Global Economy in Transition

The European Union and beyond

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(Editors)

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Excellence. Dr. West has served as a consultant and expert witness for various government, business, and non-profit organizations. He served as a co-chair of the Cohen Lecture Series and received a fellowship with the United States Institute of Peace and the Atlantic Council. He also served as an advisory board member for Bridgeworks Business Incubator and for the Great Decision Lectures Series in Bethlehem for many years.

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Acronyms within this volume

ARDL: Autoregressive Distributed Lag
BCI: Business Competitiveness Index
BRICS: Brazil, Russia, India, China, and South Africa
BSEC: Black Sea Economic Cooperative
BTI: Bertelsmann Transformation Index
CCC: Cost Conditional on Contagion Events
CPI: Corruptions Perceptions Index
ECB: European Central Bank
EDBI: Ease of Doing Business Index
ES: Exponential Smoothing
EU: European Union
FADECO: Family Alliance for Development and Cooperation
FAO: Food and Agriculture Organization of the United Nations
FDI: Foreign Direct Investment
FSU: Former Soviet Union
G20: Group of Twenty
GCI: Global Competitiveness Index
GDP: Gross Domestic Product
GM: General Motors
GRP: Gross Regional Product
GUAM: GUAM Organization for Democracy and Economic Development
GVA: Gross Value Added
HDI: Human Development Index
IAS: International Accounting Standards
ICE: Information Systems, Communications, and Entertainment
IFC: International Finance Corporation
IIT: Indian Institute of Technology
IMF: International Monetary Fund
IPRI: International Property Rights Index
IR: International Relations
IRA: Independent Regulatory Agency
IT: Information Technology
JNU: Jawaharlal Nehru University
LO: Landsorganisationen i Sverige/Swedish Trade Union Confederation
MB: Machine Building
MC: Monetary Cost
MDG: Millennium Development Goals
MIFID: Markets in Financial Instruments Directive
NACD: National Association of Corporate Directors

NBU: National Bank of Ukraine
NGO: Non-Governmental Organization
NRB: Net Regulatory Burden
OECD: Organization for Economic Cooperation and Development
ONZ: Organizacja Narodów Zjednoczonych/United Nations
PIT: Personal Income Tax
PLN: Polish Zloty
PM: Prime Minister
PRC: People's Republic of China
PSC: Probability of a Systemic Crisis or Contagion
PTK: Swedish Federation of Salaried Employees in Industry and Services
QE: Quantitative Easing
RMSE: Root Mean Square Error
SIDA: Swedish International Development Cooperation Agency
SM: Subsistence Minimum
SOX: Sarbanes-Oxley Act
SSC: Social Security Contribution
STEM: Science, Technology, Engineering, and Mathematics
TCB: Taxes, Corruption, and Bureaucracy
TVC: Temporary workers, vendors, and contract works
UAH: Ukraine hryvni
UI: Unemployment Insurance
UK: United Kingdom
UN: United Nations
UNDP: United Nations Development Program
UNESCO: United Nations Education, Scientific, and Cultural Organization
UNICTAD: United Nations Conference on Trade and Development
UNIDO: United Nations Industrial Development Organization
USAID: United States Agency for International Development
USD: United States Dollars
WHO: World Health Organization
WOMEDA: Women's Emancipation and Development Agency
WTO: World Trade Organization
WWII: World War II

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Chapter 1

Introduction

Linda A. Winkler and Harold Codrington (Editors)

This volume consists of numerous papers that were presented at the 2015 and 2016 annual meetings of the Congress of Political Economists (COPE). This group, composed of international academics and economic development proponents, has met to present research and discuss economic issues annually since 1990. The papers included in this volume cover various issues in global development and global economic transformation across the world. They address factors affecting economies and development in the member states of the European Union (EU), Ukraine, and select countries in Africa, the Caribbean, the South Pacific, as well as India and the United States. This is a timely and useful volume for several reasons. First, the global economy is in transition, from the 1990s status quo to the "new normal" of heavy reliance on the internet, superfast communications, sophisticated payments systems, the diminishing importance of size and distance, and changing notions of the market. The papers show how this process is affecting economies across the globe and why an appreciation of it will help to underpin efforts by governmental bodies and the private sector to reassess societal relationships - both economic and political. Second, this volume shows that challenges to policy-making and the achievement of social consensus on development issues are often quite similar in all countries, irrespective of size, geographical location, endowment and developmental status. Third, the offerings do not have a singular focus; the research speaks to concerns that touch on a wide cross-section of topical issues which are driving transition and transformation at the national and international levels.

