ECONOMIC DIVERSIFICATION: A NEW LIFE LINE FOR LESSER DEVELOPED COUNTRIES?

CASE STUDY OF THE OECS' TOURISM INDUSTRY

By

Sonja H. A. Fraser

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Approved: Dr. Harvey Millar
Supervisor

Approved: Dr. Anthony O'Malley
Reader

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Abstract

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One of the great challenges facing policy makers is finding effective strategies that contribute to active and sustainable economic development. As arguments and evidence cumulate against the efficiency of neoliberal regimes surrounding the decreased stability and increased volatility and underdevelopment in Lesser Developed Countries' (LDCs) economies that adopt these policies, researchers and governments are faced with finding an alternative that would fill in the gaps left by current policy strategies. The proposed alternative development strategy of Economic Diversification has proven to be effective in reducing the vulnerability, providing protection and adding to the growth and development of LDCs. These factors thus support the argument of this thesis that current economic development strategies are not contributing to the effective development of LDCs and thus Economic Diversification is the most viable alternative presently available to them. A case study of the Organization of Eastern Caribbean States' (OECS) tourism industry is conducted because of the region's use of neoliberal policies. This has led to a heavy reliance by OECS governments on one sector for revenue generation, currently seen in its tourism industry. This unbalanced economic structure has led to member states' economies being very susceptible to shocks that occur internally, regionally and/or in the global economy. Therefore the apparent inefficiency of current neoliberal policy regimes in the region makes it a credible candidate for investigating if economic diversification would be an effective alternative economic development strategy for the region and whether the region's tourism industry can be used as a catalyst for its application.

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ACCRONYMS AND ABBREVIATIONS

ACP……... African, Caribbean and Pacific Group of States

AEC……...African Economic Conference

AfDB……African Development Bank

AGOA……African Growth and Opportunity Act

BVI…….British Virgin Islands

CARICOM.....Caribbean Community and Common Market

CSME……...CARICOM Single Market and Economy

DBSA……...Development Bank of Southern Africa

ECCB…….Eastern Caribbean Central Bank

ECCM……...East Caribbean Common Market

ECCU…….Eastern Caribbean Currency Union

ECLAC…….Economic Commission for Latin America and the Caribbean

EU……...European Union

FDI……...Foreign Direct Investment

GDP……... Gross Domestic Product

GNP……. Gross National Product

HDI……Human Development Index

HIPC……Heavily Indebted Poor Countries

IBRD……...International Bank for Reconstruction and Development

IMF.....International Monetary Fund

LDCs ……Lesser Developed Countries

NAFTA.....North American Free Trade Agreement

NIP ……...National Industrial Policy

NPI…….. ……..Net Percentage Indicator

OECD……...Organization for Economic Cooperation and Development

OECS……...Organization of Eastern Caribbean States

RPS……Regional Partnership Strategy

RRACC Project……..Reduce Risks to Human & Natural Assets Resulting from Climate Change

SDPs…….....Spatial Development Programs

SIDS ……Small Island Developing States

UN…….United Nations

UNEP……...United Nations Environment Programme

UNWTO…….United Nations World Tourism Organization

USAID……U.S. Agency for International Development

CHAPTER ONE: INTRODUCTION

DEVELOPMENT FOCUS

The banner under which the core of this thesis's resides is that of Economic Development. This is a term that has been used by economists and politicians within the 20th and 21st centuries to refer generally to the concerted actions of policy makers to promote an improved standard of living and economic health of a country. It is a policy intervention endeavour with the aim of increasing the economic and social well- being of people especially within developing states which involves the development of human capital, infrastructure and regional competitiveness. The reason for the policy intervention, according to then U.S. President Harry Truman in his inauguration speech on January 20th 1949, is the fact that the economic condition of undeveloped areas was primitive and stagnant; their poverty posing a threat and a handicap to both these areas and more developed ones close by (Department of State Bulletin, 1949).

A driving factor for successful economic development in a country is its stability and competitiveness within the global market as they have proven to lead to greater economic performance and growth. However, economic development has apparently fallen short in this aspect as areas of the developing world for which it was created are increasing becoming less stable and competitive in the global economy. A possible cause for this is the introduction of economic policies where economies were prompted to be open to trade and investment with the rest of the world as this was deemed essential for economic development. Hence it is argued that no country or region has been economically successful in terms of increasing the living standards of its citizens without opening its economy. Furthermore, the opening of developing countries' economies, which involves the removal of import tariffs, was necessary for the development of

countries' comparative advantage in the manufacturing of a certain commodity or commodities within the global market.

The repercussion of these strategies is that countries are seen focusing on one economic activity for economic productivity and growth and rely on other states to satisfy their other economic needs; the purpose being to strengthen the global market through a network of interdependence. What has resulted however is the reduced ability for states especially LDCs to develop other sectors of their economies which, although not their primary commodity, have the potential to be safeguards against the impacts of unexpected shocks and changes in the global market or the termination of trade agreements, along with increasing economic growth. This situation has led to a circumstance described as a lack of economic diversification. If this is not addressed these regions can be seen returning to their initial economic life of primitivism and stagnation.

SPECIALIST FOCUS

Economic diversification which is the core topic and specialist focus of this thesis is defined by the United Nations as a process of exploring various methods and avenues of development "… in which a growing range of economic output is produced" (United Nations, 2013). This means that the process works in a way whereby economic policies are implemented which when used creates economic growth from different sectors within the economy. This system is necessary for LDCs as many times after a disruption in their economic system where their primary sector is affected, there are no substitute sectors in place that are sufficiently developed to allow them to return to a level of stable economic standing within a timely manner. This failure of timely revival has led to deterioration of economies and the factors connected to it including increases

in unemployment and poverty as well as economic stagnation, hence showing the importance and need for economic diversification in economic development. Economic diversification provides an insurance against economic vulnerability and a buffer to the impacts of external factors such as global economic crises, climate change and changes in economic agreements which in the past have left developing states in economic turmoil.

There is a growing concern among researchers regarding the lack of economic diversity in policy making for economic development and the continual use of particular resources, which are often times non-renewable, for economic stability and growth within LDCs. When these resources are used continuously their potential for renewal depletes, leaving policy makers in the long run with limited avenues for economic growth and development. This not only decreases revenue generation but also adversely impacts the potential for further integration into the global economic market. As a result there is a call by researchers who have invested in this topic, for greater diversity not only for the purposes of revenue generation but also for continuous and improved economic development.

Additionally this lack may be due to certain constraints either inherent and/or external to the countries. For instance a policy within economic development, namely comparative advantage, stipulates that a country with the ability to carry out a certain economic activity more effectively than other states must focus on that activity and rely on other states through trade for the satisfaction of their economic needs. With the chosen sector being treated as the main or only source through which economic productivity can arise, it has led to the concentration of financial and human capital in this sector limiting the scope and capabilities of economies to distribute revenue and employment equitably. Hence, my research would be investigating some of the factors existing in the economic development process that appear to be hindering the effective

use of economic diversification and the ways that greater economic diversification can contribute effectively to long term economic development within the developing world.

EMPIRICAL FOCUS

The Organization of Eastern Caribbean States was chosen because as a result of its adoption of neoliberal policy regimes and practices, there has been a heavy reliance by the governments of member states on one sector for revenue generation and development, as currently being done with its tourism industry. This unbalanced economic structure has led to member states' economies being very susceptible to shocks that occur internally and/or in the global economy. The presumed reason for this is that other peripheral sectors that can be used to protect these economies in instances where their primary sector is affected are often under developed and weak. This apparent inefficiency of the current policy regime makes the region a credible candidate for investigating if economic diversification would be an effective, alternative economic strategy if implemented, with the tourism industry being the catalyst. Consequently the Research Question for this thesis is: *Can the tourism industry be used as a change agent towards greater economic diversification in the OECS as opposed to the main provider of economic development within the region*?

Methodology

Due to the infeasibility of going to the OECS region to collect primary data at this time, the data provided for this thesis is secondary collected from sources including books, scholarly articles, newspapers, journals, economic indicators and statistical reports. The data needed to adequately answer the Research Question include:

- Current strategies used to promote economic development and their effects on economies
- Strategies that promote economic diversification and their effects on economies.
- Contribution of the tourism industry to the global economy
- The economic performance of the OECS in the global economy
- The strategies that promote economic development in the OECS
- The role of the Tourism industry in the OECS (current policies and projects)

The results of the current strategies used to promote development would show whether they have been effective in providing long-term, effective economic growth and development for all countries within the global economy. Data on the strategies used to promote economic diversification and their impacts on economies that implemented them will then be contrasted to the current global economic condition as a means of showing the practicality of an alternative strategy that can be used to enhance economic growth and development for countries within the global economy.

Data on the global economic performance of the tourism industry will be presented to show the debate surrounding whether the industry has the qualities of stability along with growth acceleration. Additionally the data would strive to show if the industry has an element of sustainability that is essential for enhancing effectual growth and development for states participating in the global economy. Thus data supporting arguments for and against this proposition will be given.

Data on the OECS region will serve to show an economy that is using tourism as a means of economic growth and the extent to which it is a candidate for applying the issues surrounding tourism being used a launching pad for greater use of economic diversification strategies. As a result the economic performance of the region will be presented which will also entail statistics

on the business environment of member states to show if economic development strategies being implemented has been effectual in providing economic stability and growth to member states.. Data on the policies and programs used to enhance economic development through tourism is presented to show the various efforts being made by policymakers in the region to secure short and medium term economic growth and development. These segments of data are all essential elements to the quest of finding an answer to the issue posed by the research question.

It must be noted for clarity purposes that the term 'global economic/financial crisis' is used to signify the global economic decline which began in 2008 and ended in 2009. This period holds significance to the thesis as it is during and after this period that the OECS region was in its most vulnerable economic state. Additionally as the discussions presented in this thesis focuses the impact that present economic development and diversification strategies are having on LDCs and SIDs, the data collected will be mainly from the locale of African countries. This is because a significant amount of countries in the continent have characteristics such as exportation of primary commodities, capital deficiency, and dependence on agriculture, brain drain, market imperfections and technological stagnation (tutuors2u.com, 2011) which are also evident in most SIDs including OECS member states.

The structure of the thesis with the inclusion of this introduction is as follows. A Literature Review which is captioned 'Chapter Two: Literature Review' would be used to set the landscape of debates surrounding the issues that arise from this topic. Following this section there would be an Empirical Research section 'Chapter Three: Empirical Data' where through data and graphs collected from various academic sources the issues addressed in the Literature Review would be further discussed. Furthermore there would be an analysis and discussion of the issues and data

in ‘Chapter Four: Discussion’, followed by conclusions and recommendations in ‘Chapter Five: Conclusion and Recommendations’.

THESIS STATEMENT

The argument of this thesis is that under the current regime of neoliberal policies, the OECS will not be able to effectively use the tourism industry as a catalyst towards greater economic development. Hence it is imperative that member states adopt an alternative development strategy. The proposed alternative of Economic Diversification is a viable option that can be used to deal with the current neoliberal policy regimes and effectively utilize tourism’s potential for development to bring about stability, growth and development within member states of the OECS. However its progress is hampered by embedded neoliberal policy regimes that results in policy makers of the OECS being hesitant to move in the direction of fully incorporating Economic Diversification into the economic policy framework. If policymakers can implement policies and projects which focus on the expanding and boosting the economic opportunities that arise out of the main tourism product, there will be a diversity of economic activities which when combined with tourism would reduce states’ extensive reliance on the actual tourism product. Strategies of this nature provide a safety net for LDCs and the OECS region so that they can withstand more effectively and recover more speedily from the growing natural and economic challenges that are affecting them and additionally generate revenue in a more effective manner.

CHAPTER TWO: LITERATURE REVIEW

SECTION 2.1-ECONOMIC DEVELOPMENT

In Max Millikan's (1973) perspective, while development has differing meanings and applications, the most obvious and common distinction between developed and LDCs is that they are poor with a significantly larger population than their developed counterparts. This discrepancy cannot be solved simply through a redistribution of wealth from rich to poor countries for the problem is one of production capability instead of mere distribution. Hence the reason for resource-transfers from developed to less developed states is not solely to equalize global output but to provide opportunities for marked increases in production capabilities within LDCs. It is expected with these increases, that countries in the developing world would use these capabilities with the guidance provided by strategies such as the widely known Rostow's Stages and the Lewis models of growth to accelerate and sustain their development along with increasing their potential for continued effective development. However, it is noted by researchers that some of these strategies have not provided sufficient conditions for long-term economic growth and development. (Millikan 1973, 6 in Todaro & Smith 2006, 113)

An issue surrounding economic development is that of whether it is effective for the economic progress of countries within the global economy. It is argued that economic development is relevant and beneficial to all countries. This is seen through its objectives which include the increasing of the availability and distribution of basic life-sustaining goods and the raising of living standards which involves higher incomes and greater employment opportunities. Additionally the expansion of the range of economic and social choices available to nations and their people through the removal of absolute dependence from other nations and people has enabled countries to gain control of their economic situations and thus increase their stability to

shocks or externalities that arise as a result of interaction with other economies. (Todaro & Smith, 2006:22)

To economists such as Adam Smith and David Ricardo, capitalism and economic development is a productive system with the capabilities of significantly improving the wellbeing of humans and their division of labour, currently termed specialization, all of which contribute to the 'wealth of nations'. The reasoning behind this is that within economic development there is a continuous incentive for the accumulation of resources and the maximization of profit which are essential to ensuring the survival of capitalist economies in the global market. It is further argued the profit maximization of capitalists within individual economies contributes to aggregate growth thus leading to greater economic development. (Cypher, 2002: 109-110; Xue, 2009:3-4)

Contrary to this position, it is argued that while economic development is relevant for the elimination of poverty, its current structure has not provided a sufficient solution to the problematic. This is due to the fact that, according to researchers, the economic development process has become increasingly universal and abstract. According to Tariq Banuri (1991), most economic development policies to provide blanket solutions to the economic problems of developed and developing countries; all being done without taking into consideration, what specific problems these countries are facing. The result is policy makers especially within developing countries becoming increasingly preoccupied with the tailoring of policies so as to draw out the most economic gains possible while disregarding the overall development of their countries. This point was expounded by Professor Frances Stewart (2012) where many of the dominant macroeconomic policies stress the importance of maintaining low inflation rates along with curtailing deficits, while ignoring growth, employment and productive investment initiatives. Hence, many strategies which often times are well meaning and beneficial to

developing states are distorted due to restraints which increases the risk of policies being irrelevant to the actual social economic problems faced by governments in developing countries. It is this misunderstanding according to Banuri that has led to the failures of many economic development strategies within LDCs. (Banuri, 1991: ix, x; Stewart, 2012: 2)

There are many policies whereby economic development is presumed to be attained in LDCs. These include industrialization, modernization, preferential agreements in international trade as well as increased economic assistance from international organizations such as the World Bank or the IMF. (Haller, 2011: 219) In Peter Bauer's point of view, trade policies were and to some extent still are central to the formation of economic development policies and while in the past import substitution strategies were seen as essential to development, it is now general consensus that it has outlived its usefulness and hence economic liberalisation is the crucial variable for economic development. With this method countries are offered the opportunity to compete internationally thus contributing to the growth of LDCs GDP along with generating foreign exchange. (Vasquez 2007, 199; Banuri 1991, 6; Cali, Ellis & Willem te Velde, 2008)

The two schools of theory coming out of economic liberalization relevant to this thesis are classical comparative advantage and global value chain. The definition of comparative advantage that is applicable here is, "the economic theory that countries should specialize in the production and export of those goods and services that they have a relative cost advantage in producing compared to other countries" (Burnell, Randall &Ranker 2011, 503). From the comparative advantage theory, policy advice recommends that developing states should not use the strategies that contributed to the industrial revolution of developed states, but should focus on the careful management of resources. This natural resources development hypothesis advocates the full utilization of land, labour or financial factors and where countries specialize in the production of

by-products from these resources. The essence of this principle is that instead of citizens having to produce their own basic goods and other commodities, they can open their economies to trade with other countries and in response they specialize in the commodities or services that are the most cost efficient for them. This thus creates a network or chain of interdependence between states which ideally would benefit all parties. Unfortunately, as the following discussions would show, the reality is quite different especially in regards to the relationships between developed countries and LDCs. (Burnell, Randall &Ranker, 2011; Asche, Neuerburg, & Menegatti, 2012)

On the issue of whether comparative advantage is beneficial for the development of developing states there has been debate. On one side of the spectrum, specialization is esteemed as leading to higher productivity, income and living standards. In the words of Thomas Sowell, "comparative advantage means that there is a place under the free trade sun for every nation, no matter how poor, because people of every nation can produce some product relatively more effectively than others…" (Sowell in Daga, 2013) It is further argued that this interdependence and trade-off is needed due to the scarcity of resources and the desire for economies to get the maximum profit out of them. This sentiment is also strongly supported by F. Akpadock (1996) who argues that growth should be obtained only from the process of economic specialization based on the comparative advantage principle instead of alternative economic strategies such as economic diversification.

