1
INTRODUCTION

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1. Background

The economic vulnerability of small states has, during the past two decades or so, been explored by many analysts.[1] The awareness that small economic size almost necessarily leads to a high degree of economic openness and export concentration has led to the conclusion that such states are very exposed to factors outside their control, and they are therefore very susceptible to external shocks. The high degree of fluctuations in GDP and in export earnings registered by many small states is considered as one of the manifestations of such exposure.

The Viability of Small States[2]

During the sixties and seventies, when many colonies became politically independent, the discussion on small states focused mainly on economic viability, querying whether the former colonies, which had become small states, had the critical economic size to exist as independent countries.[3] The issue of economic vulnerability was not given much importance, although there was an awareness that small states exhibited a higher degree of volatility in GDP and export earnings than larger states.[4] During the eighties and the nineties, the connection between small economic size and economic vulnerability emerged more clearly. The publication of the Commonwealth Secretariat's Report *Vulnerability: Small States in the Global Society* in 1985, assigned significant importance to this issue, although the focus was more on security than on economic factors.

[1] See for example Briguglio (1992a; 1995; 1997), Briguglio and Galea (2003), Chander (1996), Wells (1997), Crowards (2000a), and Atkins et al. (2000).

[2] This publication does not attempt to establish a population cut-off point for a small state, but, following the Commonwealth Secretariat definition, a country with a population of 1.5 million or less is considered small. However three countries with a larger population, namely Singapore, Jamaica and Papua New Guinea, also feature in this publication, since these countries associate themselves with small island developing states and the three of them are members of the Alliance of Small Island States (AOSIS).

[3] See for example Kuznets (1960), Demas (1965), Selwyn (1975) and Jalan (1982).

[4] See for example Helleiner (1982).

In 1985, during a conference on the theme "Economic Development of Small Countries", organised by the University of Malta, there was considerable debate on the seeming contradiction that small vulnerable developing states, in spite of their presumed handicaps, were generally performing economically better than larger ones.[5] Some participants argued that small states were not really that vulnerable, while others even contended that small economic size and insularity may not be disadvantages after all.[6] There was the making of a paradox that needed explaining. The original work on the vulnerability index was intended to provide such an explanation.[7]

The Vulnerability Index

The idea of constructing a vulnerability index was first mooted during the 1985 Malta conference already referred to above. In June 1990, the Maltese Ambassador to the UN, intervening during the meeting of Government Experts of Island Developing Countries and Donor Countries and Organisations, and referring to Lino Briguglio's work on small developing countries, stated that a vulnerability index would be "important because it reiterates that the per capita GDP of island developing countries is not by itself an adequate measurement of the level of development of island developing countries as it does not reflect the structural and institutional weaknesses and the several handicaps facing Island Developing Countries."

Subsequently, UNCTAD engaged Lino Briguglio to prepare a paper on the construction of a vulnerability index which was one of the main documents discussed during a meeting of a Group of Experts on Island Developing Countries, held in Geneva on 14-15 July 1992 (see Briguglio, 1992a).

The UN General Assembly, at its 47th session, resolved to convene the Global Conference for the Sustainable Development of Small Island Developing States (A/Res/47/189) which was subsequently held in Barbados in April/May 1994.

The Vulnerability Index, which was further developed in the run-up of the Barbados Conference, featured prominently in the Barbados Programme of Action (BPoA) for the Sustainable Development of

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5 See Kaminarides et al. (1989).

6 This view was later also expressed by Easterly and Kray (2000).

7 Briguglio (1992b) argued that although small island states were more economically vulnerable than larger states, they had a number of advantages, including social cohesion and flexibility in responding to external shocks. The advantageous characteristics of small states are also highlighted in Streeten (1993).

Small Island Developing States (A/CONF.167/9). The BPoA was endorsed by the General Assembly in its resolution 49/122 of 19 December 1994, with Paragraphs 113 and 114 calling for the development of a vulnerability index for SIDS.[8]

In 1996 the Commission on Sustainable Development called on "the relevant bodies of the United Nations system to accord priority to the development of the index". Subsequently, in 1997, the Department of Economic and Social Affairs, engaged two consultants[9] to develop an economic vulnerability index and an ecological vulnerability index. The Department also convened an *ad hoc* expert group to review the technical work of the consultants and to make appropriate recommendations. The meeting, held at the UN headquarters in December 1997, concluded that "Judging from the results of a number of studies using a diversity of approaches, in particular, two reports of the Commonwealth Secretariat, the report of UNCTAD and the reports of consultants that were submitted to the meeting, the group concluded that .... as a group small island developing states are more vulnerable than other groups of developing countries" (A/53/65 - E/1998/5).[10]