The chapters in this edited volume revolve around international comparisons. As a group, they compare economic factors across transnational economic or political associations (OECD, EU, and G20) or make comparisons across or within emerging markets or small states (Brazil, Russia, India, China and South Africa (BRICS), various African countries, the Caribbean, South Pacific). They include the presentation of a new model for transnational agreements, discussions of policies related to labor compensation and corporate governance, comparisons of nations across the world using indices of economic development and governance, an analysis of gender inequality in employment in the EU, comparisons of tax burdens

across the European Union and the USA, discussions of employee representation in corporate governance, and a look at grassroots development and markets in developing economies. As a whole, these contributions make an important scholarly contribution to international economics in their breadth and cross-national analyses.

Harold Codrington (**Does size matter in economic development?**) opens the volume by providing an overview of measures of economic development with his exploration of the relationship between the size (population) of a country and its economic development. His analysis compares performance between states across the globe on five indices that are used to measure economic well-being and good governance: the Human Development Index (HDI), the Index of Economic Freedom, the Ease of Doing Business Index, the Corruption Index, and the Travel and Tourism Competitiveness Index. He identifies various attributes or features associated with small countries and mini-states which can explain their relatively better performance on the indices when compared to large countries.

Several chapters in the volume deal with factors affecting workers including taxation, gender, and governance. For example, Anna Krajewska (**A comparison of the tax burden on labor in Poland and the United States**) discusses and compares the tax burden on workers in different types of households in the 34 OECD countries. She also examines employer tax contributions for social security in the OECD countries. Her analysis provides detailed comparisons of these taxes in Poland and the USA with a discussion of differences. Walentyna Kwiatkowska (**Women and men in the labor market in Poland and other EU Countries**) analyzes the status of women in the labor market relative to men in the EU from 2005 to 2014. Her comparisons look at changes in the activity, employment and unemployment rates. These factors improve for women over the time period included in her analysis, but women continue to lag across the EU relative to their male counterparts. She offers additional insights for these factors in Poland. In examining governance, Stanisław Rudolf and Katarzyna Skorupińska (**The role and position of works councils in the Polish system of labor relations**) look at EU directives and their implementation in labor relations and employee participation in Poland through trade unions and work councils. They conduct a national survey on the activity of the work councils, their position in companies, and the barriers that they face. Work councils in Poland are also compared to those elsewhere in the EU. Stanisław Rudolf (**The efficiency of employee representation in corporate governance in the selected EU countries**) further examines employee representation in corporate governance by comparing German and Swedish employee representation relative to the economic and social performance of the companies involved. He discusses these in relation to

corporate governance systems, concentration of capital, the position of institutional investors and the scope of employee representation.

In a continued focus on the EU and transnational relationships, George Morgan and Mark Thorum (**Determinants of transnational regulatory regimes**) develop a model of demand and supply with respect to regulation for transnational agreements. This is explored in relation to the EU. They also discuss conceptual models for the successful establishment of cross-country regulatory regimes and explore the interplay between the private sector, government, and society within these models. Their goal is to provide a baseline economic foundation for discussions of transnational regulation. Miron Wolnicki (**The death of the social contract and the misery of XXI century interventionism**) examines the policies of labor compensation relative to productivity gains. He discusses the relationships between labor and capital in the G20 and OECD and the change in Post-World War 2 growth models as well as policy underlying the development of the EU. He explores the need for fair and economically justified higher wages for labor, suggesting that policy must change to better compensate labor and accommodate new paradigms regarding capital and profit redistribution.

Although not part of the EU, Ukraine is an area of special interest to the Union, particularly after the suggested EU-Ukraine association agreement which proposed free trade and cooperation between the two. Ewa Bojar and her co-authors (**Ukraine in a transformation period: An assessment of Ukraine's investment climate by foreign direct investors**) discuss the reasons why foreign investors might choose to invest, or not to invest, in Ukraine. Weak competition, labor costs, access to cheap raw materials, and opportunities to gain above-average profits are the factors that encourage foreign investment, whereas government policy and corruption are the main barriers. Fyodor Kushnirsky and Svitlana Maksymenko (**Regional growth and poverty in Ukraine**) build an econometric model to forecast and examine regional growth and poverty in Ukraine. They discuss and compare industry, agriculture, construction, and service indicators by region, concluding that mining and the service sector are important to economic growth, while agriculture continues to be important for poverty reduction.