Economist Ha-Joon Chang in his book "Kicking away the Ladder" contended that the comparative advantage principle has helped developed states to maintain their technological and industrial advancement over developing ones under the guise of free trade. The reasoning underlying this opinion is that developed regions such as North America and Europe have used protectionist economic policies in order to obtain wealth and restrain other less developed

countries from doing the same. The illustration he used was that of the agricultural sector where developing countries are encouraged to continue to specialize in the sector, solely exporting raw materials which are not of much value in the commodity value chain as compared to finished manufactured products, while importing technologically advanced devices from developed states which have the comparative advantage in technology and thus are often locations of manufacturing. In the long run, developing states are seen lagging behind their developed counterparts as the polarization of wealth sets in. (Chang, 2002) This argument by Chang is supported by many others in the field of development economics where being a static theory, comparative advantage theory or principle does not consider the possibility of an advantage changing either through investments or the economic development framework and hence does not provide guidance for long term economic development which is the objective that this thesis is seeking to address. This also contradicts Todaro & Smith's observation regarding the provision of opportunities for economic development by current neoliberal policies.

The second school of policy advice recommends the increased participation of developing states in a broad range of global value chains. More commonly known as 'laissez-faire economics', through this theory developing states are expected to begin extracting their natural resources while at the same time search for tasks within the value chain that would establish more downstream value added to their economies. All that is expected of economic policy is to facilitate the directions of global markets through the creation of environments conducive for business. Government involvement is specifically frowned upon when it relates to sectoral choices or priorities. Consequently, mainstream economic policy is designed to let the market decide where to invest and what to produce is required to be neutral in regards to size, sectors and space which authors Asche et al termed the "Triple-S neutral policy". However, the authors

pointed out that the policies of this nature are not neutral as they favoured particular sectors while disregarding others. This is seen particularly with trade policies where they are heavily lopsided against domestic formal sectors such as non-traditional industrial exports. (Asche, Neuerburg, & Menegatti, 2012)

John M. Keynes and other academia of the Keynesian school of thought have strongly disagreed with this type of economic policy. Keynes argues in his book 'The End of Laissez-Faire' that this type of doctrine is dependent to some degree on improper deductive reasoning and that the issue surrounding a market solution to development verses state intervention is better determined on a case-by case basis as opposed to being applied in a hegemonic one-size fits all methodology as seen in current neo-liberal economic policies adding support to Banuri's argument. (Dostaler, 2008; Barnett 2013)

What can be said about economic development is that the broad nature of the development debate which addressed all factors impacting the effectual improvement of lives has been replaced with the narrow technical issues of how quickly liberalization policies should and can be implemented in an economy. Furthermore, regarding economic and trade liberalization, it is argued that in the near future, the strategies of development would revert back to more constrained forms. This is because of a declining access to external sources of capital for heavily indebted countries; a condition that is presumed to have resulted from the long-term use of such policies. It is also noted that this heavy indebtedness would be further combated by increasing protectionism by developed states. As a result, bodies such as the United Nations Committee for Development Policy call for governments, especially those of LDC statuses to enforce policies that are counter-cyclical as they are needed in order to reduce the volatility of economies and divert most if not all negative impacts seen on global demand and supply. "A stable and growing

global economic environment is essential [for economic development]" (Stewart 2012, 2) and one proposed method to use for obtaining such an environment is that of economic diversification. (Banuri 1991, ix; Stewart, 2012)

SECTION 2.2- ECONOMIC DIVERSIFICATION

Unlike economic development which involves the retention of present economic structures and polices while developing new and different policies which will improve the performance of the present structure, economic diversification is an alternative which requires a departure from current structures and policies. This implies that there has to be an adaptation of new skills, techniques, policies and economic strategies for development leading to a break in economic systems which some researchers deem too risky to take which is discussed below. However, as the data section would expound further, there are many factors supporting the implementation of a diverse economic model within the economic structure of LDCs. These factors include but are not limited to the distribution of risk and the reinvestment of earnings. (Ansoff, 1957)

Economic diversification provides many advantages for developing states that are desirous to have development that is more stable and adaptive to change. Firstly it is an insurance against economic vulnerability and a buffer to the impacts of externalities such as global economic crises, climate change and sudden changes or termination in economic agreements. This means that there is better control of risk as the country would not be reliant on a single sector or market but on multiple avenues of production as alluded to by the definition given in the introduction, thus avoiding the detrimental practice of placing all eggs in one basket. (Cheemob, 2013)

Secondly, according to the OECD (2011), there are also the benefits of increased trade, higher productivity leading to reduction of poverty coupled with the overall promotion of economic and social development.

Moreover, the European Union in a 2012 report added to the list of benefits to be derived from economic diversification through the production cycle by "… the joint production of different products [or services] within the same process." The Union stated that this collaboration leads to reductions in production costs not only relating to manufacturing and distribution, but also in regards to the specialization of expertise within a given sector. Outside the abstract field of economics, society also benefit directly from economic diversification as workers are given opportunities to be entrepreneurs and innovators of ways to improve current businesses. Consequently, what results is a decentralizing of economic activities from these states' urban centres along with the promotion of a more egalitarian form of development with the aforementioned benefit of more avenues of development. Adding to this, local economies, through the economic diversification model, are arguably provided the power to control their inputs which leads to continuity and improved quality of production. There is also the provision of greater stability in local markets as a result of the creation of linkages in the global value chain where a country can its well established product brands to gain access into and benefits from new markets. (PADIMA, 2012; Cheembo, 2013)

Interestingly in opposition to the above argument and contrary to his initial position, Dungani Cheembo also mentioned that economic diversification can be difficult to initiate and costly. There is also the added potential of the process adding unnecessary complexity to the economic structure through the need to coordinate and control equally the activities of the core with those of periphery sectors. (Cheembo, 2013) Additionally the OECD pointed out that many of the

endeavours of economic diversification often only become evident in the long term and hence policy makers who decides follow this process need commitment and political will to remain with this form of development and not revert to former policies and strategies that mostly provide short term gains. Moreover, governments have to first obtain access to major capital which as mentioned earlier is becoming increasingly difficult to do, in order for diversification to be on any true benefit. There is also the potential risk, as alluded to earlier, that through the diversification model governments would neglect their traditional economic bases and start another wave of reliance on newly discovered sectors that proves to be of great benefit in the short run. (OECD, 2011)

An interesting point made in a conference by the University of the West Indies is that if economic diversification is not done in a concise and focused manner, the countries and/or regions using it can lose the opportunity of expanding sectors, industries, markets and securities. This opinion implies that instead of the goal of generating growth and stability, LDCs have just thinned out their already scarce resources even further. Hence Warren Buffet was quoted at the conference as stating "[W]ide diversification is only required when investors do not understand what they are doing". (UWI, 2010) This illumines the critical point that although there should be greater economic diversification in LDCs, unless there is a clear understanding of the model, its process and its repercussions it can become an avenue of greater vulnerability and underdevelopment especially within LDCs.

Be that as it may, the contention of this thesis is that despite the uncertainties surrounding economic diversification, it has the potential to increase the competiveness of LDCs within the global economy which in turn would increase their growth and overall economic stability. Furthermore, with the discussed obstacles present within economic development, developing

states have the onus placed upon them to make more decisive efforts to implement the model instead of continuing with their laissez-faire attitude to the development and subsequent growth of their economies.

2.2a-Determinants of Economic Diversification

There are various factors that contribute to the effective functioning of economic diversification within states. For the purposes of the thesis the ones that would be discussed are governance, the private sector, natural resources and the broader international framework. Good governance and the private sector are argued to be pre-requisites in building an environment that encourages economic diversification. This is because good governance involves designing and implementing policies that boost peripheral sectors which ensures that the sectors be developed in a climate that allows them to effectively contribute more to the national economy. In a regional context, there should be efficient cooperation among varying policy makers and stakeholders in the regional and global economic environment. This grouping is categorized as 'executive drivers' and they are important for diversification because of their impact on the economic management of resources. Also, contrary to the position of neoliberal economists, the government plays an important role in establishing the supervisory framework that supports economic activity ensuring a healthy business climate. The private sector is argued to drive innovation and economic activity in under-used sectors. As a result governments are advised to find means of increasing entrepreneurship through the creation of favourable policies and eliminating bureaucratic obstacles to starting businesses. This means that they need to be sensitive to the requirements of the privates sector via constructive partnerships with the private sector and the

private sector should reciprocate this by engaging government initiatives and taking the lead in driving the agenda for diversifying the economy. (Diarra, Gurria & Mayaki 2011, 7) Additionally, what Alan Gelb (2010) proposes is that institutional quality appears to have a close relationship with the capability of economies to produce revenue. Hence, resource economies, like many within the developing world, with strong institutions have greater options available to them for diversification as opposed to those with weaker institutions. (Gleb, 2010)

In relation to natural resources, the potential of this factor to increase the potential for economic diversification is often unrealized because of limited government management of natural resources and a failure to use the profits from resource utilization to further economic activities. This is seen especially in countries where there are inferior institutions and poor cooperation. Developing states including LDCs have been argued to be traditionally driven by exports of agricultural goods and primary commodities. However, countries dependent on these few commodities for their revenue are, according to development economists, vulnerable to boons and bust cycles as the prices of the exported commodities become subject to wide fluctuations. However, if accompanied by policies that encourage diversification through trade, natural resources can provide improved opportunities for LDCs to produce and trade a variety of goods regionally and internationally. (Diarra, Gurria & Mayaki, 2011: 9; Mehlum, Moene, Torvik, 2006)

Within the international context there are many features that are of increasing relevance and that offers the prospect of an environment that leads to economic diversification. North-South and South-South partnerships are especially important for improved diversification but these partnerships are often hindered by market access issues and the ability to effectively use

international business opportunities, which would be discussed in greater detail in the following section. (Diarra, Gurria & Mayaki 2011, 11)

2.2b- Hindrances to Economic Diversification

Economic diversification can be beneficial to developing countries (LDCs being no exception). However there are hindrances that obstruct its incorporation and efficiency. According to Diarra et al (2011) a hindrance for economic diversification in the developing world is how to prevent instances of 'overspecialization'. This is a situation where some countries develop systems and procedures for some specific area of the economy but find it difficult to transfer this expertise to others sectors or even related activities. Furthermore, with limited credit from foreign investment, policy makers are often times prevented from investing in new sectors leading to the further concentration of economic activity. Additionally there are significant trade barriers that exist and firms from developing states may not be able to compete against their counterparts in the global market. This is presumably because of limited access to finance, administrative obstructions, weak production capabilities including many other factors that reduce both their ability to diversify and be more competitive. (Ramacharan 2005, 11; Diarra, Gurria & Mayaki 2011, 13)

From a political perspective, the challenge that policy makers face according to Esanov (2010), in agreement with Ahmadov (2012), is that of identifying and taking into consideration the policy limits involved in diversification. This means that policymakers have not sufficiently grasped the reality that focusing on one sector or resource that shows potential for diversification would not promote effective growth in the long run especially within the diversification model.

This is due to the fact that although governments in the developing world have the policy instruments needed to initiate structural change as well as the diversification process; it is choosing the right instruments that determine the success of economic diversification in the long run. As a result Gelb is quoted as stating "It is often politically easier to introduce some new program rather than address long-standing obstacles to business and the vested interests behind them." (Gelb, 2010)

Alan Gelb returns to the discussion by pointing out the increasing risk of policy makers' moving their attention from their states' critical macroeconomic and political factors that have the potential of hindering the overall development of the economic diversification model towards conceptualizing it an a very abstract manner, taking it at face value without striving for initiatives that can tailor the process in ways that best fits the criteria for their individual country's economic development. Hence what Esanov propose and which is used in regions like Eastern Europe is the improvement of the general business environment instead of one aspect within it. (Gelb, 2010, Esanov, 2010)

Finally, though not in any way the last hindrance to the global incorporation of economic diversification, is the fact that ineffective policies regarding economic development are still being held and used by policy makers especially within export oriented, resource rich countries. The presumed cause for this is the lack of pressure by both citizens and international institutions that have economic ties to these regions to have them altered or rendered obsolete by policy makers. (Ahmadov, 2012; Gleb, 2010)

2.2c-Strategies of Economic Diversification

With the reconstruction of the global economy windows of opportunity for renewed industrial effort have been opened and development economists are keenly looking at how developing states especially LDCs are going to make use of their new opportunities as previous strategies have not been effectual in the development of their economies. Advocates of economic diversification are noting that diversification cannot be achieved with a blueprint approach. As a result a strategic, tailor-made mix of capacity building and private sector development is needed to boost development in developing states. New Industrial Policy (NIP) - defined as official policies regarding the direction of economic activity to certain areas of a nation's economy- proposed by Asche et al, can presumably provide a platform for the specific design of these initiatives. This is because it can address coordination problems, which is one of the factors that hinders development in developing states and which, according to the authors, will not be resolved by current economic development policies and good investment climates alone. (Asche, Neuerburg, & Menegatti 2012, 13; Ciuriak & Curtis 2013, 3)

NIPs are not neutral and involve the direct allocation of resources to particular activities along with the promoting of promising industries while boosting or easing the fall of declining industries. Additionally advocates of NIP stress the significance of factors such as the problems of infant industry survival, information and knowledge externalities and coordination failures in inter-industrial input delivery. These are factors which dominant market-liberal policies pay limited attention to but which NIP views as opportunities for coordination and support. These types of systems differ from other development strategies because instead of remaining ambiguous and abstract, they are very specific regarding issues such as conflicting economic targets, and creating dialogue between the government and other actors in society. Furthermore,

this policy begins with striking a proper balance between different goals and establishing it prior to implementation. (Ciuriak & Curtis 2013, 3; Clark-Neely, 1993; Asche, Neuerburg, & Menegatti 2012, 6 & 13)

Regional integration is another important strategy for facilitating trade, commerce and economic diversification. The strategy involves the reformation of customs administrative systems so that it is easier for entrepreneurs to transport their goods. From this strategy come SDIs which arguably aim to promote growth through the increased diversity of national economies where they are located and stimulate cross border economic activity and regional economic integration. Although the authors identified challenges that can undermine this strategy's potential as a catalyst for regional integration and economic diversification such as the lack of political will, limited comprehension mechanisms which is essential for effective diversification as pointed out in earlier sections and poor government structures, they believe that much can be gained through the harmonizing of national enterprises relevant to diversification with the regional structures and priorities of Regional Economic Communities. (Diarra, Gurria & Mayaki 2011, 10)

The above discussions show that it is not the economic diversification model that is inherently problematic but the approach policy makers use in addressing it. Thus the objective of the following section is to show the debates surrounding whether greater economic diversification can be developed through the avenue of the tourism industry.

