



ECONOMIC VULNERABILITY AND ECONOMIC RESILIENCE OF SMALL ISLAND DEVELOPING STATES

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1. Introduction

The Importance of Resilience Building in SIDS

The presentation shows that small island developing states (SIDS) tend to be highly exposed to external economic shocks because of their inherent characteristics, mostly associated with trade openness.

Many SIDS face additional economic disadvantages associated with high limited ability to enjoy the benefits of economies of scale. They also tend to face high international transport costs and uncertainties relating to the delivery of industrial supplies due to insularity and remoteness. Some small island states are also highly prone to natural disasters. In addition, many small island states are also archipelagos, made up of dispersed islands, leading to administrative difficulties.

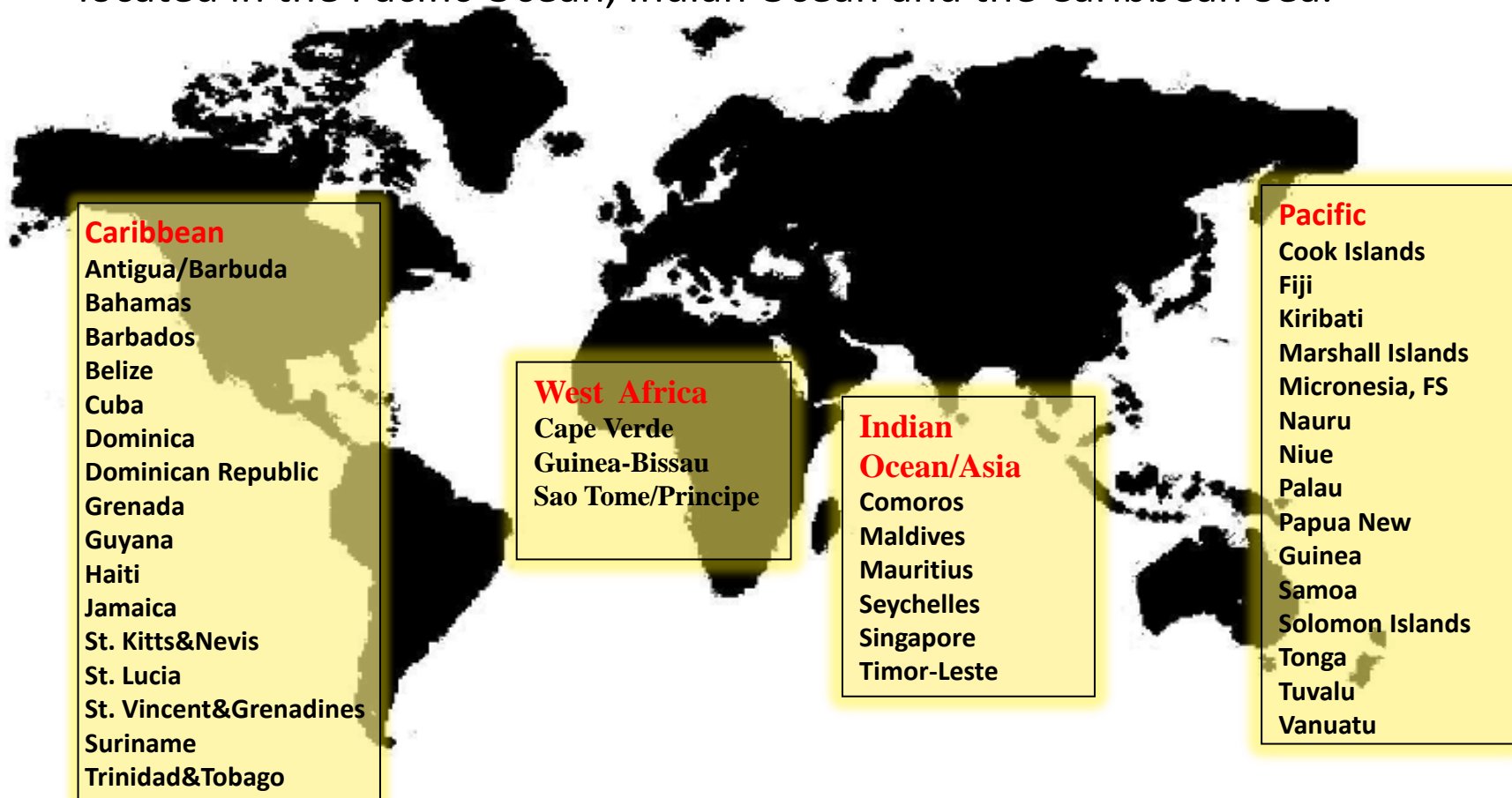
Summary of the presentation

However, these constraints and disadvantages should not be construed as an argument for complacency on the part of small island states because a number of policy options are open to them – options which could enable these states to build their economic resilience so as to minimise the negative effects of economic shocks.