Vulnerability and Economic Backwardness

It is pertinent to emphasise here that economic vulnerability is not synonymous with economic backwardness. As already argued, there are a number of small states which are very economically vulnerable due to their high exposures to external forces but have managed to generate high income per capita in spite of this condition. Indicators of economic backwardness should be clearly distinguished from those purporting to measure vulnerability. The former are generally based on income per capita, sometimes augmented by social or quality-of-life variables, such as education and health (as is the case of the Human Development Index), or by economic-structure variables, such as the relative size of the agricultural sector. There are conditions of "underdevelopment" which many SIDS share with larger developing countries, including weak governance, underdeveloped institutional capacities and human resources deficiencies. Most authors in this

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[8] Part of the text of paragraph 114 states that "Appropriate expertise should continue to be utilized in the development, compilation and updating of the vulnerability index. Such expertise could include scholars and representatives of international organisations that have at their disposal the data required to compile the vulnerability index. Relevant international organisations are invited to contribute to the development of the index".
[9] These were Lino Briguglio of the University of Malta and Dennis Pantin of the University of the West Indies.
[10] The report of this meeting is carried on the following web site: http://www.un.org/documents/ecosoc/docs/1998/e1998-5.htm .

publication consider these realities as factors affecting economic resilience (or lack of it), and not as sources of inherent vulnerability.

2. Methodological Issues

The first part of this volume deals with conceptual and methodological issues associated with vulnerability and its measurement. The discussion focuses on the vulnerability index, its components and the approach that should be used to sum these components. The discussion also deals with the distinction between inherent and self-inflicted vulnerability and the use that can be made of the index.

Inherent vs Self-inflicted Vulnerability

The distinction between inherent and self-inflicted vulnerability was not clearly spelled out in the early works on the vulnerability index. Briguglio (1995) did refer to this distinction, and augmented the vulnerability index with a GDP per capita index so as to capture the resilience potential of countries and to explain the possibility that economically vulnerable countries could have adopted policies which enabled them to withstand their vulnerability. Briguglio called this augmented index the "Vulnerability Adjusted Development Index" (VADI). The Commonwealth Secretariat (see Atkins et al., 2000) likewise augmented their vulnerability index with an index of GDP (as distinguished from GDP per capita) in order to allow for resilience.

The distinction between inherent economic vulnerability and policy-induced resilience is explained by Briguglio in chapter 2 of the present volume.[11] Briguglio argues that the economic vulnerability index should include only inherent and permanent economic features which render a country exposed to conditions outside its control. This argument is also made very forcefully by Guillaumont (chapter 3).

Briguglio notes that economic vulnerability can be exacerbated by policy measures. However, he prefers to treat policy-induced or self-inflicted vulnerability as the obverse of "resilience" in the sense that countries adopting policies which exacerbate their inherent vulnerability render themselves less resilient.

The term "economic resilience" as used by Briguglio refers to a country's ability to economically cope with or withstand its inherent vulnerability as a result of some deliberate policy. Briguglio also uses

[11] Unless otherwise stated, references to chapters refer to those included in this volume.

the term "nurtured resilience" in this regard. The author argues that this approach helps to reduce definitional mix-ups and to develop appropriate methodological approaches.

On the basis of these definitions, Briguglio proposes four possibilities or scenarios as follows:

1. Countries that **are not** economically vulnerable (in relative terms) and have adopted policies which promote economic resilience (the "best-case" scenario).
2. Countries that **are** economically vulnerable but have adopted policies to cope with or withstand their vulnerability (the "self-made" scenario).
3. Countries that **are not** economically vulnerable but have adopted policies which adversely affected their resilience, leading to self-inflicted vulnerability (the "prodigal son" scenario).
4. Countries that **are** economically vulnerable and have adopted policies that exacerbated their vulnerability (the "worst-case" scenario).

Basing on these scenarios, Briguglio proposes that an index of resilience be constructed to complement the vulnerability index[12] and to assess the degree to which economically vulnerable countries, individually or as a group, are moving ahead or otherwise, in coping with or withstanding economic vulnerability. A number of variables which could be used to construct a composite resilience index are proposed. These relate to governance, sound macroeconomic policies and market reform, as well as social cohesion and environmental management. Briguglio argues that such an index would serve, amongst other things, as a guide for good practice.

The author also suggests that resilience building could be more successfully implemented with the support of the international donor community. Small states have limited resources at their disposal and capacity building is very costly per capita when spread over a small population, given that it is mostly an overhead cost.

Vulnerability and Low-Income Countries

Guillaumont (chapter 3) examines the relevance of economic vulnerability concept for low-income countries, referring to the considerable importance that this index has been given by several

[12] The AOSIS "Strategy for the Further Implementation of the Barbados Programme of Action," adopted during the Inter-Regional Preparatory Meeting of SIDS held in Nassau, Bahamas, in January 2004 also referred to the construction of a resilience index, and suggested the establishment of a Task Force to develop such an index.

international bodies, including the United Nations. He also deals with conceptual issues of vulnerability. He argues that an index to measure economic vulnerability should cover inherent features, and identifies three components of vulnerability, namely (1) natural shocks (2) trade shocks and (3) structural exposure to these shocks.