James West (**TCB in India's new ICE age: Lessons for BRICS**) expands the discussion beyond the EU to BRICS. He explores the transition challenges (mainly taxation, corruption and bureaucracy) in emerging markets using the example of India with comparisons to BRICS countries. West highlights India's successes in education and the Information, Communication and Entertainment (ICE) industry relative to cultural values and ongoing challenges. Cristanna Cook (**Western marketing principles in the South Pacific and the decline of communal values)** uses data from the South Pacific

to explore the applicability of Western marketing and economic principles in that area relative to traditional values that emphasize communalism. Community values and norms are in decline, but the shift to Western management and marketing concepts has failed to address many of the issues of the small South Pacific states. Harold Codrington (**Barbados at 50: Lessons for other small developing countries**) shifts the focus to two other continents or areas through his examination of economic outcomes and measures of well-being (literacy, life expectancy, and access to technology and infrastructure) in several former British colonies in Africa and the Caribbean, all which emerged from colonialism approximately 50 years ago. The more successful countries of Barbados and Botswana have more stable governments and political environments, are less prone to be overly influenced by ideology, and generally practice prudent economic policies, particularly with regard to exchange rate stability and debt management. Overall, Barbados scores highest on the indicators and reasons for this are discussed. The final contribution in the edited collection is from Linda Winkler (**Grass-roots initiatives driving economic development in rural Tanzania**). She continues the examination of economic development in Africa by discussing the role of grassroots development in rural Eastern Africa and the key components necessary for its success. She provides case studies of several NGOs working in the local community over the last twenty years. Her analysis includes a discussion of key components of grassroots leadership and characteristics important to economic sustainability.

Chapter 2

Does Size Matter in Economic Development?

Harold Codrington[1]

Abstract

This paper addresses the issue of whether small size is a contributor to economic development. The link between size and development is an issue which has been explored by several writers during the last 40 years. These authors use various measures of development and size and their findings show positive as well as negative correlation. However, the use of more recently developed indicators of country performance show that small countries perform better. This paper indicates that it is possible to identify several enabling factors in small countries, which provide a platform for steady or rapid development. These include, but are not limited to, social cohesion or social partnership, stability (lack of security issues), fiscal discipline, high public spending on education and healthcare, less complex governmental structures, and the rule of law.

Introduction

The link between the size of a country, particularly small size, and performance is the subject of this paper. Several writers during the last 40 years have dealt almost exclusively with the implications of size for economic growth and development. However, it has become increasingly evident that size may be a determinant of both economic and non-economic outcomes.

Over time, a number of indices have been developed to measure the performance of countries in several important areas. In this paper, we examine five of them. These are: the Human Development Index (HDI), the Index of Economic Freedom, the Ease of Doing Business Index, the Corruption Index, and the Travel and Tourism Competitiveness Index. These

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cover a cross-section of the attributes that are considered necessary for a country that is doing well: overall economic well-being, an unfettered private sector, good governance, and the country's international appeal in the tourism industry.

An analysis of these indices shows that overall, developed countries do better than developing ones, as expected. However, a more interesting revelation is that, on average, small countries perform better than large ones. There are various indicators of size, but in this paper, we are accepting Paul Streeten's advice that in a choice between population, area and GDP, population is the best measure (1993). For the purposes of this paper, small countries are defined as those with a population of less than 10 million people. Among that group are the mini-states with populations of less than one million people. Large countries are those with populations in excess of 25 million people.

This paper will first briefly list the work of several writers who have addressed the link between country size and economic growth and/or development and specific economic variables. Next, it will explain the methodology underpinning the various indices, show selected country rankings for the most recent year, and comment on their evolution since introduction. Third, the paper will identify a number of attributes or features associated with small countries and mini-states which can explain their relatively better performance on the indices.