The major messages of this presentation are that (i) economic resilience building is multifaceted, involving economic, social, political and environmental governance policies (ii) SIDS should assign major importance to resilience-building policies and should embed such policies into their national plans and strategies, and (iii) multilateral and bilateral donors should effectively factor in vulnerability criterion in their schemes to support SIDS.

Location of SIDS, members of AOSIS

Most SIDS, members of the Alliance of Small Island States (AOSIS) are located in the Pacific Ocean, Indian Ocean and the Caribbean Sea.



2. Economic Vulnerability

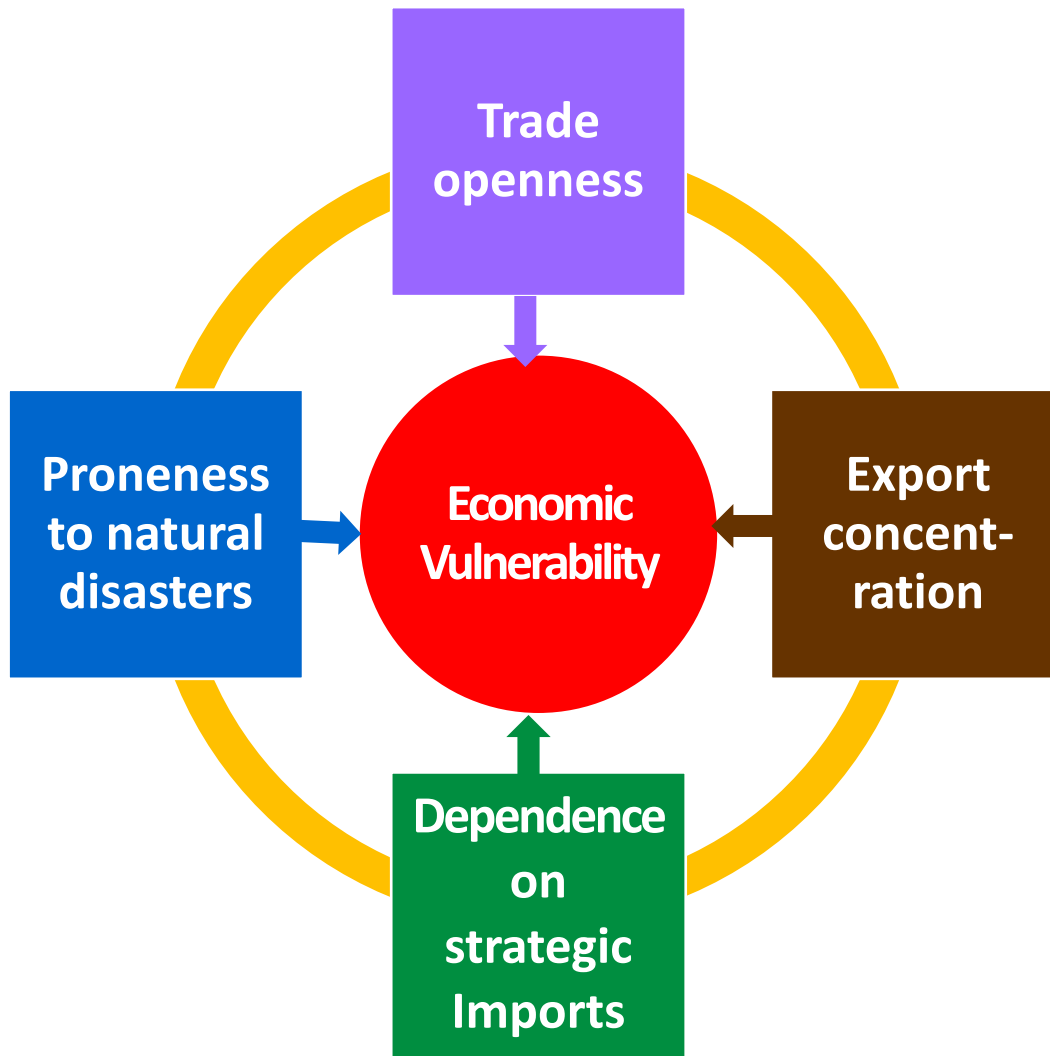
Inherent Economic Vulnerability

The present author associates economic vulnerability with high exposure to economic shocks (Briguglio, 2014)*, due to:

