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## II. ECONOMY AND FOREIGN TRADE

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### Economic Overview

The economy of Barbados in the early years was primarily based on the sugar industry; with the decline in world sugar prices, a shift to tourism, light industry and offshore business has been made in an effort to provide additional employment opportunities and to increase foreign exchange earnings.

Although the island lacks natural resources, other advantages such as political stability, good industrial relations and special tax incentives encouraging small-scale local and foreign export-oriented assembly operations have led to a rapid growth in the manufacturing sector, especially in the area of electronic components in the mid 1980s. As a result, Barbados is one of the most prosperous islands in the Eastern Caribbean with a per capita income of some Cdn\$6 600 (one-third that of Canada).

Following a period of stagnation in the first half of the 1980s, 1986 proved to be relatively buoyant with 5 per cent real growth achieved. However, with the world price of sugar remaining low and export manufacturing being very depressed, this has levelled off and real growth of 2 per cent was attained in 1987 with a similar level projected for 1988.

Shortly after taking office in 1986, the ruling Democratic Labour Party introduced a "supply-side" budget offering major tax concessions. In the resultant shortfall of revenue, significant foreign borrowing was required to finance government expenditures. In the 1987 budget, indirect taxes, in particular stamp duties and consumption taxes on extra-regional goods, were substantially increased. (Extra-regional refers to countries other than those of CARICOM or Caribbean Community members.) This resulted in a decline in total foreign imports and an increase to at least 3.5 per cent inflation in 1987. Taxes, both direct and indirect, were again raised in the 1988 budget to close the fiscal deficit, improve balance of payments, and so forth. These measures further increased inflationary pressures in 1988.