SECTION 2.3: THE ROLE OF TOURISM IN ECONOMIC DIVERSIFICATION

Former WTO Director-General Mr. Pascal Lamy, described tourism as a simple yet complex mechanism. In his opinion it is likened to an economic engine that has great potential for effective growth within developing states, with a future dependent on well planned, structured and managed strategies. He went on further to describe it as more than just an industry, but a representation of a multi-dimensional supply chain spanning across various sectors, thus proving its suitability for economic diversification. (Francis, 2011)

According to UNCTAD, a major component of tourism's potential to contribute to progressive development comes from the fact that it weaves together a series of interlinked activities. This enveloping nature of the industry allows for participation at differing levels of the global market. Moreover, the fact that consumers come to the producer of the commodity as opposed to the conventional operations of markets where the producer or initial point of a commodity's value chain is often seen of little circumstance enables even the smallest transaction to be part of the global economy. This presents to small enterprises an opportunity which outside this industry would be very difficult to attain. Additionally, activities within the industry have a common feature of all contributing to three goals that are of high priority for developing states. These include the generation of income, employment and earnings from foreign exchange. Within this realm tourism has the potential to play the essential role of a source of economic development and given its complexity, its economic impact is felt in a variety of sectors of production this contributing to greater achievements of long term development. (UNCTAD, 2007; OAS, 1994)

In relation to employment, it has been proven by studies done that tourism is more labour intensive when compared to other non-agricultural sectors. This is because the industry uses a

high percentage of semi-skilled and unskilled labour force; hence it is seen as an important source of employment for the unskilled populace. Furthermore, as agriculturally based systems continue on a declining trend, tourism offers rural inhabitants an alternative to the choice of unemployment and migration to urban centres which then increases the potential of there being egalitarian distribution of development across developing states as opposed to the current uneven stages of development where urban areas are the epitome of development while rural communities are left with meagre development opportunities. This is due to the fact that with niches such as rural tourism, rural communities are allowed to access opportunities geared towards employment and ultimately greater development in the long run. Additionally, the development of tourism also impacts livelihood strategies, business climates and patterns of growth for LDC economies and plays a key role in the preparation and response to natural disasters which have serious adverse impacts on LDCs. (Ashley, De Brine, Lehr & Wilde, 2007: 1-9)

Conversely, a factor that can rob tourism of its potential to be beneficial to economic development through diversification is the fact that the majority of tourists who visit these destinations originate from developed states. As a result as much as they enjoy exploring new territories they are still desirous of that home away from home feeling. As a result many of the goods and services requested and required for profitable business have to be imported from the more developed regions consequently leading to leakages in the host country's economy. This leakage being seen as a developmental concern prompted initiatives for its abatement. According to development economist Simon Milne in his overview of the impact of tourism development on pacific island states, this is where foreign investors stepped in with their knowledge and expertise setting up resorts and hotels which are usually managed by expatriates, leaving locals

to do most of the menial semi-skilled and unskilled jobs. Although there is creation of employment and revenue which to some extent goes back to host countries, this system of employment results in low levels of indigenous development as locals are usually not given the opportunities to acquire or improve their skills which would contribute to their upward social mobility. (Khan, 1997: 988-989; Milne (1990) in Khan, 1997)

The above discussions show that tourism has the potential to generate development and therefore can be used as a catalyst to the implementation of economic diversification in LDCs. However as shown by the opposing discussion caution has to be taken when implementing policies relating to the industry.

SECTION 2.4- THE ORGANIZATION OF EASTERN CARIBBEAN STATES

Having looked at economic development, the economic diversification process and showing its potential and the challenges being faced along with the tourism industry, the thesis would now combine these aspects and focus on the region of the Organization of Eastern Caribbean States. As the region's economy operates on the principles of the free market, the benefits and problems that face other export-oriented, capitalist sates in the developing world also impacts these island states.

2.4a- Economic Development in the OECS

A major issue surrounding economic development and the OECS is the pros and cons that arise from the region's member states status of 'micro states'. According to Harden (1985), island states were once classified as unstable and often disregarded as almost useless in the global

arena. This classification is presumed to have resulted from a legacy of vulnerability stemming from the colonial formation of 'small, fragmented, resource depleting, trade- dependent states' (Harden, 1985).

SIDS like OECS member states faces several factors that pose problems to their economic stability in the global market. Their small size leads to limited natural resources and high import rates, high production costs and high prices consequently greater opportunities for non-domestic goods production. Additionally, their size results in small domestic markets resulting in dependence on export markets with a narrow range of commodities and/ or services leading to problems associated with dependence on international trade. Fourthly, domestic competitiveness is restricted as the size of island states does not have the capability to support a large number of businesses producing a similar product which generates the trend of oligopolistic and monopolistic organizations seen in many OECS member states. These factors often leave island economies highly susceptible to forces beyond their control, often threatening their economic competency. (Briguglio 1995, 1615-1616; Harden, 1985; Girvan 1997, 5)

Another point of interest and importance surrounding the vulnerability of island states and their economic performance is that of whether their fragile economic condition is a variable impacting their high GDP per capita and HDI ratings. It is proposed that the reason for the high economic rating is that of their strategic locations. Many SIDS are located within close proximity and have historical colonial connections with countries of significant economic power such as the United Kingdom and the United States in the case of the OECS. The interest of these countries in SIDS has resulted in what is termed 'artificial' props to these economies through large amounts of transfers, technical assistance and access to their markets through preferential trade agreements. It is concluded that many SIDs may not have fared as they have done in the past if it were not for

these ‘props’. Additionally it is argued that the relatively high growth rates that many SIDS have experienced give a deceptive picture of the strength of these economies as they hide the vulnerability of their economies which has now become a major stumbling block to the region’s growth and development. This is because in reality their growth pattern especially within the Caribbean and OECS has been “…unstable and erratic” (Briguglio 1995, 1623). There is however a noted benefit in the smallness of island states as they are characterized greater transportation and communication accessibility as well as a history of adaptability to external changes. The challenge for the region is to effectively use these positive features for developmental advantages. (Conway 1998, 26; Briguglio 1995, 1622-1623; Girvan 1997, 3)

Despite economic reforms and innovations for growth, the OECS economy is stagnant with limited realistic options for revival. The presumed reason for this circumstance is due to the economic marginalization by its developed North American counterparts. Additionally current economic conditions pushes the OECS into a position where it supports yet resist policies which are having adverse effects on the region’s economy is due to the lack of economic and consequently political strength to make an explicit stand against them. Moreover, the collapse of traditional export systems and increasing debt has left OECS policy makers with limited choices for effective development. Norman Girvan stated that the historical fragmentation of island states along with their cultural diversity have formed hindrances to effective regional cooperation. This has consequently led to the region not being able to present itself as a cohesive group in international relations. He however noted on that there is a positive element to the cultural diversity as it is a means of survival especially within the context of tourism. (Klak 1998, 12-15; Girvan 1997, 3)

The trade policies of the OECS and other Commonwealth Caribbean states are conducted in the region's main trade organization of CARICOM which has lobbied extensively for integration in NAFTA. Dennis Gayle explains that many of the policies of NAFTA has increased the region's economic isolation and hence the economic environment is one where regional exports such as sugar and bananas continue to be structurally reliant on external markets and preferential agreements. As a result it was concluded that current neoliberal policies towards the Caribbean, "…[are] self-serving, narrow and short-sighted." (Gayle 1998, 77-79)

Conversely, there are researchers and authors such as Peter Berezin et al, in their working paper for the IMF, who are of the opinion that there is no need for the OECS to invest more in economic diversity. To them the region's economy is not vulnerable and has written that there is no evidence that output instability is higher in the region than in larger, more diverse developing states and that that region's economy is more volatile when compared to the rest of the developing world. In actuality these earnings are quite stable which shows the uniqueness of the region as most of its export earnings are generated from the service sector which tends to be more stable than commodity exports. However the authors later mentioned in their work that the openness of the region's economies, lack of economic diversification in exports and their susceptibility to natural disasters could imply that income per capital in the island states fluctuates more than in larger developing states. (Berezin, Salehizadeh & Santana, 2002) These perspectives are just glimpses into the observations that have arisen as a result of the impact that economic development policies are having on the OECS's economy and which point to the fact that there is a need for a change in the strategies used and that change could be through the adaptation of strategies found in the economic diversification model.

2.4b- Economic Diversification in the OECS

In Girvan's (1997) observations, many Caribbean states have been economic successful due to the exports of their natural resource products. However he cautioned that further reliance on these factors to maintain living standards and development and encourage growth is problematic. In the 21st century this caution is echoed with more urgency by Virginia Paul head of the OECS Trade Policy Desk in Castries St. Lucia and other researchers. She was quoted as stating that policy makers in the region are faced with an economy that is presumably "…extensively dependent on tourism for its export revenue and employment creation…" (SHAREnews, 2012) Furthermore as some member states are found to be more reliant on the sector than others, officials should focus on economic diversification as an integral part of economic health for the long term. Jacqueline Morris supported Ms. Paul's observation by stating that the OECS's comparative advantages of cheap labour and exports have become irrelevant in a technology based global economy. This has led to low levels of productivity as the region has a small industrial sector with out-dated technologies, low-skilled employment groups coupled with weak polices and management practices that have hindered the region's effective development. (Morris, 2005; SHAREnews, Feb. 23, 2012; Girvan 1997, 6-7)

Caribbean states are faced with challenges as a result of the structural shifts that are occurring in the global economy. These shifts which include the opening of trading regimes in the 20th century and the current shift back to protectionism following the global financial crisis have brought to light the vulnerability of OECS economies. This is represented by the export of few primary commodities, preferential arrangements and environmental susceptibility. Hence what is needed is diversification in export oriented products and markets which would lead to the

region's improved competitiveness in international markets and more importantly stability in their domestic economies. (Girvan 1997, 7)

2.4c- The Role of Tourism in the OECS

In the context of tourism, the overriding issue is can tourism improve the region's competitiveness, growth rates and overall development. According to Vincent Zappino, the OECS has created a mono-product through the tourism industry with a tourism supply that concentrates solely on the sea-and-sun aspect although the industry has the potential to offer much more. (Zappino, 2005)

Polly Pattullo who has written extensively on tourism in the Caribbean argues that Caribbean states became more dependent on tourism as a means of staying integrated in the global economy. As a result they were left with little options for comparative advantage other than their natural beauty which St. Lucian Nobel Prize winner for Literature Derek Walcott, as quoted in Pattullo, metaphorically compared to "…selling your mother to prostitution." Hence, this influx of tourists from developed countries and the currencies that came along with them prompted developing states to increasingly promote tourism for their economic advantage. As part of this promotion however, there were actions that were taken which according to dependency theorists was the catalyst for dependency instead of development. Furthermore, according to Zappino, external challenges such as the international economic crisis, climate change, increasing external competition and new demand trends due to rapid advances in technology, all have to be resolved by the national governments of member states in the short term in order to facilitate conditions

that are conducive to diversification and development through tourism in the long run. (Zappino, 2005; Khan 1997, 988-989; Pattullo 2005, 2, 5-6)

Conversely, according to Auliana Poon (1990) tourism in the Caribbean and by extension OECS does not have to be as fatalistic as Pattullo's and Zappino's perceptions. She proposes that instead of mass, standardized and rigidly packaged (MSRP) tourism, the region should adopt a more flexible, segmented and diagonally integrated (FSDI) form. This form encompasses the gains obtained by service firms through the combination of services rather than producing them separately. This mirrors the integration strategy of economic diversification where instead of using comparative advantage to produce one type of product, as a collective group the region can produce different aspects of tourism which results in spill offs to other sectors of their economies and leading to overall accelerated growth and development. (Poon 1990, 113)

Another issue in the context of tourism is the leakage that arises in the industry. The tourism industry has now become the primary source of economic generation in the OECS and like other developing states that invest heavily in the industry much of the profit that is generated also leaves the region (Gmelch, 2003). The reasoning being, as alluded to by Khan and Milne (1997) in section 2.2c, is that many of the goods and services requested and required for successful tourism enterprise are imported from developed states. This, it is argued, impedes local businesses as the benefits of foreign exchange rarely reach that far in the tourism commodity chain. This thus reduces opportunities for the multiplication of the revenue in the local economies and as such there is a depletion of development both economic and social. (Khan 1997, 988-989; Milne (1990) in Khan, 1997)

Ineffective economic structures in areas such as the OECS are argued by Lea Lange (2011) to be the root for leakages within the tourism industry. High revenue leakages are more prone to arise in these areas as local industries are not equipped to adequately meet the demands that arise from mass tourism; coupled with a lack of capital among locals for investment. These deficiencies come about as a result of ineffective supporting supply industries, infrastructure and distribution systems. (Lange, 2011; Bull, 1995 in Lange, 2011)

Interestingly, according to Golub (2003) foreign investment is commonly perceived and acknowledged as a driver for tourism. He opposes the perception that many developing countries are dominated by foreign investors and that there is confusion surrounding the levels of foreign ownership. This is due to the fact that often local ownership is masked by franchise agreements. As a result many of the claims regarding foreign investment dominating local tourism sectors are unfounded. Any leakages that occur are inevitable in order for there to be access to sufficient funds for development financing. Further, if a developing state's economy is strongly focused on tourism, then higher leakages may be necessary and accepted in return for jobs and income provision. Dwyer and Forsyth (1994) argue that if the profits paid overseas are considered to be a leak for the local economies of developing states then the initial payment which facilitated the creation and development of the industry should be considered an 'injection'; one which would not have taken place outside the intervention of foreign investment. (Golub, 2003; Dwyer & Forsyth, 1994)

On the other side of the pendulum, foreign investment has been critiqued for causing restrictions on domestic investment and lowering regulatory standards of trade while reinforcing the entrenched dominance of certain sectors. This has led to the argument that it has facilitated the reinforcement of stagnant specialization in the OECS and the Caribbean at large. Further, foreign

investment not only entails a transfer of ownership from domestic to foreign residents but arguably is a conduit for foreign investors to exercise control over host countries' firms. As a result developing states including the OECS are cautioned about taking an uncritical attitude towards foreign investment. (Harrison, 2003 in Carmona, Maniam & Lunce 2003, 37; Griffith, Waithe & Craigwell, 2008)

To conclude, what this landscape of issues have shown is that there is a need for an alternative approach which would provide economies with a means of increasing their resilience to external shocks along with ensuring security for long term and stable economic growth and development. Despite the weakness of the economic diversification analysis being highly theoretical based, presumably difficult to effectively implement, not providing significant short term economic benefits and calls for a paradigm shift away from current, deeply embedded neoliberal laissez-faire and comparative approaches, it is a viable option of providing stability in for the fragile condition of LDC economies. Tourism with its benefits and costs to economies has the potential to be the catalyst for continued and greater use of the economic diversification mechanism or become another avenue of short term growth and continued development stagnation within LDCs. These factors however all hinge on the understanding policy makers within LDCs and the OECS region has of the economic diversification mechanism and where tourism stands in its equation.