The Literature on Size and Development: A Brief Overview

The literature on development is replete with studies about the impact of size on economic performance. Kutznets (1959) and Demas (1965) are among the earliest commentators to promote the issue of country size in economic theorizing by pointing out that the study of development could be enriched if a distinction was made between large and small countries. Halaf, in 1971, analyzed the Lebanese economy from the perspective of size. Other commentators – Farrugia (1993), Armstrong et al (1998) and Ocampo (2002) – were among those who have examined developments in very small economies. Most of the subsequent writing on small countries focuses on the growth of Gross Domestic Product (GDP) or per capita GDP and emphasizes the disadvantages of small size, such as a narrow resource base, the small size of the domestic market, the presence of diseconomies of scale, the specialization in primary exports, and a vulnerability to natural hazards. Khalaf (1974), who examines commodity and geographic concentration, finds that there is no discernible relationship between country size and economic development nor between country size and economic growth, a conclusion

Srinivasan (1988) as well as Milner and Westaway (1993) support. Conversely, Codrington, in 1989, shows that size features prominently in the tax effort of very large and very small developing countries. Alouini and Hubert (2015), using a principal components approach that enables the incorporation of population, GDP, and arable land into one measure, also conclude that country size has a significant negative correlation with economic performance.

Size and Performance - The Global Indices

Notwithstanding the indecisiveness in the literature about the impact of size on economic development, in this section, we examine whether size is a determinant of several economic and non-economic variables. To do this, we analyze whether size affects country ranking on several global indices of performance.

The Human Development Index (HDI)

The UN publishes the HDI, which focuses on 187 countries, every year since 1990. The HDI can be described as a tool to measure and rank countries' levels of social and economic development based on four criteria: life expectancy at birth, mean years of schooling, expected years of schooling, and gross national income per capita. According to its authors, the motivation behind the production of the index is "*to shift the focus of development economics from national income accounting to people-centered policies*" (Mahbub ul Haq, 1995).

With respect to the various criteria, countries' performances are expressed as a value between zero and one, with the higher values denoting better performance. The HDI is therefore, a summary measure of average achievement in key dimensions of human development: a long and healthy life, knowledge, and a decent standard of living. In the HDI, the countries are categorized under Very High (0.8-1.0), High (0.7-0.79), Medium (0.55-0.69), and Low (below 0.55) levels of Human Development.

An analysis of the HDI since 1990 shows that the world's smallest countries are among the most stellar performers. For the 2014 HDI, of the 49 countries listed under Very High Human Development, 21 have populations of less than 10 million; indeed, six have populations of less than 1 million (see Table 2.1).

Table 2.1: Very High Human Development in Small Countries/Mini-states in 2014

Small countries		Mini-states	
Rank	**Country**	**Rank**	**Country**
1	Norway	13	Iceland
3	Switzerland	18	Liechtenstein
7	New Zealand	23	Luxembourg
9	Singapore	30	Brunei
10	Denmark	32	Cyprus
11	Ireland	39	Malta
12	Sweden		
19	Israel		
21	Austria		
24	Finland		
25	Slovenia		
31	Qatar		
33	Estonia		
35	Lithuania		

Source: https://en.wikipedia.org/wiki/Human_Development_Index

Looking at it from another perspective, only 12 countries with populations of 25 million or more are in the Very High Human Development category. Of the five largest countries in the world in terms of population, China, India, United States, Indonesia, and Brazil, only the United States has consistently achieved the Very High Human Development designation since 1990. During that period, China moved from Low to High, Brazil and Indonesia from Medium to High, and India from Low to Medium designations.

The results are the same for the next lower category in the index, which is High Human Development. This includes the rankings from 50 to 102. Thirty-five of the 53 countries listed in this category have a population of less than 10 million; 15 have a population of less than one million (See Table 2.2 for the rankings of the mini-states in this category). Only 12 countries with populations of 25 million or more are listed under High Human Development.