Guillaumont explains that the Economic Vulnerability Index (EVI) used by the UN Committee for Development Policy (CDP-EVI) is based on this approach. He also suggests weighting schemes for summing the component indices, either using equal weights, or deriving weights from a regression with growth as the dependent variable and the vulnerability components as the explanatory variables.

The author also supports the argument that structural vulnerability is a matter of concern for growth, factor productivity and cooperation policies between donor and recipient countries.

Vulnerability and LDCs

Encontre (chapter 4) also refers to the CDP-EVI. Economic Vulnerability is one of the criteria used by the United Nations when deciding which countries are to graduate from Least Developed Country status. The author explains how the issue of economic vulnerability was central to the conceptual and methodological debate underlying reviews by the United Nations of the list of Least Developed Countries. Encontre's argument regarding the components of the EVI are very similar to those proposed by Guillaumont in chapter 3.

The Components of the Vulnerability Index

The economic vulnerability indices computed so far for cross-country comparisons generally include a relatively small number of variables, often limited to three to five. There is general accord that vulnerability should capture the extent to which the economies of countries are shaped by forces outside their control.

Most authors in this publication, particularly Briguglio (chapter 2) Guillaumont (chapter 3) and Encontre (chapter 4) emphasise the point that the index should capture inherent features, and not those features which result from bad governance of wrong policy choices.

However, there is disagreement as to what variables should be included in the EVI. Briguglio used indices of economic openness, export concentration, dependence on strategic imports and peripherality (or transport costs), and proneness to natural disasters as components of the vulnerability indices which he constructed. Other authors, following Briguglio, including Chander (1996), Wells (1997), Atkins et al. (2000), and Crowards (2000a) used similar indices as components of the EVI.

On the other hand, the UN Committee for Development Policy opted for a different set of variables in constructing the CDP-EVI, including instability of agricultural production, instability of exports, population size, share of manufacturing and modern services, and export concentration.[13] Guillaumont (chapter 3) and Encontre (chapter 4) argue that the CDP-EVI captures the essentials of economic vulnerability, namely (i) the magnitude of external shocks beyond domestic control (ii) exposure of the economy to these shocks and (iii) the structural features leading to high exposure of the economy, represented by the handicap of economic smallness.[14]

Both authors contend that openness to trade should not feature as a vulnerability element as this should be considered as a source of resilience and not of vulnerability, and in addition it is, to a large extent, policy-induced. Guillaumont, however, does acknowledge that there is an inherent vulnerability feature associated with openness to trade, but argues that it is not easy to distinguish between the inherent and policy-induced causes of economic openness.

Crowards (chapter 6) contributes further to the debate. He argues that it is now generally accepted that small developing states on average are particularly vulnerable. He considers openness to trade as a key source of this vulnerability, but he acknowledges, in line with Guillaumont and Encontre, that at the same time such openness has contributed to these states' comparatively strong average economic growth.

The Method of Measuring and Summing the Components

The measuring and summation procedures are only cursorily treated in Briguglio (chapter 2), but there has been considerable debate regarding these methodological aspects.

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[13] Like Briguglio's index, the CDP-EVI also utilises an export concentration index. Even here there is a difference as Briguglio's export concentration index covers merchandise and services whereas the CDP EVI deals with merchandise exports only.
[14] Briguglio argues that the CDP index is used for the classification of LDCs. The component measuring population size renders this approach problematic for assessing the vulnerability of SIDS since this component would bias the results in favour of small states. This point is rebutted by Encontre (see chapter 4).

The method used by Briguglio (1995), Crowards (2000a) and the CDP is quite straightforward. The variables are first standardised[15] so as to enable summation between variables measured in different units, and then the standardised scores are averaged. There was experimentation with a weighted average (see Briguglio, 1995 and Crowards, 2000a) but a simple average is generally preferred.

Atkins et al. (2000), basing on Wells (1997), adopt an alternative approach utilising the regression method. They first assume that GDP volatility is mostly the result of vulnerability and proceed to estimate an equation with GDP volatility as the dependent variable and a number of vulnerability variables as the explanatory variables. In this way they did not have to standardise the variables and the weights assigned to each component were estimated as the coefficients on the explanatory variables.[16]

The main difference between the straight-forward summation and the regression method essentially boils down to the weighting of the components. In fact, Briguglio, Crowards and Atkins et al. all come to the conclusion that small island developing states tend to be more economically vulnerable than other groups of countries. This similar conclusion is driven in part by the use of similar vulnerability variables in the analyses.

Using the Vulnerability Index

Guillaumont (chapter 3) argues that the CDP chose vulnerability as one of the criteria for the identification of LDCs in order to mobilise a relatively larger amount of aid to LDCs than to other developing countries. The underlying reason for this is that, according to Guillaumont, the more vulnerable the recipient country, the higher is the marginal contribution of aid to growth. In highly vulnerable countries, on the edge of collapse, aid may help to avoid economic disasters. An implication of this argument is that structural vulnerability of the recipient countries has to be taken into account with regard to aid effectiveness, in order to maximise the effect of aid on growth, and consequently on poverty reduction, through its allocation.

