

Economic Vulnerability and Resilience of Small States

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Characteristics of Small States: High exposure to external economic shocks (economic vulnerability)

Very high degree of trade openness (high dependence on exports and imports).

High degree of export concentration (dependence on a few groups of exports).

Proneness to natural disasters, in a number of small island developing states

High degree of vulnerability to climate change, particularly sea-level rise, as well as high cost of adaptation.

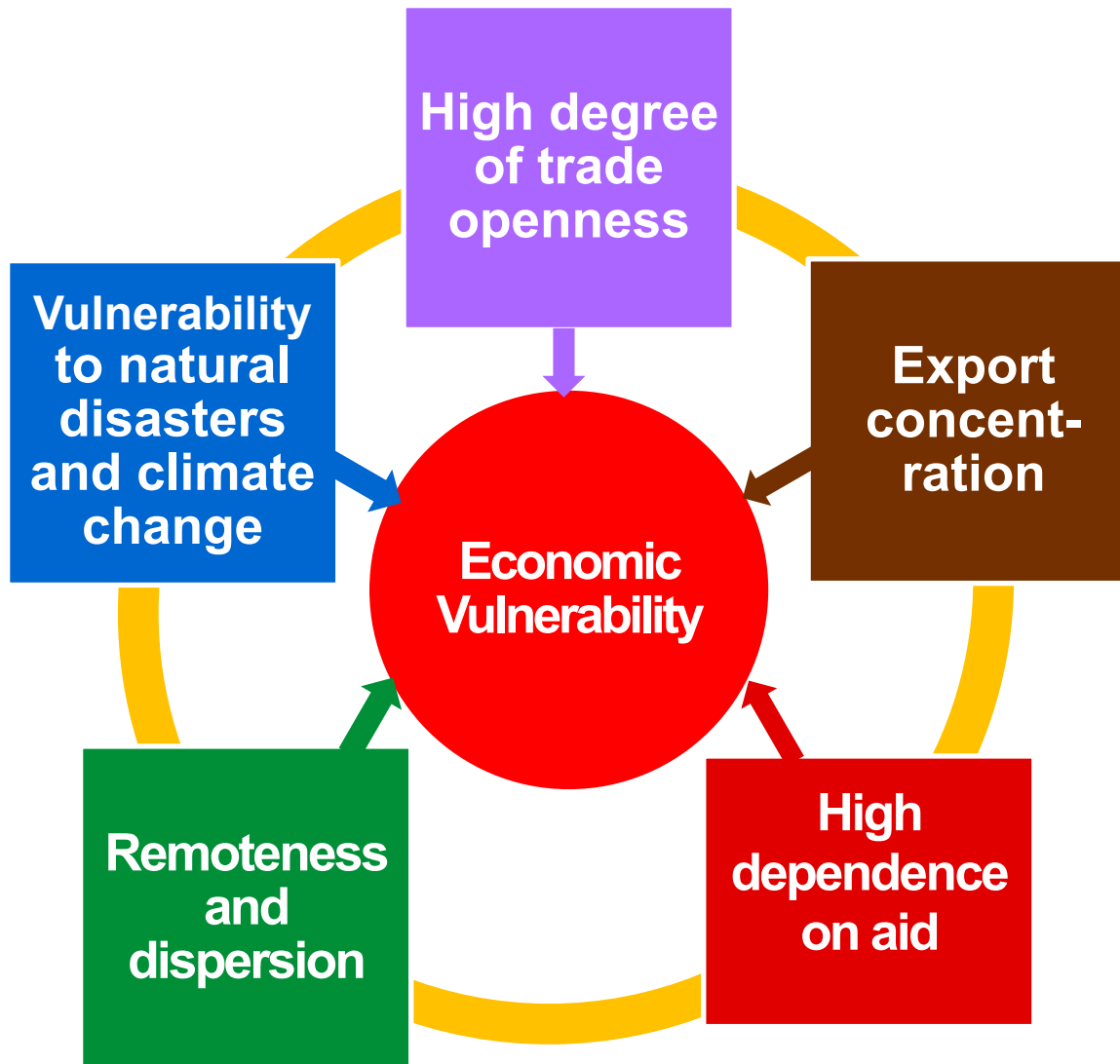
Other Characteristics of Pacific Island Countries (economic vulnerability)

Small island states that are also archipelagos, as is the case of most PICS face disadvantages associated with remoteness and dispersion.