Table 2.2: Mini-states with High Human Development

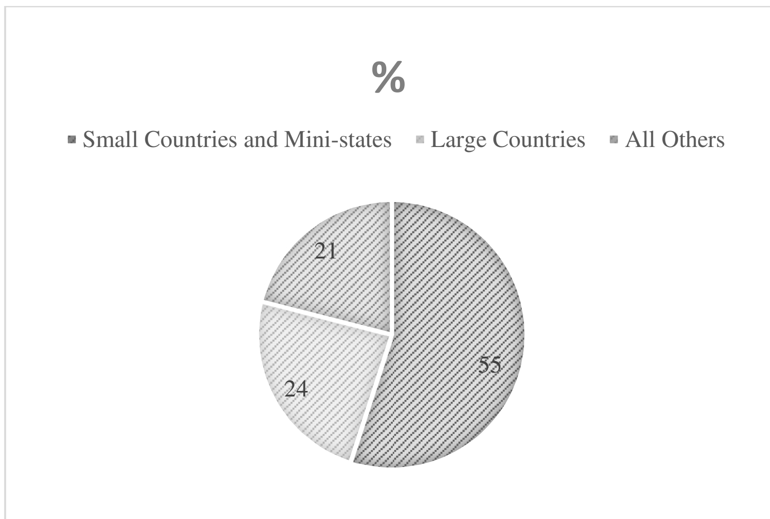
Population Less Than 1 Million	
Countries	
The Bahamas (51)	Belize (84)
Montenegro (52)	Fiji (88)
Barbados (59)	St. Vincent and the Grenadines (92)

Palau (60)	Dominica (94)
Antigua and Barbuda (61)	St. Lucia (97)
Seychelles (72)	Suriname (100)
St. Kitts and Nevis (73)	Tonga (101)
Grenada (81)	

Source: https://en.wikipedia.org/wiki/Human_Development_Index

In sum, of the 102 countries that are described as having Very High or High Human Development, 55 have populations of less than 10 million (with 21 having populations of less than one million), while only 24 have populations exceeding 25 million (see Figure 2.1).

Figure 2.1: Shares accruing to countries ranked as having Very High or High Human Development



Source: https://en.wikipedia.org/wiki/Human_Development_Index

Another interesting observation is that the smaller countries have continued to perform creditably irrespective of the global economic circumstances. The time period since 1990 provides a good example of the global business cycle at work, with years of steady economic growth interrupted by recession in 1990-93, 1998, 2001-02, and 2008-09. Since 1990, small countries have been consistently high performers. The following small states have been among the top 25 performers during this period: Norway, Switzerland, New Zealand, Denmark, Iceland, Ireland, Sweden, Israel, Austria, Luxembourg, and Finland. Indeed, Norway has held the top position for most of the time since 2000. The

mini-states have also largely maintained their relatively good Very High or High HDI rankings throughout the period (See Table 2.3).

Table 2.3: Rankings for Small countries or Mini-states with Very High or High HDI

1990		2000		2008		2013	
Rank	**Country**	**Rank**	**Country**	**Rank**	**Country**	**Rank**	**Country**
12	Iceland	10	Luxembourg	13	Iceland	13	Iceland
15	Luxembourg	14	Iceland	14	Luxembourg	23	Luxembourg
16	Brunei	24	Brunei	30	Cyprus	30	Brunei
34	Malta	31	Cyprus	31	Brunei	32	Cyprus
38	Cyprus	40	Malta	41	Malta	39	Malta
44	Barbados	41	The Bahamas	47	The Bahamas	51	The Bahamas
		46	Barbados	50	Montenegro	59	Barbados
				52	Barbados		

Source: https://en.wikipedia.org/wiki/Human_Development_Index

However, over time there has been some fall in the rankings of those mini-states (like the Bahamas and Barbados) that were very dependent on tourism and financial services. Foreign exchange earnings from those activities have been adversely impacted by the economic downturn which took root in 2008, leading to declining revenue for governments and lower disposable incomes for the populace.

Per Capita Income

When we consider growth of income per capita rather than income levels, again we find small countries among the top performers. In fact, the richest countries in the world in 2013, using various measures of income per capita, are the tiny jurisdictions of Liechtenstein and Monaco, with populations of 37,000 and 36,000, respectively. Ignoring countries with populations of less than 100,000, the picture is the same. Among the 25 leading countries using all methodologies, there are 15 small states including two mini-states. Luxembourg was the best performer across the four methodologies.