[15] The following formula is used to standardise the observations of a given variable: $(X_i - X_{min})/(X_{max} - X_{min})$, where X_i is the value of the ith observation, X_{min} and X_{max} are respectively the minimum value and the maximum value of the observed variable. This formula yields standardised values between 0 and 1.

[16] A similar approach for summing components of a composite index was used by Guillaumont and Chauvet (2001).

Guillaumont contends that this has major implications for aid design. Aid could be designed precisely to lessen vulnerability by enhancing the capacity of the countries to manage the shocks they face, and at the micro level, the capacity of the farmers to cope with the shocks transmitted to them or occurring at their level. In other words, aid should be targeted to build or enhance resilience at the macro and the micro level.

Encontre (chapter 4) explains how the UN, as from 1997, attempted to operationalise the CDP-EVI in order to review the list of LDCs by the United Nations. The author explains that the CDP-EVI is one of the criteria for graduation from LDC status, the other criteria being low income per capita and human resources weakness. He refers to the various disputes relating to the weight that should be given to the vulnerability criteria for this purpose. As expected, countries with high vulnerability scores that were registering relatively high GNP per capita rates clamoured for a higher weighting to be assigned to the CDP-EVI than to the other criteria.

There were other attempts at using the economic vulnerability index as an operational tool, but these were generally unsuccessful. As explained by Encontre (chapter 4) and Palayathan (chapter 18), efforts have been pursued by small member states of the World Trade Organisation (WTO) to gain special concessions on grounds of vulnerability, but the recognition of this characteristic, though well documented in the WTO's Work Programme on Small Economies, has so far not been accepted to define any group of countries within that organisation.

Cordina (chapter 5) explores the possibility of linking the concept of vulnerability to mainstream economic growth theories. While acknowledging that per capita output is an incomplete indicator of human welfare, he points out that so far vulnerability has not been associated with the human welfare function at the same level as income and consumption. The usefulness of the vulnerability concept increases if it were shown to have a bearing on the more important determinants of human welfare.

Cordina shows that vulnerability, defined as the inherent exposure to exogenous shocks, has important effects on per capita output levels and economic growth. He argues that the adverse impact of a negative shock on human welfare is larger than the impact of a positive shock of the same magnitude. Cordina contends that vulnerability can lead to a decrease in consumption levels as economies invest in resilience building to overcome the negative effects of exogenous shocks. He suggests that this theoretical approach could be used to explain the so-called "Singapore paradox".[17] In this regard vulnerability could retard economic growth if the factors required to build resilience are absent from a country.

Crowards (chapter 6) queries whether it makes sense to use the EVI, which compacts a number of variables, sometimes including environmental ones, into a single index. He suggests that, instead, the focus should be on individual characteristics that define a country's vulnerability to particular types of shock. Such vulnerability profiles will provide country-specific information for policy makers and may indicate where small developing states—or regional and international bodies that represent them—could beneficially engage in the international agenda. This may be in the form of initiatives aimed at reducing shocks—predominantly focused on the poverty reduction agenda—or reducing global processes that threaten to exacerbate already high levels of vulnerability.

3. Country Case Studies

The second part of this volume contains a number of case studies on small island states located in different regions. Jayaraman (chapter 7) considers the case of Vanuatu. He analyses the causes of vulnerability of this small island state in the Pacific and evaluates its effort in coping with such vulnerability. He reiterates the argument that a number of inherently vulnerable small states have, through good governance and appropriate economic policies, succeeded in withstanding the impact of external shocks and registered acceptable rates of economic growth. The author is of the opinion that the policies adopted by Vanuatu, including fiscal inflexibility and poor governance, have exacerbated the drawbacks of economic vulnerability. The author argues that Vanuatu will always remain inherently vulnerable, and it is therefore important that economic policy in this island state be geared towards withstanding external shocks, thereby enabling it to build up economic resilience. Good governance and sound macroeconomic policies are singled out for this purpose.

Another Pacific case study relates to Fiji. Reddy (chapter 8) identifies a number of inherent features of Fiji that render its economy vulnerable, including a high degree of openness and high dependence on a narrow range of exported products. The author is of the view

[17] This paradox relates to a country which is economically vulnerable but highly successful in terms of economic development.

that in order to provide long-term stable growth, these vulnerabilities need to be identified and appropriate policy responses developed. Like Jayaraman, Reddy argues that in Fiji there are a number of "self-inflicted" conditions that exacerbate economic vulnerability, including poor governance, lack of appropriate macroeconomic policy framework and absence of well-defined property rights. Reddy proposes a number of policy measures aimed at rendering the economy of Fiji more resilient.

Ronneberg (chapter 9) deals with another Pacific small island state, namely the Marshall Islands. The chapter focuses on the interconnection between environmental vulnerability and economic resilience. It is well known that the economies of many SIDS rely heavily on environmental resources and therefore the mismanagement of environmental resources often has major economic repercussions, notably those on the balance of payments and government finance.

