestic interest rates in hopes of attracting additional inflows of foreign finance, or it might raise the selling price of foreign currency, to dampen the demand. In order to reflect the use of such defensive policies, the EMP indicator includes arguments for interest and exchange rate changes. The standard practice is to weight the proportionate changes in the three included variables by their standardised variances.

Studies by Briguglio and others (2006) have argued that sound macroeconomic policies are important factors in strengthening the resilience of SOE's and that such resilience can account for superior economic growth outcomes, compared to larger economies, despite the greater vulnerability of SOE's. In Figure 10 we explore whether there appears to be a positive impact on CAC growth rates of sound macroeconomic policies, represented by low or falling EMP values. As before, we divide the period into upswings and downswings for the purpose of this analysis. Changes in EMP values are compared with changes in real GDP for three upswings and three downswing periods, for each country.

Figure 10.



The scatterplot of all the available data does not show the inverse relationship between the EMP changes and the growth performance that we might have expected if bad policy choices had been a significant factor in the overall performance of CAC countries. The picture is no different if we separate the upswings from the downswings. We cannot conclude from this that domestic policies were entirely appropriate, however, because we lack a counterfactual with policies that might have produced even lower EMP levels than those that were actually recorded. In addition, it may be the case that the damage is done by persistent pressures on the foreign exchange market over several cycles, rather than by individual episodes of poor policy choices which are subsequently rectified. Table 8 lists all the countries and periods where there were increases in EMP, in descending order of the severity of the increase. Jamaica stands out in this table; not only does it have the highest EMP increase for any country for any period, but it also recorded increases for five of the six episodes of our analysis. As we saw earlier, Jamaica was among the region's weakest performers, with GDP per capita that in 2018 was only 18 per cent higher than it was in 1990. On the other hand, the Dominican Republic's growth performance does not seem to have been adversely affected by a prolonged period of increases in EMP, from 2002 to 2011 (DR3, DR4 and DR5).

Table 8.

Countries by Descending EMP % Changes		
Over 200	**JA1**	240
100 to 200	BD3	129
	HA2	118
50 to 100	***DR3***	90
	CR2	55
30 to 50	**JA3**	37
	JA2	36
	CR3	31
	PN5	31
10 to 30	**JA4**	28
	BH6	24
	HA4	14
	JA6	12
	NC4	10
	NC5	10
0 to 10	GU4	9.1
	BD6	8.1
	TT6	8.1
	DR5	8
	DR4	5.7
	ES5	1.5
	HN5	0.7

Conclusion

We have evaluated the countries of Central America and the Caribbean using the Human Development Index yardstick as the criterion of performance. The countries fall into four categories: those mostly dependent on tourism as a source of foreign exchange, exporters of manufactured goods, exporters of agricultural produce and a miscellaneous category which includes Trinidad & Tobago, an oil exporter, and countries where remittances are the main source of foreign currency inflows. There are two countries, Barbados and Tthe Bahamas, whose HDI puts them among the countries with the world's highest level of development, reflecting relatively high purchasing power, the expectation of long life for the average citizen and adequate schooling for children. Trinidad-Tobago, the other tourism-dependent economies (Cuba and Jamaica) and three of the manufactured goods exporters (Panama, Costa Rica and the DR) are ranked with the High Human Development group. The others, mainly agricultural exporters, are in the Medium HDI group, apart from Haiti, which is among the lowest ranked in the Index.

The *tourism* economies already boasted a superior quality of life in 1990, compared to the LAC average, and, with the exception of the Bahamas, they made gains in the HDI over the last three decades. However, these gains were smaller than the LAC average, and the region narrowed the gap noticeably. Diversification of foreign exchange sources seems to have paid off for Panama, Costa Rica, the DR and Nicaragua, all of whom exported mainly *manufactured goods*, but with at least one other foreign currency earning sector of comparable importance. The performance of the *agricultural products* exporters was less encouraging. Not surprisingly, countries for whom *remittances* were a major contributor to foreign currency inflows were not among the best performers.

Panama, Costa Rica and the DR, countries whose main export was manufactured goods, but where tourism was also an important source of foreign exchange, were among the strongest performers in LAC, in terms of gains in real income per capita in the last three decades. Trinidad-Tobago recorded a significant gain in real GDP, due to high international oil prices in the 1990s. Per capita real income gains for the agricultural exporters matched the LAC average. Of the tourism-dependent countries, only in Cuba was there a substantial improvement in real per capita GDP over the period.

The global economic shocks that impacted the CAC region appear not to have had a lasting adverse effect on countries' economic performance, on the whole. The exceptions were the tourism-dependent economies, where growth rates were lower in the wake of the First Gulf War and the Global Recession, though not in the aftermath of the September 11 attacks on the World Trade Center in New York.

Except for Cuba, the tourism-dependent countries lost much of their foreign earnings from other activities, and became more reliant on tourism earnings. In Cuba, exports of pharmaceuticals and other manufactured goods remain an important source of foreign exchange, though earnings from tourism have eclipsed them in importance. The economies of Panama, Costa Rica and the DR became more diversified, with tourism and other services and income providing significant contribution to foreign earnings. There were no major changes in the make-up of foreign earnings of other countries.

The conclusion that emerges from our analysis of competitiveness in CAC countries is that price adjustment strategies do not appear to have affected countries' shares of the LAC market in the past three decades. What is more, there is no observable relationship between exchange rate depreciation and declines in relative prices.

In order to obtain the big picture of the impact of domestic monetary, fiscal and exchange rate policies on real growth, we employed the EMP indicator as a measure of the appropriateness of overall policy choices over the period of analysis. At this level of generality we were unable to come to a firm conclusion for any country. It is evidently necessary to unpick the elements of the overall economic strategy of each country, in order to gain deeper insight into the impact of policy.

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