CHAPTER THREE: EMPIRICAL DATA

SECTION 3.1: ECONOMIC DEVELOPMENT

As of 2012, the world economy is reported to have weakened significantly as a growing number of developed countries especially on the continent of Europe have fallen into what is considered a 'double-dip recession'. Many developed economies are in an economic spiral of high unemployment, financial fragility and high public debts burdens which have deepened the impact of the global economic crisis. Major contributors to the global economy such as the United States, Germany and Japan have been showing signs of their GDPs having continued growth. However these rates are *significantly* lower than previous years. This is evident in the fact that world trade growth has dropped for the second consecutive year from 12.6 percent in 2010 to 6.4 in 2011 and 3.2 in 2012. From a report by the United Nations on the world's economy, it is observed that the growth of world gross product which was expected to 2.2 percent in 2012 has remained well below par at 2.4 percent in 2013, only increasing by 0.8 percent to an estimated 3.2 in 2014. (Barcena et al 2013, 11; United Nations 2013, vi) Appendix 1 shows the global debt ratings including those of three major trading partners of the developing world, namely the United States, Japan and the United Kingdom.

Due to the interdependence of countries with the global economy it is obvious that LDCs are not left unaffected by the global economic crisis or the repercussions that followed. Combined with certain country-specific factors, such as lower oil and primary agricultural production and exports, the GDP growth of LDCs as a group only grew by 4 percent on 2011. This figure shows a noteworthy decrease in growth when compared to the average growth of 7.3 percent that the group experienced from 2001-2010. Interestingly, there are disparities persisting across

countries. Due to factors such as falls in oil production, large LDC economies such as Angola, Equatorial Guinea and Sudan expanded in 2011 at paces well below previous decades. Furthermore continued instability has pushed Yemen's GDP growth into the negative region in 2011. On the other hand, rising investment rates and a strong performance in sectors other than agriculture are currently two common trends across LDCs. This growth is supported by strong activity in the tourism and textile sectors in countries such as Cambodia. These changes are also observed to have taken place in some of the fastest-growing and most resilient LDC economies. (Acharya 2013, 6-7)

An example of ineffective neoliberal policies is seen in the case of Nicaragua which is a country that used a 1996 HIPC initiative established by the IMF and World Bank but which is to date still struggling to maintain effective economic development while achieving poverty reduction. The HIPC initiative was launched to assist the world's poorest, heavily indebted countries to regain some level of economic stability through the forgiving of outstanding debts. During the 1990s, the Nicaraguan economy had steady growth at an average of 4.5 percent, yet according to the 2003 UN Human Development Report, the country was identified as having the highest percentage of people living below the poverty line with 82.3 percent of the population living on less than $1 per day and 92.3 percent living on less than $2 per day. (Rios-Morales 2006, 3 &7)

It must also be noted that Nicaragua was not formally accepted to receive debt relief until January 2004, "… [a]fter a long and tedious process of reforms" (Rios-Morales 2006, 16) and despite moderate economic development and growth, the country still suffers from severe structural difficulties and vulnerabilities to economic and natural crises where its trade accounts were highly negative combined with difficulty to attract long-term investment and employment. Nicaragua also has a poorly diversified industrial structure where it relies on raw material

exports that have suffered from the declining prices on international markets leading to weak trade performances that impede foreign investment and economic growth. This is evident where in 2002 the average GDP began to decline from its average of 4.5 percent as real GDP fell to 0.8 percent and in the 2003 it returned to an average rate of 2.3 percent. The contributing factor for this performance is determined to be the corresponding drop of coffee prices and other major exported agricultural products on the international market. These crises it is reported exposed the policy failures and structural imbalances in the economy. As of 2012, the real GDP of the country is 5.2 percent with a GDP per capita of $4,400 with its agriculture, industry and services sectors contributing 17, 25.9 and 56.8 percent respectively. This shows that while the economy has returned to semblance of growth, when compared to other developing states, it still has significant room for improvement and in need of an alternative strategy for development as the HIPC initiative has proven itself to be ineffective in this regard as its economy is still not diversified but has shift its concentration from the agriculture to the services sector. (CIA factbook, 2014; Rios-Morales 2006, 17)

Although most LDCs have grown economically at a pace that is slower than previous averages, some have witnessed strong and rising investment rates, urbanization and significant expansion of sectors other than those of primary products found in agriculture. This shows that there is potential for LDCs to adapt alternative strategies of development which are leading to growth and development among which is Economic Diversification.

SECTION 3.2: ECONOMIC DIVERSIFICATION

A strong, growing effective economy is the goal of every nation in the world. This is due to the fact that a stable economy enhances a nation's development through the creation of revenue and employment. Hence, a diverse economy has long been considered a key role for long term effective development. To show how essential a diverse economy is to the creation of effective economies countries within Africa that have successfully adopted this model would be looked at. (Shediac, Abouchakra, Moujaes & Najjar 2005, 2)

Located in northern Africa, Tunisia is a diverse middle income country with a GDP averaging 5 percent from 1999-2009 and a real GDP growth rate of 2.8 percent as of 2013 making it one of the countries with the highest GDP per capita in Africa. Despite scare natural resources the country through reliance on effective business climate, infrastructure, trade policies and a highly skilled labour force has been able to drive economic diversification. These factors assisted the economy to be more resilient to shocks which was seen in the increase in energy prices in 2008 and decreases in agricultural production caused by seasonal drought. As a result the composition of its GDP by sector balances between industry and services with 30.4 and 61 percent respectively followed by agriculture at 8.6 percent. Tunisia has also identified four industrial sectors in 2000 which are currently generating more than EUR $1 billion worth of products respectively which has led to the country being ranked 35th in the world according to the 2011 World Competitiveness report. Due to the production and export of aeronautical and automotive components, textile and shoes along with food processing, Tunisia is now more competitive than a number of 'developed' countries such as Poland, Italy and Greece and major developing countries such as Brazil. The results from this case study identified that there is indeed a clear

link between economic diversification and effective, long-term growth and development (Diarra, Gurria, & Mayaki 2011, 45-46; CIA Factbook, 2014)

South Africa, the second most competitive in the continent, has an economy which is characterised as being the largest and one of the most diversified. Although its strong economic growth was negatively impacted by the global financial crisis resulting in its GDP being negative in 2009, due to its diversified nature the economy quickly recovered in following years with a GDP per capita of US$ 353.9 billion and a growth rate of 2 percent in 2013. Although the economy of South Africa is not as equally diversified as Tunisia its extraordinary mineral wealth has contributed to its economic resilience. With its GDP composition being heavily concentrated in industry and services (29 and 68.4 percent respectively), its manufacturing base is a key driver of economic diversification and growth. It is reported that the country is at the top of its class when it comes to market and business sophistication, technological readiness and innovation performance which all contribute to South Africa's well-diversified economy. (Diarra, Gurria, & Mayaki 2011, 28-29; CIA Factbook, 2014)

3.2a: The Determinants of Economic Diversification

In the Literature Review, the various factors that contribute to economic diversification where discussed. For the purpose of recapping, they included governance, the private sector, natural resources and the broader international framework. In regards to governance, good executive decisions are needed for there to be effective economic diversification as they establish the regulatory framework that supports economic activity to ensure a healthy business climate. This is essential in cases where there are economic developments that offer opportunities for boosting diversification. An example of this is in the circumstance where the global economic crisis led to a drop in the global commodity prices and adversely affecting LDCs which relied predominantly on a few or in some cases one commodity. In the case of the African state of Botswana, where the main commodity of export is diamonds and whose sales dropped sharply the government, being one of the best maintained economies on the continent, was able to organize a swift response strategy. With the assistance of a US$ 1.5 billion loan from the African Development Bank (AfDB) it diversified the economy away from diamonds by creating a number of economic areas or 'hubs' (see fig. 3.1). These areas of focus include the sectors of education, agriculture, medicine and transport among others. (Diarra, Gurria, & Mayaki 2011, 7-8)

Six Hubs to Spearhead Diversification in Botswana

During NDP 9, and currently in NDP 10, the Government has identified areas to focus on for enhanced economic growth and diversification. The following six 'hubs' were created:

- The Education Hub seeks to increase the quality and relevance of education at all levels and, thereby, make Botswana more competitive by attracting leading tertiary institutions, scholars, researchers and students into the country.
- The Innovation Hub is aimed at creating a platform for local and foreign businesses engaged in R&D and knowledge intensive activities (i.e. ICT). It will also establish an incubator for start-up companies and facilitate networking amongst businesses.
- The Agricultural Hub will encourage participation in farming, mentor farmers on agribusiness skills, and endeavour to commercialize the agricultural sector in an effort to make the industry more sustainable.
- The Diamond Hub intends to establish a diamond trade centre for rough/polished diamonds and to promote sustainable downstream activities such as polishing and jewellery making.
- The Medical Hub hopes to identify projects and programmes that will make Botswana a centre of excellence in the provision of healthcare services. It will also outsource certain hospitals in an effort to attract specialists and optimize the quality of the health facilities.
- The Transport Hub seeks to re-position the country as a regional hub for rail, road and air transport, and to support a competitive transport and logistics industry in Botswana.

Source: Economic Diversifi*cation Suppo*rt Loan: Botswana Appraisal Report; AfDB, 8 May 2009

Figure 3.1. The Diversification Strategy used by the Botswana government in response to the 2008 financial crisis. Reprinted from Diarra, Gurria, & Mayaki (2011, 8)

In relation of the private sector it has been established that it also has a role in the creation and promotion of innovation and economic activity in under used sectors. LDCs such as those in Africa have abundant opportunities for business and the private sector is the most efficient place for their development and use. In the last three to four years, the continent has seen an increase of new investment in non- traditional resource based sectors such as manufacturing, tourism, telecommunication and financial services. The largest opportunities for development lies in the consumer-related sectors which comprises of products, banking and telecommunications and will generate an estimated US$ 1.4 trillion in consumer spending by the year 2020. This statistic is especially important when it is compared to the continent's combined GDP of US$ 1.8 trillion in 2008 and a projected US$ 2.6 trillion by 2020. The growth in these sectors is expected to be sustained by the rising rates of urbanization with 40 percent of Africans living in urban centers, which is close to China's. Further, there is a reported expectation of more African households to have increased disposable income, rising by 50 percent between now and 2022. These factors all point to the number of opportunities offered to African economies to be more diversified as they adjust to the needs of the consumer class. Moreover, the rate of return on investment is higher in

Africa than in any other developing region. However, there are still significant risks that remain and threaten to turn these promises into burdens and it is imperative for African countries to implement more reforms that will facilitate instead of constrict economic activities that would promote long-term economic growth and stability. (Diarra, Gurria, & Mayaki 2011, 8 & 9)

In the broader international framework, China is an important economic partner for African countries as seen in increases in investment flows and various forms of economic cooperation. While EU member states were once major investors in Africa along with the USA, China has now grown to become a major investor in African resource sectors and has facilitated the development of the continent's infrastructure which can be used to support national and regional economic diversification and strengthen supply chains. From 2007-2011, China's financial commitments to African infrastructure has more than quadrupled from less than US$1 Billion per year in 2001 to US$4.5 billion in 2007 with a peak of US$ 7 billion in 2006. China is not the only active South-South economic partner as India has been increasing its involvement as well as Gulf countries. These actors have all played essential role in improving the continent's economic development and represent new international partners that can be used to improve mechanisms to uncover gains from primary commodities and other economic outputs, leading to long-term diversified economic activities both nationally and regionally. (Diarra, Gurria & Mayaki 2011, 12)

3.2b: Challenges to Economic Diversification

As mentioned in the Literature Review, the main challenges that have created hindrances to the process of economic diversification include overspecialization, lack international opportunities and the degree of export diversification used in countries. In lack international opportunities, at

present the continent accounts for 3 percent of the world's GDP and world trade and its share in the global manufactured exports is close to non-existence. The root cause for is weak integration is the failure of most African countries to be competitive in trading in a broader range of economic activities worldwide as other LDCs. Be that as it may there are ways that Africa can embrace emerging opportunities through the creation of economic partnerships with other developing states in South-South cooperation. Further, meetings such as the Copenhagen climate change forum in December 2009 have allowed new possibilities for international support through 'greening' African economic growth such as the Clean Development Mechanism. This mechanism provides emission reduction credits to private companies investing in efficient energy projects in developing states. Unfortunately, this is seldom used in areas such as Sub-Saharan Africa due to difficulties for the private sector to implement it given the current context of the continent. (Diarra, Gurria, & Mayaki 2011, 13)

The factor of the degree of export diversification is an important challenge that has to be conquered as it shows the element that directly links diversification to economic performance which in the case of LDCs is a grim picture. Export related indicators reflect that most LDCs offer relative unsophisticated commodities and concentrate on a small number of them. In the case of Africa, what was found was that only a small group of countries (South Africa and three Northern states) dominate the continent's market and this is due to the fact that they were able to diversify their exports to a considerable degree. This as shown in figure 3.2 (taken from a 2012 UN Industrial Development Organization report) is followed by various less industrialized countries that are at an early state of de-specialization. Yet, the African industrial landscape is still predominantly characterized by a large group of countries that heavily rely on 10 or less common products. (Asche, Neuerburg, & Menegatti 2012, 1-2)