Ronneberg discusses the vulnerabilities that mostly emanate from environmental factors, but which have important economic impacts, including water shortages, energy sources, waste generation and fisheries management. The author argues that these vulnerabilities can, to an extent, be managed so as to reap economic benefits, thereby strengthening the economic resilience of SIDS. The chapter suggests some potential solutions, mostly based on seeking innovative approaches for generating useful interlinkages, which apart from promoting efficient use of environmental resources, also generate positive spillover effects on the economy.

Papua New Guinea (PNG), another Pacific island state considered in this book, is a small nation by international standards, but it dominates the Pacific Islands where it is by far the largest country in terms of population, area and natural resources. Manning (chapter 10) argues that although PNG has a small, open economy, relying on mining and petroleum resources for its immediate wealth, it has great potential with regard to agriculture, forestry, fishing and tourism. The author contends that despite this potential, PNG has not been able to transform its endowments into sustainable growth, and still relies on aid from Australia and the European Union (EU). PNG's Human Development Indicators are among the worst in the world and have been declining.

There have been many attempts in PNG to reform the economy, the administration and the government. Manning argues that these have failed largely due to a lack of political commitment and clear direction.

Often policies have been formulated in an *ad hoc* manner, independent of the agencies responsible for implementation and, as a consequence this has impeded and constrained private sector effort to promote and expand export markets. As a result, there has not been a significant improvement in the structure of PNG's economy and it remains critically vulnerable to internal and external shocks. Manning argues that if the country is to withstand its economic vulnerability it has to find answers to its governance problems which are the cause of severe misallocation of resources. The author states that whether it likes it or not PNG will have to come to terms with globalisation and will have to step up efficiency and macroeconomic management in order to effectively compete in a liberalised trading environment.

Singapore is often considered as one of the most economically successful small states. Peebles and Wilson (chapter 11) examine the so called "Singapore paradox" which relates to a country that is economically vulnerable but highly successful in terms of economic development. Singapore is extremely open to international trade and factor flows and is heavily dependent on imports of goods and services. It is therefore exposed to a very high degree to external shocks. The authors explain that these vulnerabilities have been used to defend the Singapore government's decision not to accept reclassification as a fully developed country and have provided the rationale for a development strategy based on high levels of forced saving, high levels of centrally directed investment, a persistent build-up of official foreign exchange reserves and a strongly interventionist government in all sectors of the economy.

The authors argue that although to an extent the paradox can be explained by innate advantages associated with its location and history as an entrepôt city-state and its ability to benefit from trade and other links with its growing neighbours in the region, much is due to 'nurtured resilience' or good economic policy, including a certain amount of pragmatism and unorthodoxy when required. Since the mid-1980s, however, it has been harder for Singapore to maintain such a centralised development strategy and the island state is finding it increasingly difficult to overcome its vulnerabilities in a more globalised world, where locational advantages are less important than in the past.

Two small island developing states in the Indian Ocean, namely the Seychelles and the Maldives, are also covered in the book. Larose (chapter 12) describes the economic vulnerability of the Seychelles, and the policy measures taken so far in order to strengthen the country's economic resilience, from the monetary and financial standpoints. An important conclusion that emerges from Larose's study is that small island developing states are particularly vulnerable in the financial area, and any discourse on resilience building should therefore take into account the risks associated with exchange rates, international financial crises and related factors. In order to strengthen its resilience, the authorities of the Seychelles are focusing on economic and financial measures with emphasis on corporate governance in management of risks.

The Maldives' economy also has many features which render it economically vulnerable. It is heavily dependent on two fragile industries, namely fisheries and tourism, which are the major sources of foreign exchange earnings and government revenue, and which together account for about 40 percent of gross domestic product. Majeed and Abdulla (chapter 13) explain how the good economic performance of this small island state has led to a relatively high GDP per capita income leading to possible graduation out of LDC status, even though the Maldives economy remains very vulnerable. In the view of the authors, no country should be graduated from LDC status unless the graduation criteria are revised in order to assign more weight to economic vulnerability. In addition, an appropriate transition period should be devised to take account of the costs of being excluded from LDC status.

The issue of graduation from LDC status is a very important one for a number of small island states, namely the Maldives, Vanuatu, Cape Verde and Samoa, as explained by Encontre in chapter 4. The problem can be compared to the "welfare trap", in the sense that at a certain level of GDP per capita, economic success can lead to economic disadvantages in terms of loss of preferential treatment.

Three chapters in this volume focus on small island states in the Caribbean region. Osei (chapter 14) discusses the situation in Jamaica. He stresses the point that in the case of the Jamaican economy, which is very exposed to external shocks, including environmental ones, the situation has been aggravated by poor macroeconomic management, which has led to high levels of national debt. This situation has had repercussions on social development as the economy stagnated. In these circumstances, any lapses in governance are likely to exacerbate the country's problems. The author proposes a number of strategic measures which, if adopted, could strengthen the economic resilience of the country and help it to withstand its inherent vulnerabilities.

