

## CAYMAN VS. BELIZE

	Belize	Cayman
Population	344,700	54,397
Life Expectancy at Birth	68.23 years	80.68 years
Unemployment Rate (2010)	11.2%	6.7%
GDP per Capita (PPP, 2010)	\$8,080	\$46,000

Sources: CIA World Fact Book, IMF, Government of the Cayman Islands, World Bank

THE WASHINGTON TIMES

## Tale of Two Small Countries

by Richard W. Rahn

### OBVIOUS REASON FOR VAST ECONOMIC DISPARITY BETWEEN CAYMAN AND BELIZE

SAN PEDRO, Belize

Cayman is rich, and Belize is poor. Why? Both are small Caribbean countries with the same climate and roughly the same mixed racial heritage, and both were English-speaking British colonies. Belize (the former British Honduras) received its independence in 1981, while Cayman is still not fully independent but is self-governing at the local level, with its own currency, laws and regulations.

Belize should be richer: It has a larger population than Cayman (345,000 as contrasted with Cayman's 54,000). Belize has a much larger and more varied land area with many more natural resources, including gas and oil, and some rich agricultural land that Cayman lacks. Both have nice beaches, but Belize has the second-largest barrier reef in the world after Australia and also has Mayan ruins. Yet Cayman, with fewer points of interests, has done more to attract tourists.

Back in the early 1970s, Cayman was as poor on a per capita basis as is Belize today. Both countries had ambitions to be tourist and financial centers. Cayman succeeded and has about six times the real per capita income of Belize. What did Cayman do right and Belize do wrong?

Perhaps most important is that Cayman had and maintained a competent and honest judicial system, which gave foreign investors confidence that their property would be protected. Cayman also has a very low crime rate. Tourists and other visitors walk around freely day or night in Cayman without fear. Unfortunately, the same cannot be said for many parts of Belize, where crime is often a problem. In addition, many judges in Belize are poorly trained, incompetent and, in some cases, corrupt. These issues cause foreign investors to consider higher-risk factors for projects in Belize as contrasted with Cayman.

Belize has a more investor-friendly tax system than the United States, but Cayman has no corporate or individual income taxes on noncitizens and citizens alike - advantage Cayman. The problem for Belize is that it is competing with the likes of Cayman, Bermuda, the Bahamas and the British Virgin Islands, but not the United States. Also, the regulatory environment in Cayman is largely free of corruption, which is not true in Belize.

The latest Index of Economic Freedom ranks Belize as the 77th most economically free country in the world (out of 179). If Cayman were large enough to be ranked, it almost certainly would be in the top 10. There is a very high correlation between economic freedom and per capita income. Any country can decide to become more free. Belize ranks a miserable 93 out of 183 countries ranked by the World Bank's Doing Business project.

It is obvious why Cayman is rich and Belize is poor, and it comes down to one word: governance. If Belize would clean up its courts, fully protect property rights and adopt the best economic practices of its competitors, it could quickly become rich. For instance, it takes an average of 44 days to get all of the required permits to open a new business. In some countries, such as Estonia, Singapore and even the Commonwealth of Virginia in the U.S., the required paperwork to open a business can be done online. Thus, days have been reduced to just a few hours.

There is no reason any country has to remain poor. Countries are not poor because of climate, lack of natural resources or race. Countries as locationally varied as Singapore, Mauritius, Korea, Chile, Estonia and Cayman have become relatively rich over the past few decades. Those countries that are still relatively poor are poor because they have not put in place the necessary institutions, political structures and policies.

The United States and a number of other wealthy nations are becoming less free and thus, not surprisingly, are growing more slowly.

Belize could become rich and the U.S. and Cayman could become poor. It all depends on whether the political entities elect wise and courageous leaders.

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