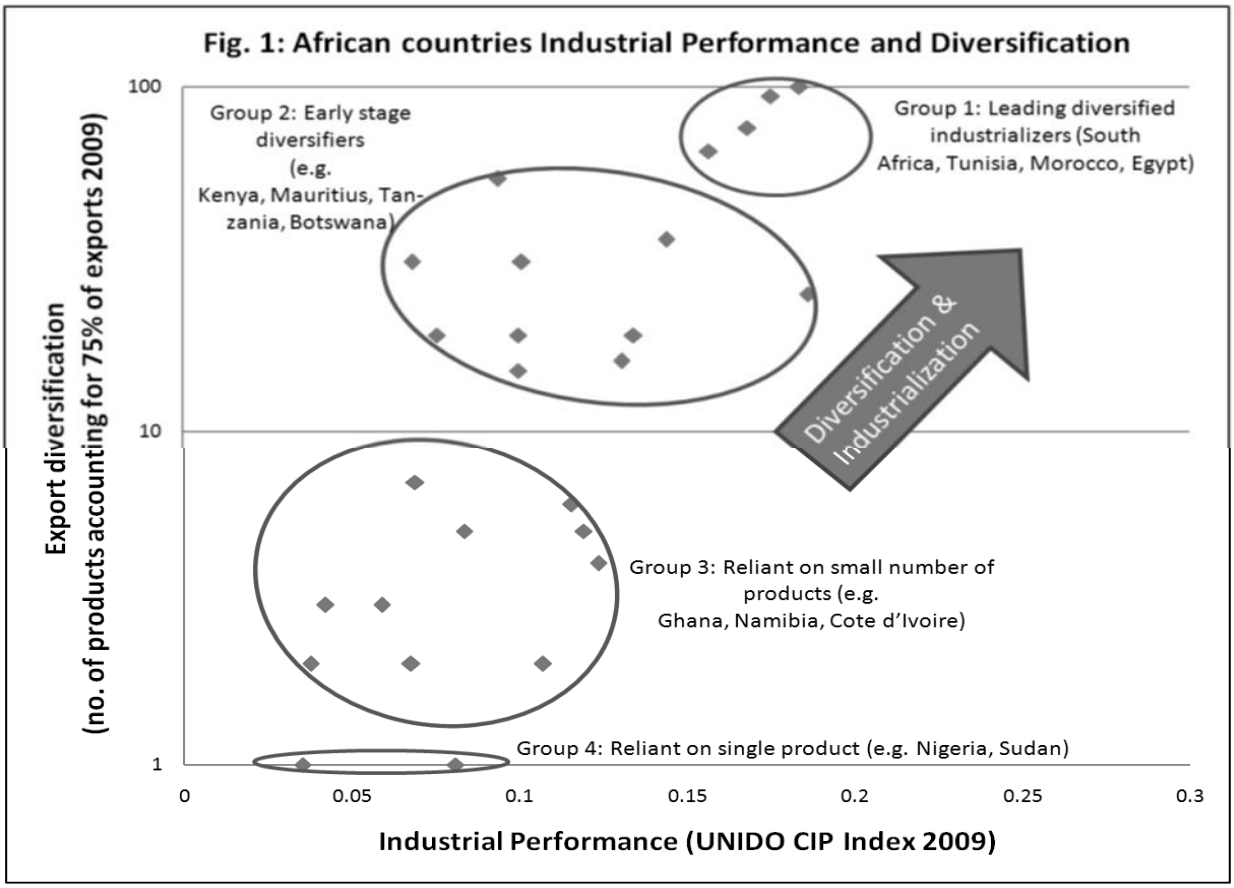

Figure 3.2 The Industrial and Diversification Landscape of Africa. Reprinted from Asche, Neuerburg, & Menegatti (2012)
(Note: based on data from UNIDO's CIP Index and OECD, African Economic Outlook, 2011)

Several academic studies have analysed the relationship between a country's economic growth and its levels of specialization. The evidence obtained from the research done shows that at the early stages of economic development, which most though not all LDCs are currently at, these countries have shown the tendency to pool their natural resources needed to accelerate short or long term economic gains into niche sectors. However as discussed in the Literature Review, as they place priority on these new sectors, increasing productivity and diversity in their economies, countries are seen using old techniques of specialization where they diversify less and less concentrating more of their energies into these new sectors and thus defeating the goal and purpose of diversification. As a result policymakers are cautioned regarding their hasty pursuit

of specialization and to be more mindful of strategies used in economic diversification, which leads to the next section on economic diversification strategies. (Diarra, Gurria, & Mayaki 2011, 13)

3.2c: The Strategies used in Economic Diversification

The dominance of current neoliberal policies has made a series of questions surrounding the patterns of structural change and what sectors to choose according to technology capabilities or labour-intensity of industries receive limited attention from policy makers in the current global economy. Therefore, what has been proposed and discussed in the Literature Review is a New Industrial Policy (NIP) which basically requires that there be more cooperation and integration between governments and their private sectors in regards to the research and development of new activities and techniques that can be used to create new niche sectors and improve existing ones.

The goals and political framework that the authors of NIP laid out comprises of design principles surrounding:

1) The targeting of new activities as opposed to entire old sectors
2) Clear benchmarks for the successes and failures of supported industries
3) Built-in sunset clauses for public support with tariff protection included
4) Supporting activities that have 'spill-over' and demonstrative effects
5) Minimizing costs in the situation an error is made; and
6) The creation of continuous cycles of discovery.

(Rodrik, 2004 in Asche, Neuerburg & Menegatti 2012, 5)

Additionally with NIP, the identification of new industries will be the collective task of the government and private sector where the government first introduces their hierarchy of targets, stressing economic along with social and environmental goals. This is then followed by appropriate target systems which displays the layers of orientation. These include overarching developmental goals, macro-economic targets (such as growth, employment and diversification-

including a choice on the level of nation or regional diversification) and specific policy targets including efficiency, productivity and fiscal revenue. An example is seen in the African Union's AIDA which is a policy and strategy document for the Accelerated Industrial Development of Africa. It sets industrialization priorities at a continental, regional and national level, with the intent of sensitizing policymakers and other stakeholders to the present opportunities available. Although the policy requires more refinement and prioritization, it is reported to be "…a very rich source of ideas and incentives for imaginative industrial policy at all three levels." (Asche, Neuerburg & Menegatti 2012, 6)

Another strategy that promotes diversification is the implementation of policies that promotes partnerships with other more developed nations. This can be done through joint business ventures, investment and trade agreements, technological transfers and capacity building for an improved business climate. This is seen in the African Growth and Opportunity Act (AGOA) which was created by the United States in 2000 and which as have had a significant impact on African economies through the expansion of markets in the United States to African exports. In this act there is the provision for the removal of import duties and quotas as a means of allowing countries to begin exporting a wider range of products to the United States. It covers 6,000 products with 90 percent of them coming from three categories of energy, textiles and apparels and transportation equipment. The prerequisite of eligibility is that countries have to pass certain criteria based on good governance and rule of law, which 41 SSA countries have met. AGOA has been reported of having the potential to diversify and increase exports and since its implementation two-way trade between the United States and Africa has doubled. (AGOA.net, n.d. ; U.S. State Department, 2010 in Diarra, Gurria, & Mayaki 2011, 11)

Regional integration is a key strategy for allowing commerce and trade. It is usually found in Spatial Development Initiatives (SDI) also known as Spatial Development Programs. These programs are mostly driven by national governments which have support from major development institutions which in the case of Africa would be the AfDB and the DBSA. The aim of these initiatives is to promote growth by increasing the diversity of various national economies in which SDPs are located and this stimulate trans-border economic activities and regional economic cooperation. (Diarra, Gurria, & Mayaki 2011, 9-10)

As some LDCs share certain geographic features and small size of domestic markets, regional integration becomes an important aspect of any economic growth and diversification strategy, resulting in some countries having overlapping memberships in regional associations. Examples of such include Tanzania who is a member of both the East African Community and the South African Development Community. The North African country of Tunisia benefits from strong economic ties with the Mediterranean regions as well as the EU. Additionally Algeria also has strong ties to the Mediterranean region, Saudi Arabia and Jordan. Such ties have increased these countries' access to multiple regional economic spheres which can serve as markets for their products. This consequently increases the potential for greater domestic production and development as well as diversification. Therefore RECs has the potential to establish the means whereby economic diversification can flourish through the creation of common markets and the pooling of resources thus strengthening LDCs capacities related to regional human resources, health and security as well as the environment. (Diarra, Gurria, & Mayaki 2011, 10)

SECTION 3.3: THE TOURISM INSDURTY

For the past decade, there has been significant attention being paid to the tourism sector by policy makers and researchers surrounding its contributions being made in many countries especially within the developing world. This is seen in instances such as when the UN's Commission on Trade and Development promotes and importance of the industry to LDCs and the UNEP's promotion of sustainable tourism or the UNWTO establishing a foundation to enhance tourism's contribution to development through the 'Sustainable Tourism-Eliminating Poverty' project. (Ashley, De Brine, Lehr & Wilde 2007, 6)

According to the World Tourism Organization, for the past 60 years tourism has experienced continued expansion and diversification. Consequently it is now one of the largest and fastest-growing economic sectors in the world with new destinations emerging apart from the traditional ones of Europe and North America. Despite occasional global economic shocks, international tourism arrivals have shown almost no interruptions in growth which increased from 25 million persons in 1950, to 528 million in 1995 and finally 1,035 million as of 2012. Furthermore, the WTO also reported that as of 2012 there has been US$ 1.3 trillion in tourism exports, contributing 6 percent to the world's exports and 9 percent of its GDP. The market share of emerging economies in international tourist arrivals have also grown from 30 percent in 1980 to 47 percent in 2012 and is expected to reach 57 percent by 2030. Additionally, reports on international tourism receipts indicated an increase of US$ 33 billion, from US$ 1,042 billion in 2011 to US$1,075 billion worldwide in 2012. (WTO 2013, 2-3)

Conversely, an effect of mass tourism that has the capability to rob the industry of its potential to induce greater economic diversification is leakages (shown in figure 3.3) that occur within the

industry. The true benefit that arises from tourism to a destination is the amount of tourist expenditure that remains locally after taxes, profits and wages are distributed and after imports are purchased. What is being observed is that of each US$ 100 spent on a vacation by a tourist from a developed country, only approximately US$5 actually remains in the developing destination's economy. 80 percent of travelers' spending goes to airlines, hotels and other international companies whose headquarters are mainly in developed countries and not to local businesses or workers. In a study done on leakage in Thailand estimated that 70 percent of all money spent leave the country via foreign-owned tour operations, hotels and imports. For other developing states this ranges from 80 percent in the Caribbean to 40 percent in India. Moreover, the occurrence of import leakage is also prevalent in developing and developed states as the demands standards of equipment and food often times cannot be met by the host country. This leads to increases in imports as local products are not up to the hotel's/ tourist's standards or just not available in the country. As a result the average import leakage range from 40 and 50 percent of gross tourism earnings for small economies to approximately 10 and 20 percent in advanced and diversified economies. (UNEP, 2010)

Figure 3.3 Process of leakage within the Tourism Industry. Reprinted from UNEP website (n.d)

Additionally, there is also the problem of heavy reliance on the industry for economic development. This is evident in situations where countries have adapted most of their resources to meet the demands of the industry without taking into consideration that factors such as the political and economic conditions of a country is the most considered points when choosing a holiday destination. This is seen in the case of Majorca in 2003 where due its dependence on German tourists, its economy was adversely impacted when German arrivals by airplane declined to -15.7 percent due to the economic instability of Germany. (Palomino 2003, 14-15)

Be that as it may, according to the OECD, tourism is directly responsible for 4.2 percent of its GDP contributing 5.9 percent to employment and 21 percent to export in services within member states. As a result governments both in the OECD and other non-members are placing more efforts in attracting business through tourism via the creation of new business models and reducing bureaucratic red tape. This is seen in the case of Turkey where the country has introduced electronic visa applications in 2013 which has greatly reduced the need for tourists to line up on arrival to the country. Additionally in the case of Tunisia mentioned in section 3.2, its tourism sector has contributed to its development as there have been advances in health and wellbeing as well as sporting ventures as a result of investment from its Gulf counterparts. In the instance of South Africa, tourism is contributing significantly to the county's economic development. This is through spill-over from the industry resulting in the development of infrastructure and other facilities as well as employment along with the added benefit of image-building for the country. This is sufficient evidence for governments impacted by the financial crisis to see that the industry can indeed be used as a catalyst for accelerating and manageable economic growth. (Awad, 2013; Diarra, Gurria, & Mayaki 2011, 47)

SECTION 3.4: THE ORGANIZATION OF EASTERN CARIBBEAN STATES

The OECS was established on June 18 1981 through the Treaty of Basseterre, in honour of the capital city of member state St. Kitts and Nevis where it was signed, agreeing to cooperate with each other through the promotion of unity and solidarity among member states. The goal of this inter-governmental organization and its treaty is that of the economic harmonization, making possible the creation of a single economic space wherein commodities, people and capital can move freely and monetary and fiscal policies are harmonized. Moreover, countries are expected to continue to adopt a common approach to trade, health, education, the environment as well as the development of the essential sectors of agriculture, energy and tourism. More importantly, the Treaty which as revised on June 18 2010 allows for the introduction of legislative competency at the regional level through the OECS Authority so that member states can act together for further development in the areas of the common market and customs union, monetary policy; trade policy; maritime jurisdiction and boundaries along with civil aviation. (ECCB 2010, 2; OECS, 2014)

In mid-1997 as a result of the restructuring of the organization, the Economic Affairs Secretariat, once known as the Eastern Caribbean Common Market (ECCM) was merged and became a division of the Secretariat which can be seen as the heart of the organization is based in Castries the capital of another of the nine member states, St. Lucia. Other member states include 4 independent island states of Antigua and Barbuda, the Commonwealth of Dominica, Grenada and St. Vincent and the Grenadines along with three British Overseas Territories, namely Anguilla, The British Virgin Islands and Montserrat which spread across the Eastern Caribbean. Eight of the nine member states consider Queen Elizabeth II to be sovereign with the exception of Dominica which is a republic although there is no requirement for members to have been

British colonies. All six independent members as well as Montserrat are founders of the organization with the BVI being the first associate member in 1984 and Anguilla being the latest in 1995. Furthermore, all member states are either full or associate members of the Caribbean Community and are among the second group of countries in the Caribbean region to join the CARICOM Single Market and Economy (CSME). (OECS, 2014)

OECS states, as members of the Eastern Caribbean Currency Union also share a common central bank; headquartered in St. Kitts and Nevis and which manages the common currency of the OECS, the Eastern Caribbean dollar, with the exception of the BVI. The exchange rate of the currency to the US dollar has been EC$ 2.7= US$1 since 1976. This stability has assisted in the fostering of a high monetized and stable financial system. However, while the currency union is working well, due to monetary policy being under the control of the ECCB, inadequate coordination of fiscal policy, which is in the hands of individual governments, has constricted the development of a sound macroeconomic framework conducive to growth and stability. Hence the ECCB has stipulated that each member state should attain a debt-to-GDP ratio of 60 percent by 2020. (ECCB, 2010)

OECS economies are small island states open to and interdependent on other economies in the global market for trade and commerce. Due to these factors the countries face challenges surrounding diseconomies of scale particularly in infrastructure, institutions and markets and their location as well as size makes them vulnerable to periodic natural disasters and climate change issues such as rising sea levels. Their development challenges are exposures to changes in trade such as the removal of trade preferences, tourism and foreign investment flows which consequently leaves the economies very volatile. Additionally, high rates of youth unemployment, crime and public insecurity coupled with weak institutions and economic

management have posed significant restraints on governments' ability to address development needs leading to their high public debt and problematic business environments within most member states. (ECCB, 2010; OECS, 2014; World Bank, 2010)