Like other authors in this volume, Osei singles out good governance as an essential factor for resilience building, which, in the case of

Jamaica, should focus on the management of the national budget and debt, building of partnerships and social consensus, control of corruption and improvement of macroeconomic management in general. He argues that in building resilience against the known inherent disadvantages of a small island state like Jamaica, a public sector reform programme should be seriously pursued to improve public accountability.

Springer (chapter 15) gives an overview of the major economic concerns in St Lucia and shows that most of St Lucia's economic problems arise from a number of inherent characteristics, notably its very small size, its very high dependence on foreign trade and its limited diversification possibilities. All these are exacerbated by its proneness to extreme weather conditions. In line with most other authors in the volume, Springer argues that these characteristics lead to economic vulnerability.

Springer explains that the globalisation process has intensified these problems due to the dismantling of preferential trade arrangements and the escalation of international competition. He proposes a number of measures which could strengthen the island's coping ability and build up economic resilience.

Although the chapter makes frequent reference to government action, Springer emphasises the point that the private sector has a major role to play in resilience building, and that this sector must become the primary engine of growth. The author contends that resilience building concerns both the private and public sectors and both should seize the opportunity to restructure themselves to take advantage of technological advance and investment flows embedded in globalisation.

Witter (chapter 16), writing about a group of small island states in the Caribbean region, argues that concern with the economic vulnerability of small island states also involves the capability of these states to adjust to the rapid changes in the international economy by re-positioning themselves in the emerging international division of labour. The major economic upheavals brought by the globalisation process in the 1990s have tended to put a downward pressure on the foreign exchange earnings of island economies that depend on traditional primary product exports, through the weakening of prices and the loss of preferential access to markets, particularly for sugar and bananas.

Witter explains how in the Caribbean region, the three dimensions of vulnerability—namely economic, social and environmental—

interact with each other, and often reinforce each other. In discussing social vulnerability the author argues that inevitably economic changes feed into social changes, such as migration, the adoption of new patterns of consumption and social behaviour, and generate tensions in the relations within and among various social groups.

With regard to environmental vulnerability, considered as the third dimension of the vulnerability of small island states, Witter refers to the threat of natural forces, including climate change. He explains how in recent times, this vulnerability has been most graphically expressed in hurricanes and sea level rise, which pose a threat to the survival of the societies that inhabit many small island states. He refers to the destructive effects of Hurricane Ivan on Grenada as an example of how devastating a natural event can be on vulnerable small island states.

Many small states were former British colonies and now belong to the Commonwealth. Chand (chapter 17) gives an overview of twenty-two Commonwealth countries with populations of less than one million. The main thrust of Chand's study is that size creates problems peculiar to these small states compared to larger ones. However, cross-country evidence shows that well-managed small economies have outperformed other poorly-managed small economies as well as their much larger counterparts. He further argues that the secret of economic success lies in the small states' capabilities for speedy adjustment to external shocks.

Chand criticises the argument that since some small states have done well, small states must have small problems. He contends that this argument is flawed, and proposes that the performance of the successful small states deserves close scrutiny and study so that it can be replicated elsewhere. An important challenge for policy makers in the less successful small states is, according to Chand, to draw lessons from the good practice of the successful small states and to emulate such practice in their countries.

4. Special Treatment for Small States

The second part of this volume contains two chapters that discuss the proposition that small states deserve special treatment in international trade arrangements in view of the handicaps they face.

Palayathan (chapter 18) argues that although economic constraints and vulnerabilities of small states are well documented, these states still have to cope with the arduous task of persuading a segment of the WTO membership that they merit special and differential treatment in view of the disproportional burden that these states face in taking on board the WTO rules and that these rules cannot be applied on a one-size-fits-all basis. The author refers to the Ministerial Declaration of the WTO Doha meeting, which in Paragraph 35 made specific reference to small economies and to the need to frame responses to the trade-related issues that they face for the fuller integration of these economies into the multilateral trading system. At the same time (and in the same paragraph) the WTO declaration proscribes that "a sub-category of WTO members" should not be created.

This statement is to Palayathan perplexing, because while recognising the problem, it does not help much in strengthening the case for differentiated treatment. Such a position makes it imperative for small states members of the WTO to devise creative and persuasive approaches in making their case. One route that small states could take is to emulate preceding successful approaches within WTO.[18] Other groups of countries have astutely avoided the creation of a new category of members while, at the same time, have addressed their specific areas of concern.

Palayathan is of the view that the difficulties posed by the condition of not creating a sub-category of countries should, however, be addressed seriously if meaningful differential treatment is to be accorded to the small economies. A number of objective criteria have been worked out in trying to identify the inherent characteristics, disadvantages and vulnerabilities of the small economies. Various indices have also been produced, notably with regard to the vulnerabilities of the small economies. The author explains that there is a big resource base on economic vulnerability, competitiveness, openness to world trade, export concentration and human development which need to be fully exploited and usefully harnessed.