Index of Economic Freedom

The Index of Economic Freedom, a creation of the Heritage Foundation and *The Wall Street Journal*, covers 178 countries. This measure speaks to the

fundamental right of every human to control his or her own labor and property. When a society is free, individuals can work, produce, consume, and invest in any way they please. Governments allow labor, capital, and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself. The major components of this index are: the Rule of Law (property rights and freedom from corruption), Limited Government (fiscal freedom and government spending), Regulatory Efficiency (business freedom, labor freedom, and monetary freedom), and Open Markets (trade freedom, investment freedom, and financial freedom). Countries are ranked as Free, Mostly Free, Moderately Free, Mostly Unfree and Repressed.

For the 2014 assessment, the dominance of smaller countries is evident.

Table 2.4: Rankings for Top Performing Small Countries in 2014

Rank	Country
1	Hong Kong
2	Singapore
3	Switzerland
4	New Zealand
8	Mauritius
9	Ireland
19	Denmark
11	Estonia

Source: www.heritage.org/index

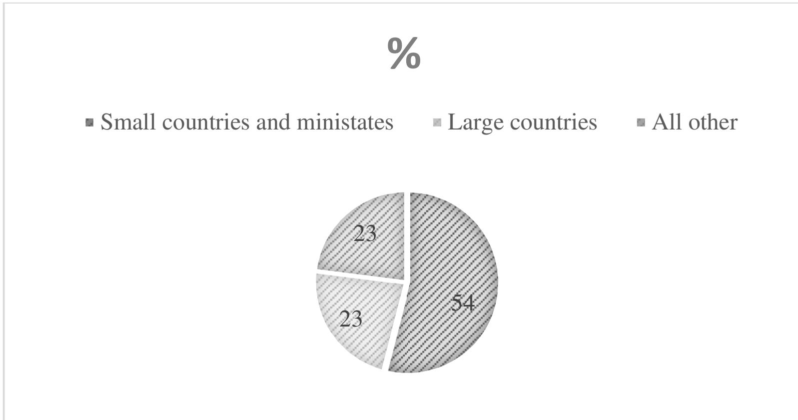
Table 2.5: Ranking for Top Performing Mini-states in 2014

Rank	Country
16	Luxembourg
23	Iceland
33	St. Lucia
36	The Bahamas
40	Brunei
45	Barbados
46	Cyprus

Source: www.heritage.org/index

Among the 35 countries rated as Free or Mostly Free, 19 are small countries or mini-states and only eight have populations in excess of 25 million (see Figure 2.2).

Figure 2.2: Shares Accruing to Countries Rated Free or Mostly Free



Source: Created with data from www.heritage.org/index

Since 1995, among the countries that are not dependencies or provinces of another state, Singapore is ranked at number one throughout. Ireland, Denmark, Estonia, Mauritius, Botswana, and Finland have all shown significant improvement in their rankings. Iceland and Barbados are the ministates and Canada the only large country to attain a significantly higher ranking during this period.

The Ease of Doing Business Index

This index is published by the World Bank Group and categorizes 189 countries (Doing Business, 2017). The index relies on economic research and surveys conducted by the World Bank. It speaks to several factors which directly affect how business is conducted: starting a business, dealing with construction permits, getting electricity, registering property, accessing credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency.

For 2014, small countries featured in this index are shown in Table 2.6.

Table 2.6: Ease of Doing Business Index in 2014 for Small Countries

Rank	Country
1	Singapore
2	New Zealand
4	Denmark
6	Norway

9	Finland
11	Sweden
12	Iceland
13	Ireland
17	Estonia
21	Austria
22	United Arab Emirates
23	Latvia
24	Lithuania
28	Mauritius
30	Macedonia

Source: Doing Business (2016)

Half of the top 30 positions are occupied by small countries or mini-states, but mini-states as a group do not perform as well. Besides Iceland, other mini-states are ranked as follows: Luxembourg (59), Cyprus (64), Samoa (67), Tonga (69), Vanuatu (76), Bahamas (84) Antigua (89), Malta (94), Dominica (97), St. Lucia (100), and Barbados (106). Only seven large countries are in the top 30.

With respect to performance on the various categories of the index, Singapore is first in two (trading across borders and enforcing contracts) and New Zealand is first in three (starting a business, getting credit, and enforcing minority interests). South Korea is the only large country to dominate a category, namely dealing with construction permits.