3.4a: The OECS Economic Condition

After quick economic growth in the years soon after their independence, OECS member states have since experienced significant decline in growth since the 1990s. This is because the region has been battered by a series of adverse shocks external to the region over times which has made their economies and institution weak and vulnerable which consequently declined their competitiveness in the global market. These shocks include the removal of trade preferences with Europe, terms-of- trade shocks, reductions in official foreign assistance as a result of recessions in developed countries and frequent natural disasters. As result, growth has reduced from an average of 6 percent in the 1980s to slightly more than 2 percent since the beginning of the 2000s. More significantly, most OECS countries are reporting a negative growth as of 2009-10. (Schipke, Cebotari & Thacker 2012, 5)

The GDP growth of the region has severely contracted stemming from the 2008 global financial crisis where foreign investment, and tourism flows declined significantly in the region. There is however differences among member states in regards to the impact of the crisis, ranging from a 20 percent decline in Antigua and Barbuda to an approximate 6 percent in St. Kitts and Nevis in the same period. The following chart (figure 3.4) of the economic performance of the OECS showing a comparison of the sub-region's GDP per capita during and following 2009 confirms the above observation. (World Bank, 2010)

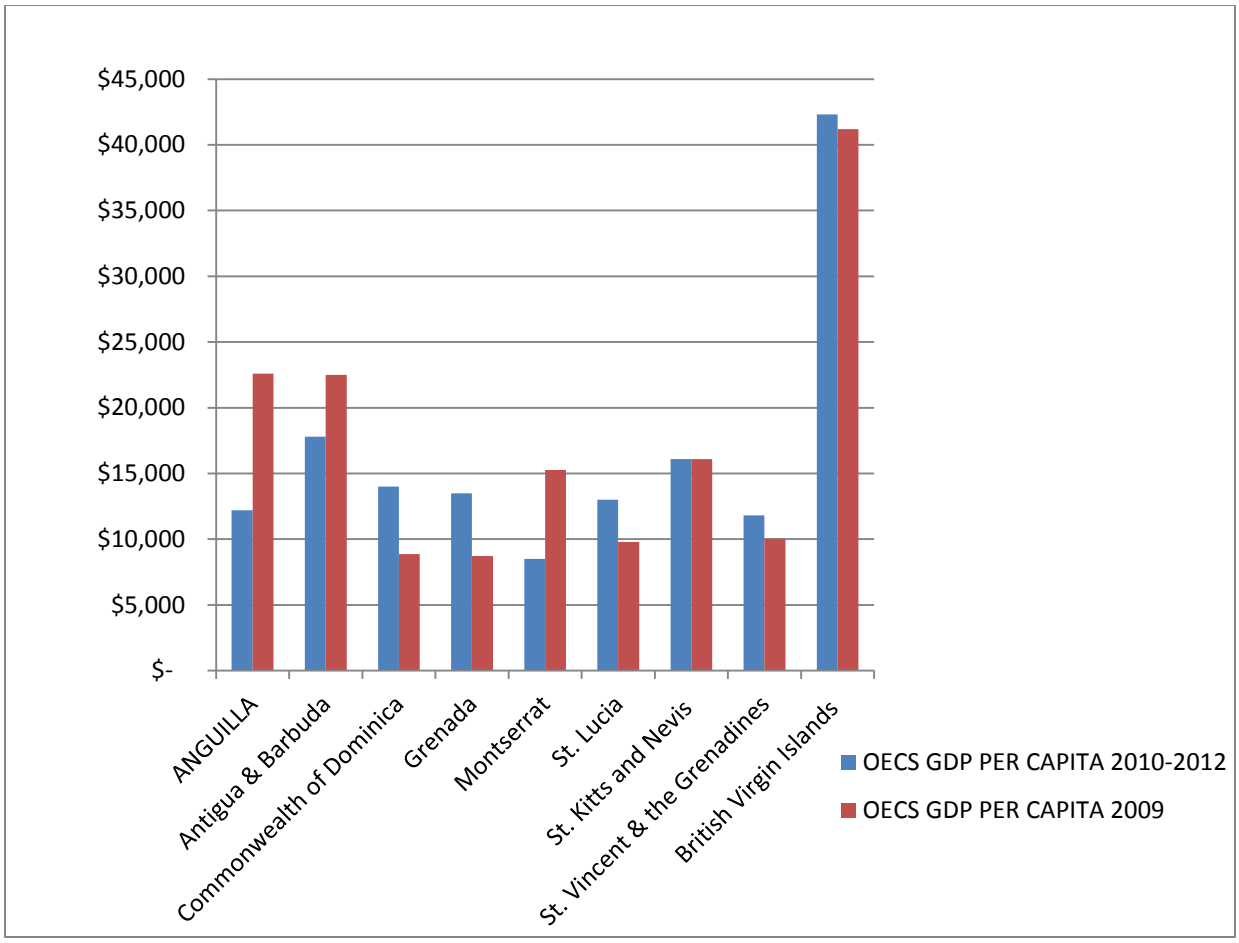

Figure 3.4. Variance in GDP growth rates among OECS member states following the global economic crisis 2008-2009. Reprinted from CIA Factbook (2014)

Economic recovery remains fragile as the average growth for the sub-region has reached only slightly above 1 percent in 2012 with five member states recording negative growth and four seeing fractional increases ranging from 0.3 percent to 1.9 percent. Moreover, the global crisis has revealed vulnerabilities in the financial sector as the regional economy contracted by 0.71 percent for the fourth consecutive year; and also made more evident the lack of buoyancy and the need for economic diversification in economic sectors as well as increased integration among member states. On a positive note, OECS members rank between 63 and 88 of 186 countries which categorize them as having high human development according to the UN's HDI. Yet

despite their upper middle-income status, between 18 and 38 percent of the sub-region's population live in poverty with unemployment being considerably above average in Grenada, St. Lucia and St. Vincent and the Grenadines. (OECS, 2013; World Bank, 2014)

In a Business Outlook Survey done by the National Accounts and Balance of Payments Unit Statistics Department of the Eastern Caribbean Central Bank the actual business climate of the OECS has deteriorated during 2009 with a net percentage indicator (NPI) of -57.1. In the industrial context, sentiments are also negative as of 2010 as the overall NPI indicates with -52.7 for the period July-December 2009. A further analysis shows that the industries with the most pessimistic performance included construction with -76.2, Hotels and Restaurants (Tourism) -77.1 and Wholesale and Retail with a NPI of 75.0. Other industries can be seen in table 3.2 below.

Table 3.1

Actual OECS Industry Conditions for July-December 2009.

INDUSTRY	ACTUAL NPI	NO. of Firms in Industry
Manufacturing	-16.7	18
Construction	-76.2	21
Wholesale and Retail	-75	20
Hotels and Restaurants (Tourism)	-77.1	22
Transport	-68	25
Communication	-41.2	9
Agriculture	-33.3	8
Banks and Insurance	-60	6
Other Financial Institutions	0	9
Other Services	-26.5	5

Note. Adapted from ECCB (2010, 7)

Additionally, exports which are a primary source of foreign exchange earnings have decreased over the period July to December 2009 when compared to the same period in 2008. The reason

for this is that of negative business sentiments in all member states except for St. Kitts and Nevis and St. Vincent and the Grenadines. In the context of the ECCU, negative results are due to the performance of the agriculture and hotels and restaurants industries. (ECCB, 2010: 8-9)

This evidence along with the ones presented in previous paragraphs all lead to the conclusion that there is a need for a change in the strategies and policies being implemented in the global economy in order for there to be effective revival and continued stability and growth. This need is greatest in LDCs and to varying extents in other developing countries that have made a head start towards this and are in need of more opportunities that would promote further growth and development. The proposed change is Economic Diversification which has been proven in prior paragraphs to be the most viable option for economic stability, growth and continued development within the developing world. Having established this point the link between economic diversification and the OECS would now be looked into.

3.4b: Economic Strategies used in the OECS

The benefits to be derived from present and continued economic integration of the Eastern Caribbean includes scale economies rather than intraregional trade, risk sharing, rationalizing the provision of public services, the removal of duplicating administrative structures and improved capabilities of representing the sub-region in international forums. However, the global financial crisis, as previously established, has exposed the structural weaknesses of the sub-region and therefore the OECS has to implement a mechanism that would enforce fiscal discipline as the success of the EC dollar rests on the satisfaction of eight national budgets. As a result various strategies have been implemented by the OECS in collaboration with institutions such as the

World Bank and IMF to improve economic development through the stabilization of the region's economies. (Schipke, Cebotari & Thacker 2012, 5)

Examples of such initiatives include the OECS Development Strategy established along with a Regional Partnership Strategy (RPS) in November 2000 by OECS member states in collaboration with the International Bank for Reconstruction and Development (IBRD) of the World Bank. This framework runs over a five year period from July 2009- June 2014 with the objectives of building resilience, enhancing the sub-region's competitiveness along with encouraging growth over the short and medium term. In regards to promoting resilience, the World Bank Group is supporting interventions aimed at promoting fiscal and debt stability while protecting and improving human capital and strengthening climate resilience. With competitiveness and stimulating growth, the strategy focuses on strengthening member states' domestic financial sectors and increasing access to quality services which will establish more competitive business environments. It is important to note that the RPS was established taking into account other strategies and development projects initiated by the OECS such as the ECCUS's Eight-Point Stabilization and Growth Program, national strategy papers of member states and analytical work done by the Bank. (World Bank 2010, vii)

The RPS, which is also seen as a planned program of support, involves monetary commitments totalling up to about $120 million in IBRD terms and approximately $73 million of International Development Association financing during the fiscal years of 2010-2014. The reported major risks to the successful implementation of the Strategy includes unforeseen external shocks such as natural disasters which increases individual member states' economic vulnerabilities which would lead to financial slippages, insufficient political will for closer regional coordination and integration and limited capacity at national and regional levels to implement the project. The

ways that the RPS aims to manage these factors are through continued and increased support for fiscal stability, disaster risk mitigation, focusing on capacity building at national and regional levels and most importantly creating, "… an improved business climate to increase competitiveness and promote economic diversification." (World Bank 2010, vii-viii)

3.4c- Tourism in the OECS

As shown in the 3.3a of this section, the industries that contributes to the composition of the OECS economy are manufacturing, construction, wholesale and retail, hotels and restaurants, transport, communication, agriculture, financial services and other services. These groups can be categorized into the sectors of Agriculture, Industry and Services. It is common knowledge that in previous decades the sector that was of greatest importance and consequently of highest concentration was the agricultural sector. However as shown in figure 3.5, there has been a shift in these sectors from the agricultural sector to that of activities the tourism industry.

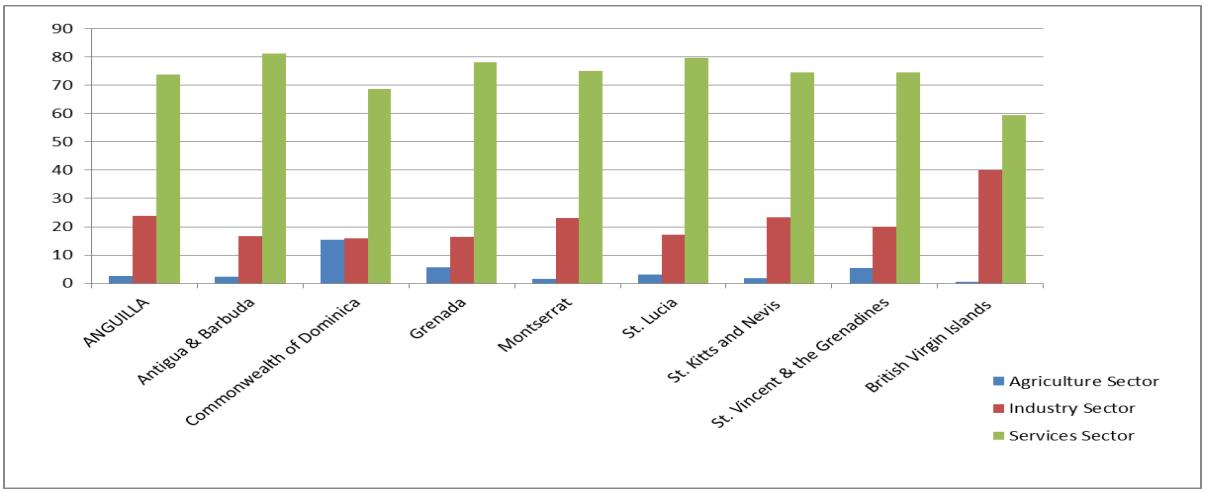

Figure 3.5 OECS GDP Composition by sectors (percentage of GDP) 2005-2012. Reprinted from CIA Factbook (2014)

As discussed in the Literature Review, tourism is a key component of the economies of OECS member states and for some like Antigua and Barbuda it accounts for almost the entire economy.