Preville (chapter 19) also discusses the issue of special and differential treatment for small states, focusing on Caribbean economies in the context of the ongoing negotiations for the creation of a Free Trade Area of the Americas (FTAA). Preville discusses the threats and opportunities to small economies posed by their high dependence on international trade and on import tariff revenues. The dependence of some Caribbean small states on bananas provides an excellent example of bad experiences from trade liberalisation, due to the colossal loss in

[18] Grynberg and Remy (2004) list a number of GATT/WTO provisions that could be considered as precedents in this regard. See also Davenport (2004).

foreign exchange and increased structural unemployment that has taken place in these states since the commencement of the reform of the European Union's market for banana imports. There are legitimate concerns that the Caribbean region's banana industry is likely to be eliminated altogether, should the European Commission implement a tariff-only system, as has been proposed for 2006. The fact that many small economies continue to express reservations about liberalisation is therefore understandable.

The author argues that the threats to small states arising from liberalisation are extraordinary and special and differential treatment for such states is therefore justified. Such treatment can in practice take different forms, including longer time frames or transition periods for the implementation of certain rules, differentiated thresholds for undertaking certain commitments and flexibility in obligations and procedures. He suggests that CARICOM should make the case for asymmetric phased-in implementation of commitments under the FTAA and should seek exemptions from tariff liberalisation for certain commodities.

5. Role of International Organisations

Many international organisations have a small states unit or division, and have extended their support for the sustainable development of these states. The fourth part of this publication contains a section dealing with the role of a number of organisations in this regard. The organisations covered include the United Nations Environment Programme (UNEP), the United Nations Educational, Scientific and Cultural Organisation (UNESCO) and the Food and Agriculture Organisation (FAO) and The United Nations Conference on Trade and Development (UNCTAD). These organisations were specifically identified by the BPoA as having a special role in the sustainable development of SIDS.

Other international organisations featured in the book are the Commonwealth Secretariat, the Alliance of Small Islands States and the World Bank. All three organisations have supported the promotion of sustainable development of small states in different ways.

United Nations Organisations

In paragraph 125, the BPoA states that "As set forth in Agenda 21, UNEP, taking into account development perspectives, should continue to provide policy guidance and coordination in the field of the environment, including in the implementation of the Programme of Action for the sustainable development of Small Island Developing States". UNEP's activities in this regard are summarised by Binger, Khaka and Van Lavieren, in chapter 20 of this publication. The chapter covers UNEP's response to eight major areas of concern for SIDS, namely climate change and sea level rise, biodiversity resources, coastal and marine resources, coral reef protection and management, natural and environmental disasters management, management of wastes, freshwater resources management, and tourism resources. Future directions with regard to each environmental concern are also identified. The chapter also deals with UNEP's activities regarding a number of cross-cutting issues in environmental management of interest to SIDS, including multilateral environmental agreements and environmental law, the environmental vulnerability index, capacity building for sustainable development, and environment outlook reports on small island developing states.

UNDP is another organisation that has been identified by the BPoA (paragraph 126) as having an important role to play in capacity building of SIDS at the local, national and regional levels, and in fostering the United Nations collective thrust in support of the implementation of the Programme of Action through its network of field offices. In chapter 21 Kane lists a number of initiatives taken by UNDP with regard to the intergovernmental process for the review of the Barbados Programme of Action, including technical reviews on vulnerability, advocacy, capacity development, establishment of a trust fund for vulnerability reduction, support for resilience building, and assistance with governance structure development and implementation. The author briefly describes the contribution of the Expert Group on Vulnerability which was set up under the auspices of the UNDP, and which was instrumental in the organisation of a number of expert group meetings on major issues of interest to SIDS.

The chapter argues that the investment by UNDP in the work on vulnerability in small island developing states is exerting significant influence on how the senior policy and decision makers responsible for sustainable development are framing and expressing key development and environment issues affecting SIDS. The ready acceptance of the vulnerability concept and the need for priority action to strengthen resilience provided the UNDP with a unique opportunity to develop a long-term partnership with SIDS in pursuit of sustainable development and the attainment of the Millennium Development Goals.

This book does not carry a special chapter on UNCTAD. However, chapter 4, authored by Pierre Encontre, gives ample examples of the role of UNCTAD in supporting SIDS, as mandated in Paragraph 127 of the BPoA. Encontre groups UNCTAD'S actions in a matrix with three main headings namely (1) support for SIDS members of the United Nations and of the WTO, (2) research and analysis related to the sustainable development of SIDS and (3) technical cooperation in the interest of SIDS.

The BPoA (paragraph 34) identifies the conclusions and recommendations of the FAO Interregional Conference of Small Island Countries on Sustainable Development and Environment in Agriculture, Forestry and Fisheries, held in Barbados from 7 to 10 April 1992 as the basis for action for the sustainable development of SIDS. The FAO enjoys a long history of partnership with SIDS. Since the launching of the Barbados Programme of Action in 1994, this organisation offered technical assistance to SIDS and implemented many regional and interregional projects.

