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Dependent and Wealthy: The Island Economies of the North Atlantic

Bermuda and Iceland are among the wealthiest countries in the world, with per capita incomes of US$117,000 and US$79,000, respectively. Average incomes in Bermuda are more than three times the average for Trinidad and Tobago, the highest in Caricom, and ten times the average in Jamaica, the Caribbean's most populous English-speaking island. Bermuda is a British dependency whereas Iceland, like most of Caricom, is fully independent politically. However, both Iceland and Bermuda are economically dependent, with ratios of trade to GDP in excess of 70%, similar to those recorded by Caricom countries.

Bermuda has a population of similar size to that of Dominica and Iceland's population is not much larger than that of Barbados. Just like their Caribbean counterparts, the economies of Iceland and Bermuda are entirely dependent on imports, including food, fuels, building materials, vehicles, medicines, and the variety of other items that sustain modern livelihoods.

Import dependence is a common characteristic of all small economies, irrespective of their political status. The Caymans, Malta, Cyprus and Hawaii are all dependent on imports. The Caymans is a British dependency, Malta and Cyprus are members of the European Union, and Hawaii, with a population smaller than that of Jamaica and average incomes 8 times as large, is a State of the US.

The limitations of population and natural resources mean that small economies have the capacity to produce very little of what is needed to make modern lifestyles possible. As we have discovered whenever there is a scarcity of foreign currency to purchase imports in any Caribbean country, shortages and economic hardship become commonplace. To make matters worse, foreign currency problems affect the supply of the limited number of import substitutes that are available locally because they too need foreign currency to import feed, fertilizers, fuel and other essential inputs.

Wealthy countries like Bermuda and Iceland have successfully grown their foreign currency earnings to levels that support an ample capacity to import. They have done so by increasing capacity to produce just one or two competitive products or services. In Bermuda foreign earnings come from the international business and financial services the country provides to companies in North America and Europe, while Iceland derives more than half its foreign earnings from tourism. International business has been the source of the Caymans' economic prosperity, while the high average incomes of Malta, Cyprus and Hawaii are all mainly due to earnings from tourism.

Political independence and economic independence are different animals: the fact of political independence does not equip a country like Iceland with additional economic policy tools beyond those which are available to a State of the US like Hawaii. The wealth of both countries rests on a foundation of the tourism services they sell to consumers who visit from outside the domestic economy. They are able to leverage their competitive advantages to grow and maintain their capacity to attract visitor spending, and the earnings from beyond their shores are used to meet their domestic needs.

Political independence provides no tools to relieve the small economy's dependence on imports, nor does it provide resources to achieve competitive international scale in a wide range of economic activities. However, we have a wealth of examples to show that neither import dependence nor export specialization is a limit to economic prosperity for countries that pursue credible policies, whatever the nature of their political arrangements.

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