The Corruption Index

This index, first launched in 1995, has been credited with putting corruption on the front burner. It is a product of Transparency International and ranks 177 countries on a scale ranging from 100 (very clean) to zero (very corrupt) relying on expert assessments and opinion surveys (see: www.transparency.org/research/cpi/overview). It is a composite index, a combination of polls drawing on corruption-related data collected by a variety of reputable institutions, and the views of observers from around the world, including experts living and working in the countries and territories evaluated. One drawback of this index is that it uses a different methodology every year which makes year-to-year comparisons very difficult.

For the 2014 assessment (Table 2.7), 19 of the top 30 countries are small countries and of these five are mini-states. Only six large countries are in the top 30. Since its inception, New Zealand, Denmark, Singapore, Finland,

Sweden, and Switzerland have always been among the top 10. Canada is the only large country to achieve this. With respect to mini-states, Iceland is a top 10 performer early in the rankings, while Barbados is ranked among the top 25 beginning in 2006.

Table 2.7: The Corruption Index 2014: small countries and mini-states

Rank	Country
1	Denmark
2	New Zealand
3	Finland
4	Sweden
5	Norway
6	Switzerland
7	Singapore
9	Luxembourg
12	Iceland
17	Barbados; Ireland
21	Uruguay
23	Austria
24	The Bahamas
25	United Arab Emirates
26	Estonia; Qatar
29	St. Vincent and the Grenadines
30	Bhutan

Source: www.transparency.org

The Travel and Tourism Competitiveness Index

This index, which ranks 139 countries, was first published by the World Economic Forum in 2007. It measures the factors and policies that make a country a viable place in which to invest in the travel and tourism sector. In this regard, it focuses on the regulatory framework, the business environment and infrastructure, and human, cultural, and natural resources.

This is the only index in which the large countries dominated. The 2014 rankings show Spain, France, Germany, the United States, and the United Kingdom holding positions one through five, with Italy, Japan, and Canada at positions eight through 10. The top 30 includes 12 large countries and 13 small countries (including two mini-states). During the last decade, several large countries are consistently top performers and some (Spain and France deserve mention) have improved their rankings. Among the small countries,

Switzerland and Sweden have remained very competitive, but only three mini-states (Iceland, Luxembourg, and Barbados) have been highly-ranked (*see Table 2.8*).

Table 2.8: Travel and Tourism Competitiveness Index 2014: Small Countries and Mini-states

Rank	Country
6	Switzerland
11	Singapore
12	Austria
16	New Zealand
18	Iceland
19	Ireland
20	Norway
22	Finland
23	Sweden
24	United Arab Emirates
26	Luxembourg
27	Denmark
28	Barbados

Source: https:/en.wikipedia.org/wiki/Travel_and_Tourism_Competitiveness_Report

Some Possible Explanations

Overall, there is some evidence that smaller countries take on the characteristics of the states in their geographical region. This would help to explain why Iceland, Malta, and Cyprus perform as well as the large economies of Western Europe on several indices and why, in the Western Hemisphere, the highest per capita incomes outside of the United States and Canada are found in some of the smallest islands. Are there other reasons for the good performance of small countries and mini-states on the global indices?

The HDI

In a 1989 paper, this author demonstrates that mini-state developing countries are better at collecting taxes than large ones. This means that they are more capable of raising the necessary revenues to finance healthcare and education, which promote longevity and literacy, two important planks of the HDI. There is also evidence that some small countries and mini-states spend more per capita on health and education than large developing countries and

indeed, some developed ones (For example, see https://en.wikipedia.org/list_of_countries_by_total_health_expenditure_per_capita). In addition, the smaller the country, the more likely it is that remittances from abroad can make a significant difference to disposable income much of which is spent on health and education, and through the circular flow of income, positively impacts per capita GDP. Furthermore, smaller countries receive higher foreign aid per capita and this augments government revenue. Moreover, given the small populations, even modest increases in GDP can translate into high per capita incomes.