Chapter 22 authored by Nadia Scialabba, argues that agriculture, fisheries and forestry have, for centuries, provided the main source of livelihood for the population of many small islands, and this sector still represents a major asset for SIDS. The chapter summarises the action taken by the FAO in favour of SIDS with regard to global trading environment, agriculture, fisheries, forestry, the environment in general, and capacity building.

UNESCO's contribution to sustainable living and development in small islands covers a wide range of topics and issues related to culture, natural and social sciences, environment and resource use, communication and education. Troost and Hadley (chapter 23) list a number of recent UNESCO initiatives aimed at taking advantage of modern information and communication technologies (such as community multimedia centres, Internet discussion forums) and at promoting dimensions of sustainable development and sustainable living that, according to the authors, were perhaps somewhat neglected in the 1994 Barbados Programme of Action including social cohesion, culture and education as well as cross-cutting emerging issues such as poverty, HIV/AIDS, youth and gender.

UNESCO is also involved in environment and natural resources issues, such as freshwater resources, sea-level rise, coastal and marine resources, biodiversity conservation, renewable energy, natural hazards and disasters. Underpinning this work is the building of bridges and networks of various kinds, through promoting effective collaboration through intersectoral, interregional and intergenerational cooperation. Though UNESCO's remit is not an economic one, progress in building cooperation across its fields of competence has important economic implications, including the strengthening of the economic resilience of small island states.

Other International Organisations

The Alliance of Small Island States (AOSIS) is a coalition of small island and low-lying coastal countries that share similar development challenges and concerns. AOSIS now has a membership of 43 states and observers, drawn from all oceans and regions of the world. Thirty-seven are members of the United Nations, which amounts to 20 percent of the UN's total membership. Together, SIDS communities constitute some five percent of the global population. In chapter 24 Jagdish Koonjul, who is the current chairman of AOSIS, summarises the role of this organisation in promoting the sustainable development of small island developing states, through high level negotiations on behalf of SIDS within the United Nations and its agencies, and through the organisation of meetings of experts on various areas of concern to SIDS, including climate change, energy, oceans and tourism.

The Commonwealth has 32 small states with a population of less than 1.5 million among its 53 members and has been a consistent advocate for these states, calling upon the international community to pay special attention to their needs. Since the mid-1980s, the Commonwealth Secretariat has made the needs of small states one of its highest priority concerns. Kisanga (chapter 25) refers to the Commonwealth Secretariat's success in forging partnerships with other international organisations, including in particular the World Bank, the UN and UNCTAD, in winning international recognition that small states are vulnerable and have special needs. A particularly successful joint venture is the setting up of the World Bank/Commonwealth Secretariat Task Force, which was instrumental in making recommendations on actions that the global community needs to take in assisting small states to tackle volatility and vulnerability, to undergo a transition to the changing global trade regime, to strengthen their capacity and to exploit new opportunities and challenges arising from globalisation. The chapter also highlights the key interest that Commonwealth Heads of Government have taken in advocating the need for the international community to grant small states special treatment to enable them to develop competitive economies.

In chapter 26, John Underwood explains how seriously the World Bank takes its role in support of small states. First, with regard to funding, the World Bank works to ensure that every developing member state has access to World Bank financial assistance, as long as that country's overall policy framework is adequate to support sustainable growth and poverty reduction. In that context, since 1985, the International Development Association (IDA), the concessional funding window of the World Bank, has accorded special access to small island economies whose per capita incomes are above the normal IDA eligibility cut-off. This special treatment recognises a set of circumstances—including export concentration, limited domestic markets, limited skill base, isolation, and vulnerability to natural disasters and other shocks—faced by these states.

Currently nine small island states qualify for this exception. Beyond this special access to resources for a set of small island economies, the World Bank stands ready to make available a wide variety of types of support to small states to help them build resilience. Examples of assistance include annual assessment of country policy and institutional performance, help with country-led donor coordination, trade-related support, disaster management and mitigation, and commodity risk analysis.

6. Conclusion

This publication therefore covers a wide range of issues associated with vulnerability and resilience of small states, ranging from methodological issues to practical action taken by the small states themselves and by international and regional organisations. In general, the chapters adopt a positive note in that, while admitting that small states are inherently economically vulnerable, their future need not be bleak if they take action to step up their economic resilience.

Many of the case-study chapters in this volume express the view that resilience building is first and foremost the responsibility of the respective small states themselves. There are a number of successful small states that have adopted appropriate policies to withstand or cope with their economic vulnerability, and these should serve as models for other small states.

However, resilience building in small states is costly per capita, mostly due to the overhead costs associated with capacity building, which cannot be spread over a large population. For this reason the support of the international donor community would, undoubtedly, improve the chances of resilience building in small states.

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