This is because the sector is a significant source of employment and foreign exchange and has, from the 1990s been assisting in mitigating the adverse effects of the decline in agriculture and its exports. Despite falls in the OECS' market share in the global economy, tourism has in some countries been the equalising factor through increased average tourism expenditure and while it continues to be subject to economic change in the markets of Europe and North America, tourism induced growth continues to be a viable strategy for the OECS as seen in Table 3.3. Due to this fact Tourism is now the principal sector in which the region has a comparative advantage as this status can no longer be applied to the agricultural or manufacturing sectors. (OECS 2011, 3)

Table 3.2

Contribution of Tourism to OECS economies

COUNTRY	Direct contribution of GDP, 2011 (%)	Total contribution to GDP, 2011 (%)	Direct employment 2011 (%)	Total employment 2011 (%)	Exports, 2011 (%)
ANGUILLA	22.7	64.4	23.8	65.8	83.5
Antigua & Barbuda	17.8	74.2	18	69	74.4
British Virgin Islands	21.1	57.9	24.8	65.6	43.8
Commonwealth of Dominica	7.5	24.8	6.9	22.9	45.3
Grenada	7.3	24.8	6.8	22.4	66.7
St. Kitts and Nevis	7.8	28.2	7.7	26.7	44.3
St. Lucia	15.4	45.8	17.5	45.4	60.8
St. Vincent & the Grenadines	7.7	26.2	7.1	23.9	51.8

Note. Reprinted from Nicholas (2012)

Unfortunately due to the above fact, the Caribbean and by extension the OECS are deemed the world's most tourism-dependent regions. It is reported by Virginia Paul head of the OECS Trade Policy Desk, Castries St. Lucia in a local radio program that tourism has become excessively

depended upon by OECS member states. This is seen in the fact that it accounts for 83 percent of OECS exports and linked to 70 percent of the region's employment. Additionally some countries are more reliant on the industry than others as seen in the case of Antigua and Barbuda where it contributes 75 percent of the country's GDP while in Montserrat it only accounts for 24 percent. Other tourism dependent island states in the Caribbean region include Aruba, Anguilla, Bahamas, Barbados and the BVI with a range of 39 percent in Barbados to over 70 percent for the BVI. (SHAREnews, 2012)

This situation is as a result of the declining contribution of the sugar and banana exports due to the EU's progressive removal of preferential trade arrangements with former colonies. This is coupled with the threat posed to the Caribbean's offshore centres by the OECD, the United States and others who are aiming to remove tax havens and create a global taxation standard. The impact of this dependence is that, among other factors, economic growth in these regions has declined and remains low as a result of decreases in tourist arrivals to the region. It has been reported by the Caribbean Tourism Organization that for the first seven months of 2013, tourist arrivals totalled 15.6 million which is unchanged from the same period in 2012 yet for OECS member states arrivals fell by 0.4 percent while intraregional visits to the region fell by 5.8 percent. This stagnation adds to the sub-region's marked decline in key macroeconomic indicators and is likely to result in further economic slowdown and growing debt burdens. Moreover, compared to a growth rate of 3.7 percent in 2011, in 2012 the industry contracted by -0.6 percent with cruise ship tourism also declining by 12.6 percent from -22 percent to -9 percent across the OECS. The only segment of the industry that recorded growth was yachting with 2.4 percent (OECS 2013, 2; IHS, 2013)

As seen above, tourism in the OECS faces challenges but also offers great opportunities which enhance its controversial nature. Hence, policymakers in the OECS have seen the need to nurture the industry in order to secure the region's social and more importantly economic future and consequently, the Common Tourism Policy is implemented to fulfill this task. The Common tourism policy seeks to achieve balanced growth and development in the sector so that states can increase the quantity and quality of benefits to be derived from tourism. With an expected duration of five years (2012-2017), the policy aims to deliver economies of scale, shared intelligence and increased collaboration in order to create a greater market impact on the global economy by increased efficiency and competiveness. This would be done through the following areas of investment and product development; community participation, sectorial linkages and joint procurement; human resource development; increased tourism awareness; research and development; increased access; regional facilitation; environmental and cultural efficiency; marketing and reducing tourist related criminal activities. (OECS 2011, 1-2)

From this policy came a project entitled 'Developing and Mainstreaming Sustainable Tourism Practices in OECS Countries'. With a starting date of December 2012, a duration of three years, and an estimated budget of US $5,000,000 with an additional US $150,000 from the UNEP along with 'total funding needs' of US $ 4,850,000, this project's goal is to develop an OECS strategy that aims to protect valuable tourism assets as well as support the aims and objectives laid down in the OECS Common Tourism Policy. To date, the progress made in this venture includes a concept note being developed along with a video conference meeting of the OECS Senior Tourism Officials held on November 2, 2013 and visits by the UNEP Mission to the OECS Secretariat on the same day. (Nicholas, 2013)

Other OECS tourism projects coming out of the Common Tourism Policy include firstly, the Reducing Risks to Human and Cultural Assets Resulting from Climate Change (RRACC), launched in 2011. This is a USAID funded project of US $ 2.5 million with a possible further US$ 8 million to assist with adaption to climate change via creating resilience in the OECS' key sectors of agriculture and tourism. The second project to note is the Supporting Easter Caribbean States to Improve Land Policies and Management program which is one funded by Australia and launched in July 2012 for the duration of 3 years. With collaborating and implementing partners of UN-HABITAT, the University of the West Indies, the OECS and a fund of US $ 1.2 million, this program aims to enhance the efficiency of development in the OECS through poverty reduction, social stability and the protection of environmentally sensitive areas through the reformation, adoption and implementation of new, comprehensive land policies. The expected result of this initiative include an enhanced capacity by OECS members to develop effective land policies; common OECS guidelines for land development; improved land records and an deeper understanding of sustainable land management in relation to climate change and its effects. (Nicholas, 2013)

Additionally, there has been initiatives such as 'health tourism' which is seen to be holding much potential for development as there is an emerging trend of patients from around the world seeking medical care and rehabilitation in the mostly untouched environment of the Caribbean. This is being seen in St. Vincent and the Grenadines via the Buccament Bay Resort owned by the Harlequin Hotels and Resorts Company from the UK. According to their website the resort provides a range of fitness and wellbeing options, from treadmills to retreats, beach yoga and boot camps at a price of US $ 55 for 60 minutes for personal training. (SHAREnews, 2012; Buccament Bay Resort, 2014)

Finally, in Ms. Virginia Paul's personal estimation a better economic structure for OECS countries would be a GDP where tourism only contributes 50 percent or less to job creation and export earnings instead of the state of dependence that many islands states are currently in. This is not an isolated thought as OECS governments are seen using various means to boost the development of economic activity in various sectors of their economies outside of tourism. However as the next chapter would be discussing, there is still a level of hesitation by governments to fully comprehend and effectively use the economic diversification model. (SHAREnews, 2012)

CHAPTER FOUR: DISCUSSION

Having looked at the landscape of the issues surrounding economic development and economic diversification and the role that tourism plays in this equation as well as data relevant to these issues, the focus of the thesis would now be on bringing the two chapters together and critically analyzing them. Here the debates and data would be blended together to answer the Research Question of: *Can this tourism industry be used as a change agent towards greater economic diversification in the OECS as opposed to the main provider of economic development within the region?*

The data presented by ECLAC (2013) supports the position taken by Banuri (1991) and Stewart (2012) surrounding the efficiency issue of economic development. These authors pointed out that while economic development is indeed still relevant to the elimination of poverty, the economic strategies of comparative advantage and laissez-faire styled governance have not been effective in promoting long term growth and development and as such are contributing to harmful economic practices especially when applied in most developing states. Appendix 1 shows the global debt ratings including those of three major trading partners with the developing world, namely the United States, Japan and Britain. Two of the three states are experiencing conditions of intense debt crisis which means that they may not have the capability to trade and invest as much as they could in the past with their developing counterparts. The presumed repercussion of this is that developing states which are more exposed to external shocks and changes in trade are disproportionately impacted by this condition. Furthermore, the one-size-fits-all solutions offered by current economic development strategies are so abstract that they have, as discussed by Stewart (2012), left policy makers in the developing world preoccupied with tailoring these

strategies to address their short term problems and as such other issues such as decreasing economic volatility and increasing stability and resilience of their economies are often ignored.

There are various reasons surrounding why policy makers chose these methods of short term gains, which also poses a significant hindrance to the effective implementation of economic diversification strategies. One presumable cause is that governments are only elected into power for short periods of time within which they have an objective to obtain as much economic growth as possible for they know that they would ensure another term in office. Consequently the policies that are most attractive to them are not those that have medium to long term gains but those that promise maximum short term advantages regardless of how it impacts that overall functioning of their country's economy. This as shown in the Nicaraguan case (Rios-Morales, 2006) where although they have received numerous amount of financial assistance from the IMF and World Bank which theoretically would be sufficient to not only accelerate growth but also maximize and sustain it leading to faster, effective development, the country is still one with the highest percentage of persons living below the poverty line.

The concepts of specialization from comparative advantage and laissez-faire styled governance from the global value chain have taken away from developing states the motivation and opportunities needed to facilitate internal development. This is because the opportunities for advancement, whether it be technological or in manufacturing, are not readily available to them; even in the case that they are, LDCs often do not have the skilled labour or resources required to effectively manipulate these opportunities towards their short, medium and long term benefit. This is further combated by the global chain value model which involves the laissez-faire style of governance where the public and private sectors are kept separate with the government only having a regulatory role. This, unlike what is advocated by neoliberals of the 'invisible hands'

where the market generates growth and development on its own terms, leads to the business climate of LDCs not being adequately conducive to investment opportunities as seen in the case of the OECS. Therefore foreign investors and local entrepreneurs are hesitant to pursue business ventures in these regions which if done can result in the discovery of new avenues that have the potential to lead to economic growth and development. While all of these factors have played significant roles in the initial and continued growth of all developed states, these economic development strategies have done the opposite for developing states. The presumed reason for this as argued by Banuri (1991), Stewart (2006) and Chang (2002) is the increasing levels of protectionism in developed states. This means that as a result of increasing debt and poor economic performance occurring in the global economy, developed states are reducing their economic interactions with developing states and are now focusing more on protecting their domestic markets and looking for sustenance from within their borders instead of fully following the principles of comparative advantage and global value chains of trade that requires interdependence between states for the provision of goods and services. Thus one can argue that it is only fair that developing countries do the same by adopting an alternative mechanism for economic development, namely Economic Diversification.

Economic diversification, which is defined by the United Nations as the creation of economic growth from multiple sources within an economy as opposed to one, is a mechanism as discussed in the Literature Review that stands in contrast to the two discussed strategies used in neoliberalism. As seen in the second sections of Chapters two and three, economic diversification is an economic tool that effectively contributes to the stable and effective growth and development of LDCs. As seen in the cases of Tunisia, South Africa and other African states, the distribution of resources equally among sectors in these economies has led to a more

balanced and sustainable development of the countries that adopted this technique. With economic diversification, countries are not compelled to leave the global market or to completely abandon the economic policies that they currently used. Instead what is mostly recommended by this new system is greater and more active inclusion of government participation, where instead of specializing and pooling most resources into the development of one sector and letting the market decide, resources would be directed towards multiple sectors under the directions of the combined public and private sectors. This, as seen by the discussions of the Policies against Depopulation in Mountain Areas (PADIMA) 2012 report and Cheembo (2013), would ultimately lead in more skilled labour, greater employment opportunities and in the cases of South Africa and Botswana, faster recovery time after experiencing adverse shocks to their economies.

There were points of opposition to economic diversification being used as an alternative economic strategy for development. Dungani Cheembo (2013) and other researchers stated that economic diversification is not as viable an option as advocates would make it out to be for increasing economic growth and development. This is in regards to the complexity of the model, the need to have capital readily available, limited access to markets where the newly discovered niches can thrive and the fact that its benefits are mainly seen in the long run which requires commitment and political will of policy makers which many do not or cannot afford to have. These points are indeed valid as economic diversification like many economic strategies are credible in theory but their implementation is often problematic. However with increases in South-South interactions and greater regional integration which is an important factor towards effective economic diversification, policy makers are provided with opportunities that will make the transition from neoliberal policy regimes easier and will also give LDCs more relevance in the global value chain. This implies that instead of being mere exporters of raw material or

primary natural resources, LDCs will have the ability and expertise to produce, manufacture and export their resources at a price that is equally competitive with their other global counterparts. The end result would not only be escalated national growth, there would also be a butterfly effect with ripples reaching back to the developed world thus giving the global economy the boost that it is in need of.

There is also the risk that the OECD (2010) report noted of policy makers neglecting their traditional economic bases and reverting to a new wave of dependency on the new sectors discovered. This according to Ahmadov (2012) and Gelb (2010) is due to the lack of pressure by both local and international organizations to change current ineffective policies. While this is a plausible explanation it is not the only one. Another influential factor may be that there are pressures by international organizations to retain these types of policies as will be discussed in greater detail when the issues surrounding the OECS are analyzed.

Furthermore, there may be hesitance due to the novelty of this form of economic strategy especially within developing states in the Western hemisphere. The current positions of economies within the developing world are in such volatile conditions that policymakers can argue that they cannot afford to take the risk of implementing new policies that would not provide immediate benefits. However as seen in the cases of African countries which have implemented strategies related to the diversification model, once effectively implemented and coupled with regional integration, the benefits of economic diversification does not have to be only seen in the long term. Therefore it is advised that a clear understanding of the economic diversification model is needed before it can be implemented. It can also be said that it is from this lack of understanding that has there has been low levels of implementation of economic

diversification strategies among lesser developed states, keeping them in their current economic states.

The next point of analysis is the role of tourism in promoting greater economic diversification. Tourism seems to have an autonomous nature where despite the activities of the global economy of either booms or busts, the impact that is felt by the tourism industry is minimal compared to the agricultural or manufacturing industries. This independent character of the industry makes it a highly suitable candidate to use for providing a buffer for vulnerable economies like those of LDCs.

There is great debate surrounding the impact that tourism is having on developing states as the industry is seen as a route to development for some while for others it is becoming another tool of dependency and underdevelopment. Be that as it may, due to the tourism's multifaceted nature and its consequent spill over into other segments of an economy such as increased employment and greater emphasis on infrastructural development, the industry can be used as a catalyst for economic diversification, economic growth and ultimately accelerated and continuous development. Additionally, as mentioned in the discussion on economic diversification, it may not be that the industry's potential for development is controversial but that policy makers have not developed the tools that would effectively utilize the industry as a tool for the overall development of their economies. Instead, for reasons already mentioned, these governments have only seen the industry as a means of obtaining maximum revenue as quickly as possible. All sectors including tourism are tools given to policy makers to use and manipulate in ways that would bring about the best results for their overall development. Hence it is the ways that policy makers use these tools through the strategies and mechanisms provided to them that determine whether or not these sectors would be beneficial or detrimental to their development.

In regards to the OECS it is evident that the region's economic condition is in need of repair and as seen in the previous two chapters, the factors that have led to the region's circumstance are vast. However, the discrepancy in economic growth seen among member states is a matter of discussion especially in the case of the BVI. Although the majority of member states have been seeing notably low economic growth rates following the global crisis, such as Anguilla and Antigua and Barbuda, there are also those that have increased their rates such as the Commonwealth of Dominica and Grenada. The British Virgin Islands however has shown consistent, strong economic rates. The main reason for the difference between the BVI and other OECS members is that while most of them have received their independence from Britain, this group of islands is still a British overseas territory. This implies that the region has stronger ties to the developed state and being an offshore financial centre for the British Sterling Pound it has a double advantage of tourism and finance which are two of the less volatile sectors in the global economy. As a result the region's GDP has always been stronger than other OECS states and although it is also heavily dependent on tourism, those two initial factors have created a buffer to the adverse effects of the global financial crisis. This fact contradicts Briguglio's (1995) point that the benefits given to SIDS as a result of their proximity to and relationship with developed states are artificial. However, outside of this circumstance, the arguments and observations made by researchers regarding the impact of neoliberal policy regimes on the OECS are supported by the evidence collected on the region's economic performance.

Despite the difference in time between the observations of Gayle and Klak (1998) and the current economic strategies being implemented by the OECS in collaboration with the IMF and World Bank, the essence of their argument that the economic strategies used in the OECS are not effective to the region still holds merit. In the cases of the OECS Development and the Regional

Partnership Strategies, discussed in the World Bank 2010 report, there is evidence of old principles being presented in a different format. With what can be categorized as development aid, the IMF and World Bank through these programs are financially supporting the OCES to mainly focus on rectifying their financial situation so that they can pay back their debts which they owe these and other organizations. However, what is not explicitly mentioned or focused on in these strategies is the access to opportunities or the enhancement of the OECS' capabilities to develop through the uncovering and growth of new avenues where by member states' can obtain sustainable development from the grass root level. The vague wording of the strategies denotes the one-size-fits-all problematic of these policies and while the projects are said to be "…tailored to fit the needs of each country" (World Bank 2010, vii) the fact that mainly financial support is given shows that they are not willing to allow the region to divert from their hegemonic neoliberal principles, such as those established in the economic diversification model.