PICS also tend to experience large structural trade deficits due to narrow production and export base

This leads to a high dependence on aid

Economic Vulnerability



Defining and Measuring Economic Resilience

The extent to which an economy can withstand or bounce back from the negative effects of external shocks

Ability of an economy to recover quickly following adverse shocks: **shock counteraction.**

Ability of an economy to withstand shocks: **shock absorption.**

The economic resilience index developed by Briguglio et al. (2006) was composed of: macroeconomic stability; market flexibility; good political governance; social development.

Methodological Framework

The framework shows that risk of being harmed by external economic shocks depends on:

- inherent economic vulnerability (nature); and
- policy-induced economic resilience (nurtured);

Increased risk (vulnerability): associated with inherent conditions that expose a country to external shocks, including trade openness, export concentration, as well as other factors such as proneness to natural disasters and climate change vulnerability.

Reduced risk (resilience): associated with policy-induced measures leading to economic stability, market flexibility, social development, good political governance and good environmental management.

Juxtaposing Vulnerability and Resilience

Riskiness =

Risk of being harmed by an external economic shock

Vulnerability
(adds to risk)

EXPOSURE

Inherent features of a country rendering it exposed to external shocks

Inherent Features

- Trade openness
- Export Concentration
- Dependence on aid
- Remoteness
- Disaster proneness

- Resilience
(reduces risk)