Economic Freedom

Societal consensus is important for upholding the rule of law and keeping governments in check as well as preserving aspects of regulatory freedom. Small countries have sociological and political advantages in achieving greater social cohesion. The smallness of the population provides better information for internal partners, thus reducing the possibility of information asymmetries and moral hazard. It favors better social cohesion and facilitates the relationship between state and citizen thereby reducing the "*distance*" between policy-makers and policy-takers. Official social partnership programs that exist mainly in smaller countries like Ireland and Barbados allow dialogue that helps to remove distrust and suspicion, and thus facilitates labor market freedom. In addition, several small countries or mini-states have retained colonial rule longer than other countries and may have absorbed many of the cultural norms of the colonial power. For example, the small countries and mini-states in the Anglophone Caribbean imported the Westminster parliamentary system that brings with it regular, fair elections, respect for the rule of law, and political stability.

Ease of Doing Business

Social consensus is also an important determinant of the investment climate and economic growth since it promotes labor market stability that is attractive to investors. Apart from that, small countries have closely integrated societies containing an intricate network of personal relationships. These factors facilitate communication between private investors and bureaucrats. Accordingly, ideas and requests for information or complaints about difficult processes can be communicated easily, thereby cutting out long delays. Essentially, smaller bureaucracies give rise to fewer difficulties in doing business.

With respect to the poor showing of mini-states on this index, one reason may be a tendency to stave off any criticism that they are not serious about doing business by making many of the associated requirements as difficult as possible. This is quite evident in those mini-states that rely heavily on the international financial sector, which sometimes go overboard in trying to keep out entities that may damage the country's reputation. In addition, to the extent that these countries are emerging economies, there is still some way to go in fully embracing the use of information technology and, thus, some tasks are still done manually thereby delaying the process.

Corruption

Small size, on average, should mean that there are more personal linkages per head of population. Small size can compromise underhand dealings since secret transactions are more difficult to conduct because of the higher likelihood that someone will find out. To the extent that there is a less complex system of economic and financial relations in small countries, the stakes may be somewhat lower. It may also be the case that the high per capita incomes in the smaller countries allow for relatively high salaries and benefits to be paid to public servants, thereby reducing the possibility of corruption. This political stability, which is a feature of most smaller countries, is also beneficial because it prevents the creation of an environment in which there is a weak bureaucracy or vulnerable politicians and civil servants who are susceptible to corruption.

Travel and Tourism Competitiveness

Each country in the world has a tourism industry and is therefore in competition with every other country. Accordingly, they all naturally allocate resources to several of the factors that influence this index. For example, high priority must be given to maintaining the air transport infrastructure, ground and port infrastructure, and tourist service infrastructure. There is also the need to pay attention to environmental sustainability and the management of natural and cultural resources, safety and security, health and hygiene, and information technology (IT) readiness. The highly developed, large democracies are clearly better able than the less-endowed countries to do so and would have a higher degree of societal buy-in for issues like environmental sustainability. These types of considerations are also important for smaller countries that are competing in the upper end of the tourism market, since these factors, in particular IT readiness, would make a country more appealing to the high net worth demographic.

Conclusions

The literature is inconclusive about the role of size in economic development; small countries and mini-states by and large outperform the large country economies on a variety of global economic and non-economic yardsticks. Casual observance seems to suggest there may be a set of factors that facilitate this outcome. These include, but are not limited to, social cohesion or social partnership, political stability (lack of security issues), fiscal discipline, high public spending relative to GDP on education and healthcare, less complex governmental structures, and respect for the rule of law.

The observations in this paper confirm the view long held by some social scientists that size is not necessarily an impediment to performance. There is a set of small states that are in the top 20 places on all the indices. These are Singapore, New Zealand, and Ireland; Switzerland was a top performer in four out the five indices. Iceland has also received a high ranking across the board and other developing mini-states have improved their standing throughout time. One group of mini-states, which deviates from this pattern, is those in the South Pacific, which signifies that remoteness may be an issue in some cases. An examination of the areas in which mini-states are deficient shows that significant improvement can occur if there is the political will on the part of the governments to enact and enforce necessary legislation, forge alliances with the private sector and civil society, and increase public awareness of the issues.

The realization that small size could be an advantage and not a hindrance to achieving excellence is good news for smaller countries. It adds more substance to the call for new models of development that de-emphasize physical endowments in favor of more qualitative attributes. Taken alongside the improvements in IT that continue to narrow the so-called "*digital divide*" and expose small countries, especially those in the developing world, to more modern and efficient banking and payment systems, telecommunications, and distance learning, this could lead to a real leveling of the playing field that augurs well for smaller jurisdictions.

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