- High degree of **trade openness** (dependence on exports and imports) rendering an economy highly exposed to shocks.
- High degree of **export concentration** (dependence on a few categories of exports) exacerbating exposure to shocks.
- High **dependence on strategic imports**, including food and fuel, highly price and income inelastic (due to lack of natural resource endowments) also exacerbating exposure to shocks.
- **Proneness to natural disasters**, leading to economic shocks and exacerbating the effects of external shocks

- Briguglio, L. (2014). "A Vulnerability and Resilience Framework for Small States" In Bynoe, D. (Ed) *Building the Resilience of Small States - A Revised Framework*. Commonwealth Secretariat, London.
- Briguglio (2014) built on an earlier study by Briguglio, L., Cordina, G., Farrugia, N, and Vella, S. (2009). "Economic vulnerability and resilience: concepts and measurements," *Oxford Development Studies* Vol. 37 (3), 229-247, ...

Components of the Economic Vulnerability Index

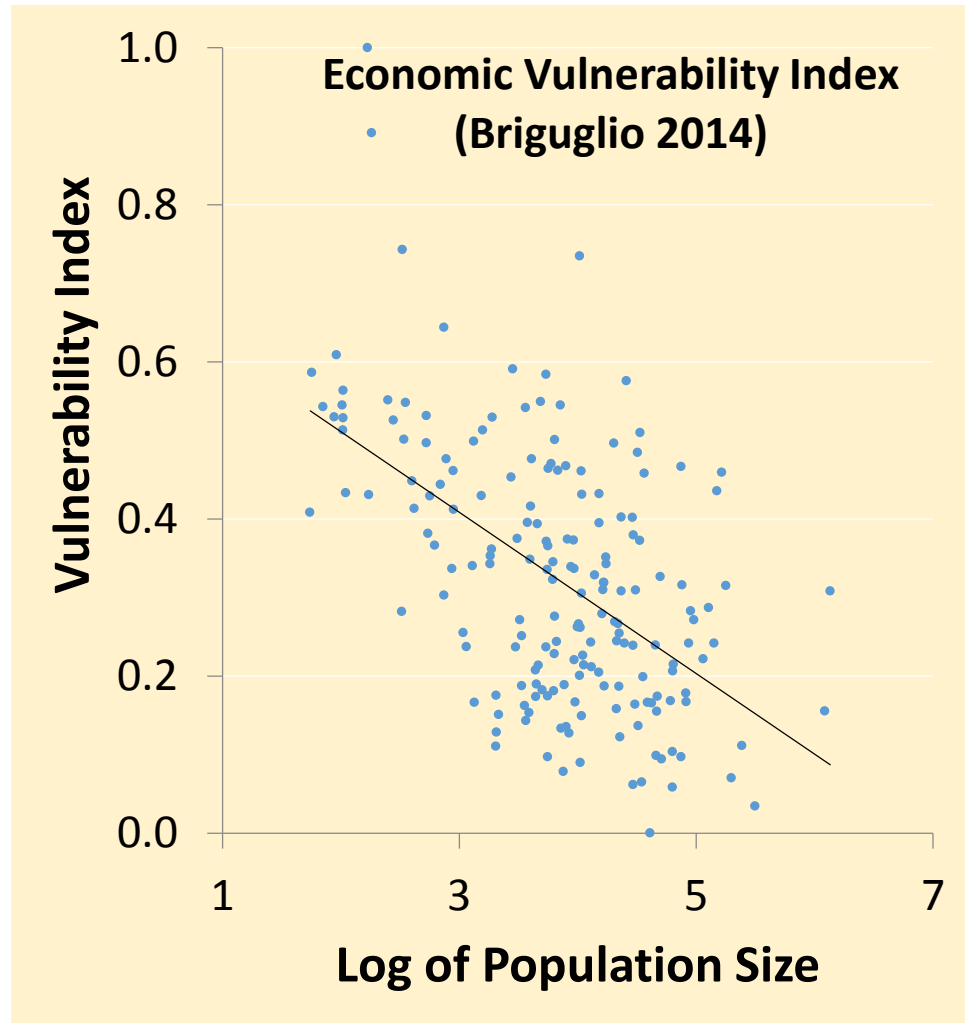


The present author (Briguglio, 2014) constructed an economic vulnerability index composed of four components shown in this diagram

SIDS are highly economically vulnerable

The diagram on the right shows the **Economic Vulnerability Index**, re-scaled from 0 to 1 (as calculated by the present author) and its relation to country size.