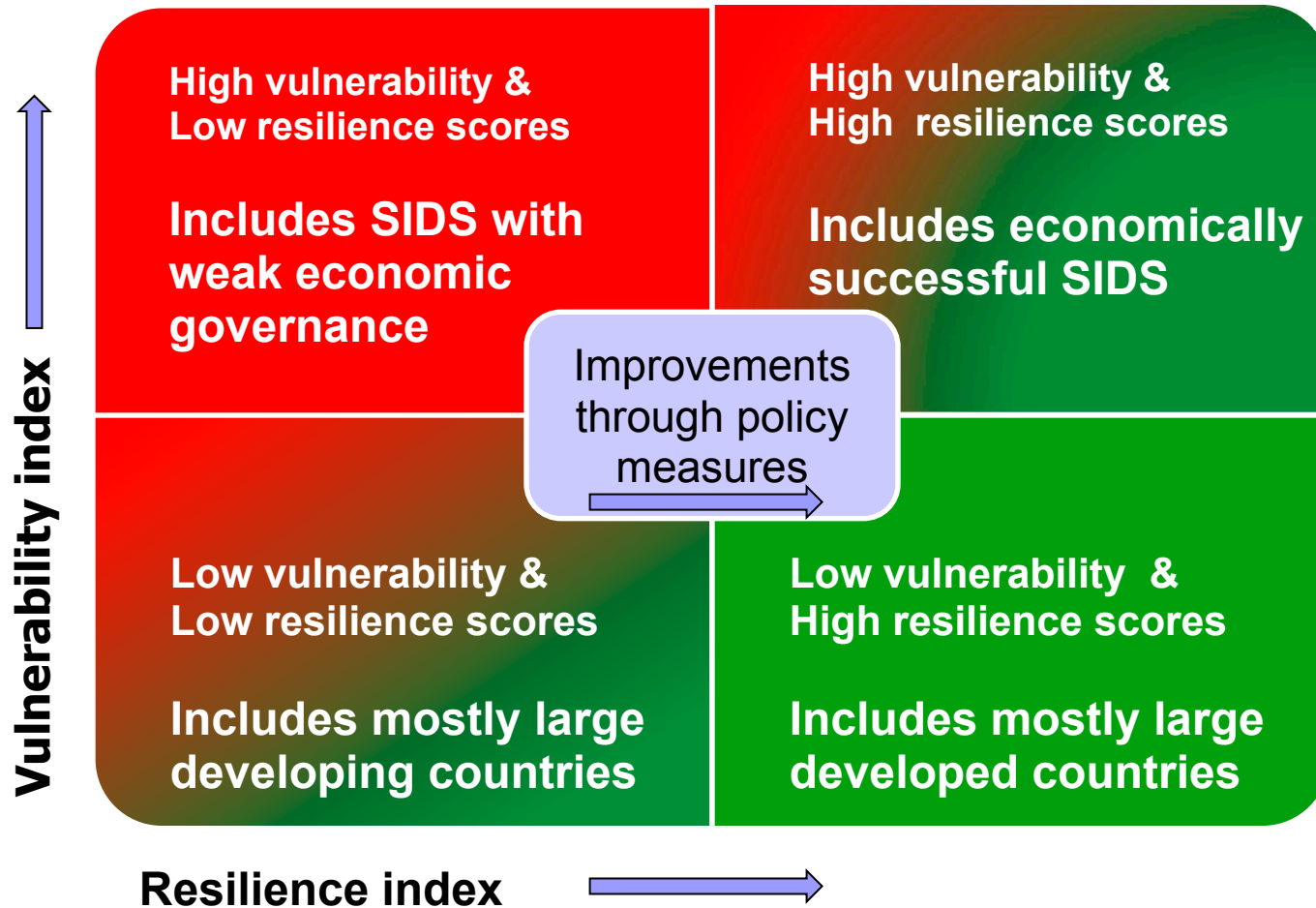
COPING ABILITY

Policy-induced measures that enable a country to withstand external shocks

Policy Measures

- Macroeconomic Stability
- Market response to shocks
- Good governance
- Good management
- Private sector development

FOUR COUNTRY SCENARIOS



Some examples

Mauritius is generally considered as a successful small island state. It is very economically vulnerable but its performance is considered the best in the African continent. It is basically market oriented and macro-economically stable. It faced serious economic challenges with the dismantling of preferences for the export of sugar to the EU, but it is diversifying its economy to meet this challenge

Malta, the country where I come from, is the smallest EU member state, but its economy is relatively well governed, and diversified. Its manufacturing sector is mostly high-end and its services are highly knowledge-based. It has one of the lowest unemployment rates in the EU

Some examples

Barbados is considered as the most economically successful small state in the Caribbean region. It is highly exposed to external shocks, but its governments have adopted measures to modernize the economy, with regard to taxation, competition law and policy, and private sector development.

SIDS that are not economically governed well, face a double disadvantage, in that the inherent economic vulnerability is exacerbated by policies that generate economic and social instability

Main Implications for the PICs

The economies of PICs are highly economically vulnerable - rendering them very exposed to external shocks.

For this reason it is important for these countries to adopt policy measures that strengthen their economic resilience.

SIDS, more than other groups of countries, need to have a resilient economy, due to their high degree of exposure to external shocks

Small island developing states can succeed economically, in spite of their high degree of economic vulnerability, if they adopt the right mix of policies good economic governance. The introduction of competition law and policy in some PICS, for example, is a step in the right direction.

Main Implications for the PICs

One of the weaknesses of many PICs is that the public sector dominates the economy directly or indirectly through state-owned enterprises. This situation tends to suffocate the private sector and discourage entrepreneurship.

In many successful small island states, the private sector provides the main thrust for economic growth.

It is important that PICs adopt effective policies to promote private sector development by, amongst other things, removing the various legal and other barriers in starting and expanding a business, so as to foster an entrepreneurial culture in the region.

Main Implications for Donors

SIDS, many of which are middle-income countries, sometimes cannot benefit from certain schemes, when these are based mainly on income per capita criterion, including schemes to alleviate the debt problem

For this reason, a vulnerability criterion should effectively be factored in when devising schemes to support SIDS

SIDS would benefit greatly when the support of donor countries and organisations are directed at enabling SIDS to enhance their resilience by improving their economic governance

Main Implications for Regional Organisations

Due mostly to the problem of indivisibility of certain overhead costs, certain regulatory frameworks, required for good economic governance, may be prohibitively expensive for a single small state on its own, but affordable regionally.

For this reason SIDS could benefit through regional cooperation by jointly undertaking strategies and measures and conducive to resilience building.

Such cooperation could, for example, be successfully undertaken in putting in place competition law and policy, telecommunications regulations, air and shipping services, tourism strategies, and pooling of expertise for various purposes, as is already to an extent being done in international negotiations.

**THANK YOU
FOR YOUR ATTENTION**