Additionally these strategies and projects can be a contributing factor to the hesitation seen among member states to fully implement economic diversification strategies. This is due to the fact that the financial assistance given by these institutions are done with the understanding that the funds would be used in the ways that the organizations recommend them. Hence, as the bases of the policy regimes of these institutions are neoliberal, it is certain that their financial recipients will practice and hold to economic principles like their own. As a result there is a perpetuation of these inefficient policies as the weaker economies of the OECS tries to appease their helpers for fear of losing these much needed funds if they were to divert from the economic policy path of the IMF and World Bank. Hence, the principles of comparative advantage and laissez-faire governance still remain as the OECS are encouraged to continue utilizing their old, scarce

resources as opposed to actively discovering new sectors while improving old ones which have proven to be more effective in advancing and sustaining the economic performance of the region.

That being said, there is evidence that the OECS has been making steps in finding new avenues to increase economic development and adopting the strategies outlined in the economic diversification model. This include acknowledging the need for more government intervention in the operations of the regional economy (although this was not expressly recommended in the development programs of the IMF and World Bank) and increasing regional integration along with South-South relations, especially in areas of trade as seen in the ECLAC (2001) report of section 3.4b. However, these steps are not adequately addressing the development problem of the region. This is seen in the fact that while policymakers have acknowledged the problems of the current economic conditions of the region and the need for economic diversification, most states have not made significant efforts outside of regional integration to rectify this problem.

In relation to the tourism sector the above observation along with Klak's (1998) argument is further supported by data collected on the composition of member states' GDP by sector from the CIA factbook (2014) shown in figure 3.5. From this graph is it is evident that the region has now placed tourism as a key component of economic growth and development. While this practice is not characteristically a problem, it does place into perspective the argument made by Zappino (2005), Pattullo (2005) and Khan (1997) that the OECS member states are forming a dependency on tourism as they did previously with the export of agricultural products. This means that they have not considered adopting the strategy proposed by Ms. Poon (1990) but have instead made the industry their new comparative advantage. Moreover, although each member state may not be concentrating solely on the sand-sea-sun element of tourism as seen in the introduction of yachting tourism, there is a substantial amount of emphasis being placed by

policy makers on the mass, standardized and rigidly packaged version of tourism. This is proven in the statistics presented on how declining air and cruise arrivals have dramatically impacted the economies of OECS member states.

In the collection of data on the role of tourism in the OECS there was a lack of data on collaborations between the governments of member states and their local entrepreneurs on ways to expand the tourism industry away from the sand-sea-sun element. Instead the private sectors in these countries are making advancements in their business while leaving the governments to provide the necessary bureaucratic allowances and the required climate for foreign investment. This is evident in the case of the Buccament Bay Resort owned by the Harlequin Hotels and Resorts Company whose headquarters are in the United Kingdom. This company is making major headway in their resort to diversify away from the most obvious element of tourism which is the beauty of the resort's location through the inclusion of health and wellness and sporting activities in their promoted all-inclusive packages. This has led to increases in employment and production of other tourism by-products such as the increased production and promotion of local cuisine. However, these factors are only seen in the cases of persons who are employed with the company while others who are not successfully employed are left to either join the other unemployed masses that make up the Vincentian population or be employed in a job that they are usually over qualified for. This leads to high emigration rates from the region to other island states or North America. While this problematic is not a matter of focus in the thesis it is still a matter of great developmental importance. Additionally as discussed by Lange (2011) and Golub (2003) and proven in the UNEP (n.d.) report, the above example also confirms the concerns raised surrounding leakages. This is because the majority of the profits gained from these all-

inclusive packages offered by the resort returns to the Harlequin's headquarters in the United Kingdom and not to the local economy.

Based on the data surrounding the policies being implemented by the government in relation to tourism, the above strategy of the Harlequin Company has not been considered as a national strategy for development. It seems that the SVG government has turned a blind eye to this excellent opportunity of diversification to focus on implementing tourism policies that relates to the development and preservation of land which does not show much potential for short, medium or long term economic benefits for the island state.

Again like in the instance of the IMF and World Bank supported development strategies, the projects arising from the Common Tourism policy can be characterized as international organizations providing financial support for projects that do not have any clear aims of providing guidance towards economic growth. Climate change is indeed an important development issue which needs to be addressed and the management and improvement of land is essential for development. However these issues are not the greatest problems of the OECS. In order for member states to withstand the impacts of climate change on their economies, what is needed is financial capital along with access to international markets as well as relevant strategies that promote economic growth so that these economies can become stable and productive. This is because if effective strategies that protect these economies are implemented, they undoubtedly can be applied to other social and environmental aspects of the island states.

There is also a point of concern regarding the pace as which policies are implemented in the OECS. In the case of the 'Developing and Mainstreaming Sustainable Tourism Practices in OECS Countries' policy, the period of inactivity between introduction and implementation is too

long. As shown in the empirical chapter, despite being implemented in December 2012, it takes almost a year November 2013 before any progress can be made. Additionally, this progress was of little relevance to the implementation process of the policy as what has been done it date as much consultation and meetings. This point is not made to discredit the importance of the bureaucratic proceedings involved in the implementation of a policy but to bring light to the fact that these processes may be in need of revision so as to improve their efficiency.

Finally, as mentioned earlier and also in the empirical chapter there have been initiatives made by the OECS to increase economic diversification through the tourism industry. This is evident in the boosting of the yachting sector of the tourism industry. There has also been interest into health form of tourism where member states are seeing potential for development in this sector as the world becomes more aware about health and natural, organic ingredients which fortunately the OECS has in abundance. These factors all assist in answering the research question that yes the tourism industry can be used as a change agent for greater economic diversification which ultimately, as proven by the data presented and observations raised, will lead to greater and more effective development for the region and among LDCs. However, this is all reliant on the ability and willingness of the OECS and by extension LDCs to use the strategies used in the economic diversification model.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

To summarize the discussions and data presented in the previous chapters, the current neoliberal policy regimes used in the OECS and other LDCs within the Western Hemisphere has not been conducive to effective economic development and sustained competitiveness and relevance in global value chains. Instead through these regimes there are the increased vulnerability and susceptibility of economies that use neoliberal strategies to shocks and changes that occur both in the global economy and within their states. This has led to growing concerns among researchers about the conditions of developing economies and a call for a more effective alternative for development.

The proposed alternative of Economic Diversification put forward by this thesis has from the discussions and data provided has proven to be a viable option through which development can be attained in the OECS. Although there are inherent weaknesses in the mechanism such as complexity, delays in achieving benefits as it aims for long term gains as opposed to short or medium terms and removal from current policies and the adaption of new ones, the mechanism provides the OECS with more security and protection than what is offered by current development policies. Stability and competitiveness are two elements that have been proven to be essential for economic development whether in the developed or developing world. Hence, as these are ensured to be provided by the diversification mechanism, it should be implemented soon rather than later.

In relation to the tourism industry, it is shown that there is much debate and mixed options about whether it can be used as a catalyst for implementing more economically diversified strategies. From the discussions and data surrounding this issue it is evident that the core of this issue is not

in the tourism industry but in the ways that it is used by states. The tourism industry is a mechanism that has much potential for development and though it can sustain itself through its autonomous nature compared to other industries, the use of neoliberal policies such as comparative advantage and global value chain theory have caused it to create more harm than benefits to LDCs including the OECS. Furthermore as discussed in the discussion chapter, there is also the hesitation on the part of OECS governments to distance themselves from neoliberal policies and it is due to this factor, the thesis has argued, that effective incorporation of economic diversification policies in the region with the tourism industry being the starting point has not been evident.

The development lesson that this thesis is attempting to bring to the reader through the discussion on economic development and economic diversification is that the economic condition of the global economy shows little potential of returning to the standard of prosperity and development that it once had. Therefore, in order for developing states to remain active in the economy while continuing to effectively develop, a new strategy has to be invested in and economic diversification is for now the most viable option that can be used. Hence, it can be concluded that economic diversification is a new life line that is offered to the OECS and LDCs. The onus is now placed on the region and its developing counterparts to accept it and use it in ways that would generate growth and ultimately development. This is because doing so will guarantee economic growth and development.

RECOMMENDATIONS

From the Literature Review and Empirical chapters, there are two recommendations that if used has the potential to create much benefit for the OECS region through the tourism industry. The first is seen in the health tourism initiative being introduced into the region. As seen in the example of the Buccament Bay Resort in St. Vincent and the Grenadines, this initiative is still mainly based in the private sector, however if there was more effective collaboration between the government and the Harlequin Company, as recommended by the diversification model, the government can arrange programs that trains locals in skills such as physiotherapy and other rehabilitation techniques that would lead to higher employment levels for locals who can then be employed at this resort and others or even be able to open their own businesses in these fields. Additionally with regional integration the government can also collaborate with local and neighboring chemists and other scientists to organize projects where they would use local herbs and fruits that have beneficial medical properties to create products that can then be used in the resort along with other recreation and wellness institutions as part of their health and wellness package.

These initiatives have potential for great returns to member states as they can then market their own products not only in the local market but also in the regional and ultimately international ones. For a more long term plan, this same initiative can be added into the educational curriculum where students ranging from grades 9-12 who are studying chemistry and sciences, can have projects of similar natures. This would not only increase categories of employment for persons who are in these fields but also reduce the immigration of these essential human capital that often leaves the region as a result of lack of adequate employment opportunities.

As the world becomes more environmentally aware and friendly, the OECS boasts itself as being one of the few remaining regions in the world that have not made a great carbon footprint on the world's eco system. Hence the food that are grown are organic, which is presently a great benefit to them in relation to their North American counterparts. Again if there can be greater cooperation between the governments of member states and their private sectors the manufacturing of products that are based on these fruits, vegetable and tuber and other raw material, they then have greater opportunities to move away from the mere exporting of traditional primary products to the newer markets of organic and eco-friendly products.

The second recommendation is based on Auliana Poon's (1990) argument. With the flexible, segmented and diagonally integrated (FSDI) tourism, the OECS and other developing states will be able to move beyond the sand-sea and sun element of tourism and utilize the full capacity of the industry. Through the combination of differing aspects of the industry through the diversification model, developing states will see more opportunities arise for the creation of linkages between tourism and other sectors of their economies, revitalizing old ones and discovering new ones.

This can be seen in the examples of the agricultural and manufacturing sectors where the production of local cuisine and other products can be introduced in the menus resorts and restaurants and then following greater production be exported to regional and international markets. Also with the creation of niche markets for indigenous art and handcrafts, products would have their starting point and promotion through the inclusion of these items in the décor, promotional packages and souvenirs that can be bought either the resorts' locations or during tours of the islands. This would lead to increased economic competitiveness, stability and growth

as there will always be a sector that is developed enough to provide security to the OECS and LDC economies in the instance of an unexpected shock or change in the global economy.

This method is not constricted only to the tourism industry but can be applied to any core sector and have similar results. The use of linkages between sectors creates a cohesion that provides a stability to economies which is not provided in current neoliberal policies. Hence, if this method, along with other strategies used in the economic diversification model, is effectively used the likelihood of there being economic gains not only in the short term but extended to the long-term is great.

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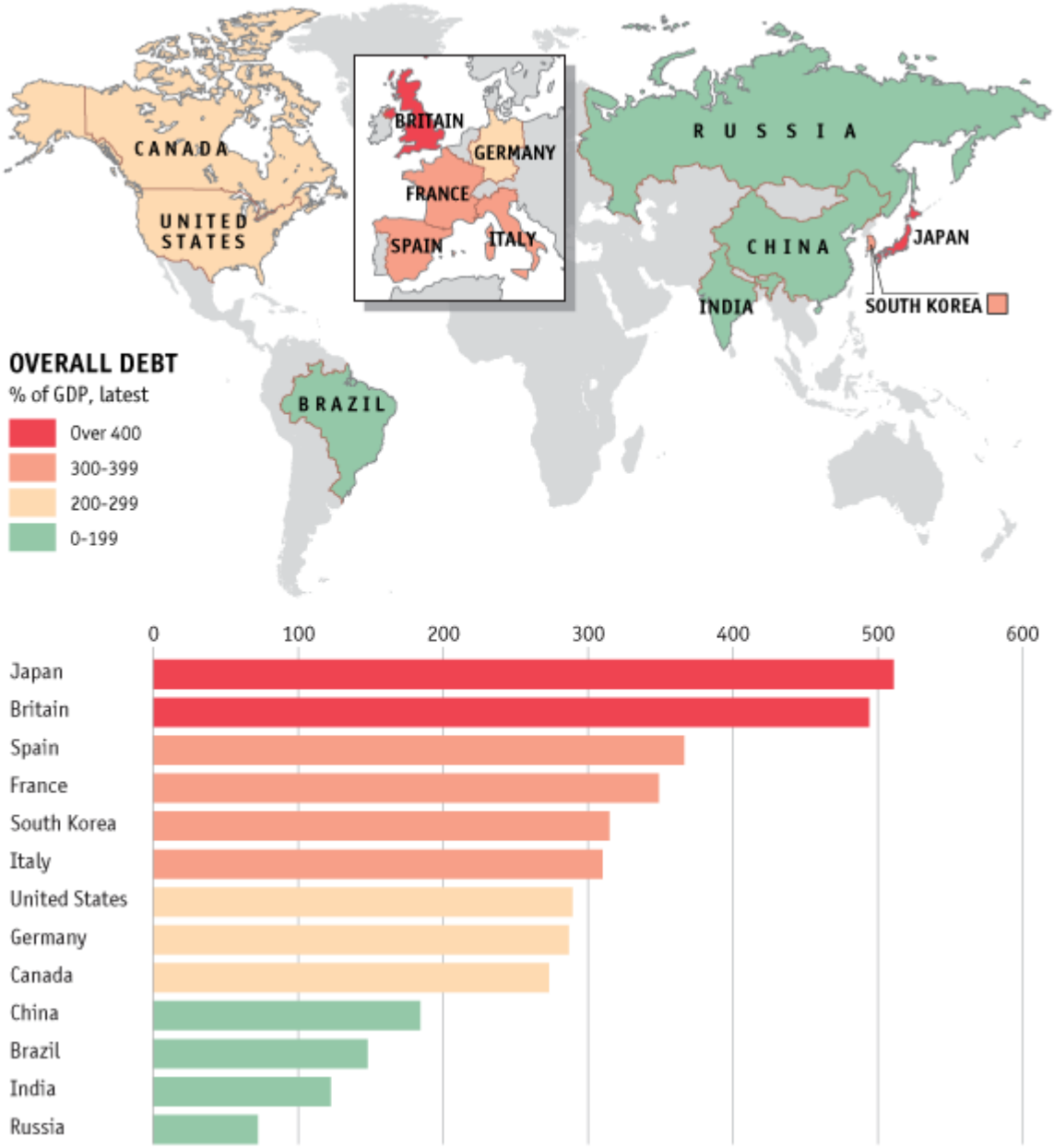
APPENDIX 1

Global Debt Ratings



Note. Reprinted from World bank.org (2013)