Vulnerability indices of the type constructed by the present author generally conclude that small states, especially island ones, tend to be more economically vulnerable than other groups of countries.



3. Economic Resilience

Policy Measures that lead to Economic Resilience

The present author associates economic resilience with policy-induced measures that enable a country to withstand or cope with the effects of high exposure to economic shocks (Briguglio, 2014).

These measures are conducive to:

- **Macroeconomic stability**, which allows policy manoeuvre following an external shocks.
- **Market flexibility** (without excessive financial riskiness) enabling the economy to adjust following external shocks.
- **Good political governance**, which is essential for an economic system to function properly.
- **Social development and cohesion**, which enable the economy to function without the hindrance of civil unrest.
- **Environmental management**, which generates stability through enforceable rules, economic instruments and moral suasion.

Components of the Economic Resilience Index

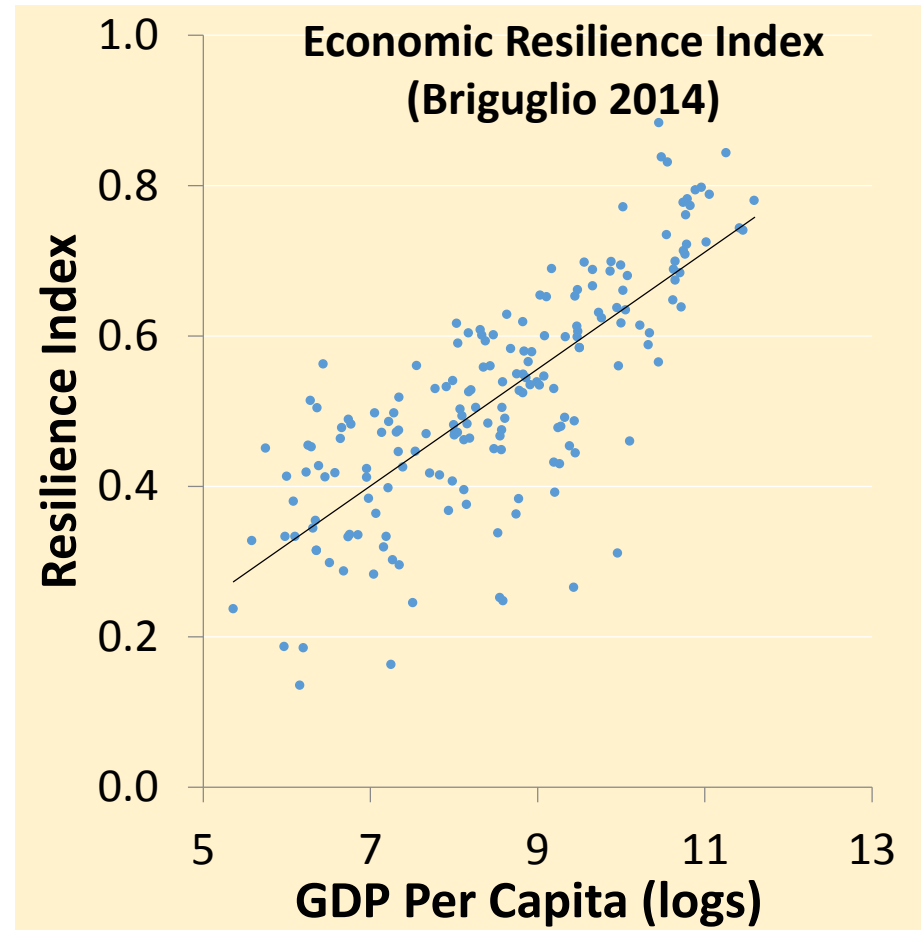


The present author (Briguglio, 2014) constructed an economic resilience index composed of five components shown in this diagram

Economic Resilience is related to GDP¹⁴ per Capita

The diagram on the right shows the **Economic Resilience Index** rescaled from 0 to 1 (as calculated by the present author) and its relation to GDP per capita. It can be seen that economic resilience is highly related to GDP per capita.

