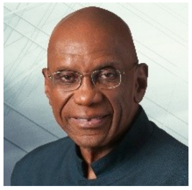

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Marc Hollingsworth, Media Support International

What is a Small Economy?

Economies range in size from the US, China and Japan, the world's largest, to the tiny economies of Tuvalu, Kiribati and Nauru, the world's smallest. The GDP of the USA is $21 trillion, that is, 21 with twelve zeros, equivalent to the income of *21 million* millionaires. The GDP of the smallest economies is less than $100 million; many super yachts cost more. The racehorse *Fusaichi Pegasus* was sold for US$70 million in 2000, almost as much as the GDP of Tuvalu, $74 million. Leonardo da Vinci's painting *Salvador Mundi* was sold for US$450 million in November 2017, more than the GDP of any of the nine smallest countries in the world, among them Anguilla and Montserrat.

The GDP of Trinidad-Tobago, Caricom's largest economy, is $21 billion, ranking in size at Number 107 in the world. Eight of the 15 Caricom member countries are listed among the 25 smallest economies in the world.

We should think of small economies quite differently than the way we analyse large economies. An autonomous nation is what we have in mind when we think of a large economy, an entity which produces the full range of consumer, intermediate and investment goods and services which the population needs to buy. Apart from the obvious candidates, countries such as Brazil, Mexico and South Korea can be considered large because companies in those countries produce everything from vehicles and heavy equipment to small retail sales items, as well as the full range of financial, personal, business and other services. A large economy can choose to be as self-sufficient as the population wishes, even though, as

Adam Smith, considered the godfather of what we now call the disciple of economics, pointed out, that may not be in the country's best interests.

Small economies like those of the Caribbean, on the other hand, are more like households. Compared with the range of goods and services needed to sustain modern lifestyles, the small economy's physical capacity and human resources can produce only a trifling number of items. Of that number, the costs of producing locally are higher than importing a product of a comparable quality for many items. That makes a small economy more like a household. No household can produce all the products and services needed to support a modern lifestyle; instead, the members of the household deploy the skills of individual adult members of working age to earn income from their areas of specialisation. That income gives access to the goods and services the household requires. In order to improve their standard of living, workers deepen their expertise so as to earn more income; to increase their resilience in face of the perils of daily life, they buy insurance and put away a little savings.

Just like the household, the small economy uses its limited resources and skills to sell a very few export items and services, the most common of which is tourism. The foreign currency earned is used to import everything the economy needs to sustain the livelihoods of the population. The way to improve livelihoods is to increase the capacity to export and to provide tourist services, as well as to lift their quality, so as to compete in a higher price bracket. Increasing foreign earnings also provides the means to strengthen the resilience of the country, because with higher incomes the population can afford to purchase adequate insurance cover against perils.

Small countries like Iceland and Malta are not handicapped by their size because their per capita incomes are high enough to afford them access to the world's supply of goods and services. Their populations do not consider themselves at greater risk from natural disaster and climate change than do those of the US and Europe, because they can afford similar access to insurance services and other forms of mitigation, as do the continental populations.

There is no sharp dividing line between small countries and large, and all countries, even the largest, will benefit from transactions with the wider world. Rather, we should think of countries as ranged along a continuum, from the USA to Tuvalu. The closer the country is in size to Tuvalu, the more its strategy for development and resilience should resemble that of the household, focusing on international competitiveness and increasing the capacity to earn foreign exchange.

The fact that the small country can achieve competitive production in only a handful of activities is no limitation; improvements in quality and productivity offer limitless possibilities for increasing foreign earnings from these competitive offerings.

The evidence is provided in my recent book *Development and Stabilization in Small Open Economies*; all but one of the 41 small economies discussed in the book are ranked in the top half of the world's countries, in terms of human development. In every case, no more than three main items account for most of their foreign earnings.

My Economic Letters may be found under "Commentary" at DeLisleWorrell.com