The resilience scores are not related to country size, meaning that small as well as large countries can register high scores.



4. The Vulnerability/Resilience Framework

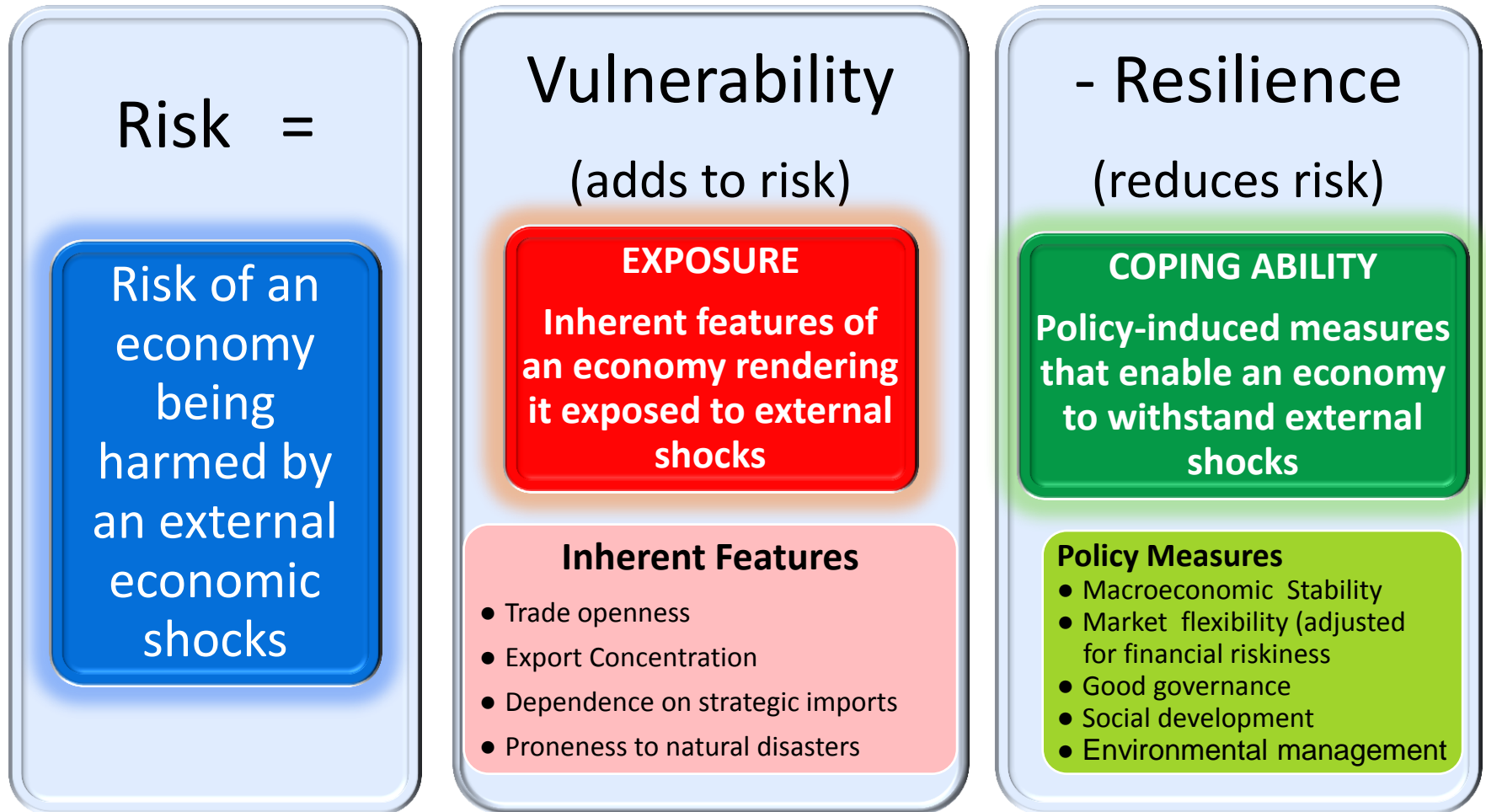
Risk of an economy being harmed by external shocks

The vulnerability/resilience framework proposed in Briguglio (2014) (shown in the next diagram) deals with the risk of an economy being harmed by external economic shocks.

In brief: **RISK OF HARM = + VULNERABILITY - RESILIENCE**

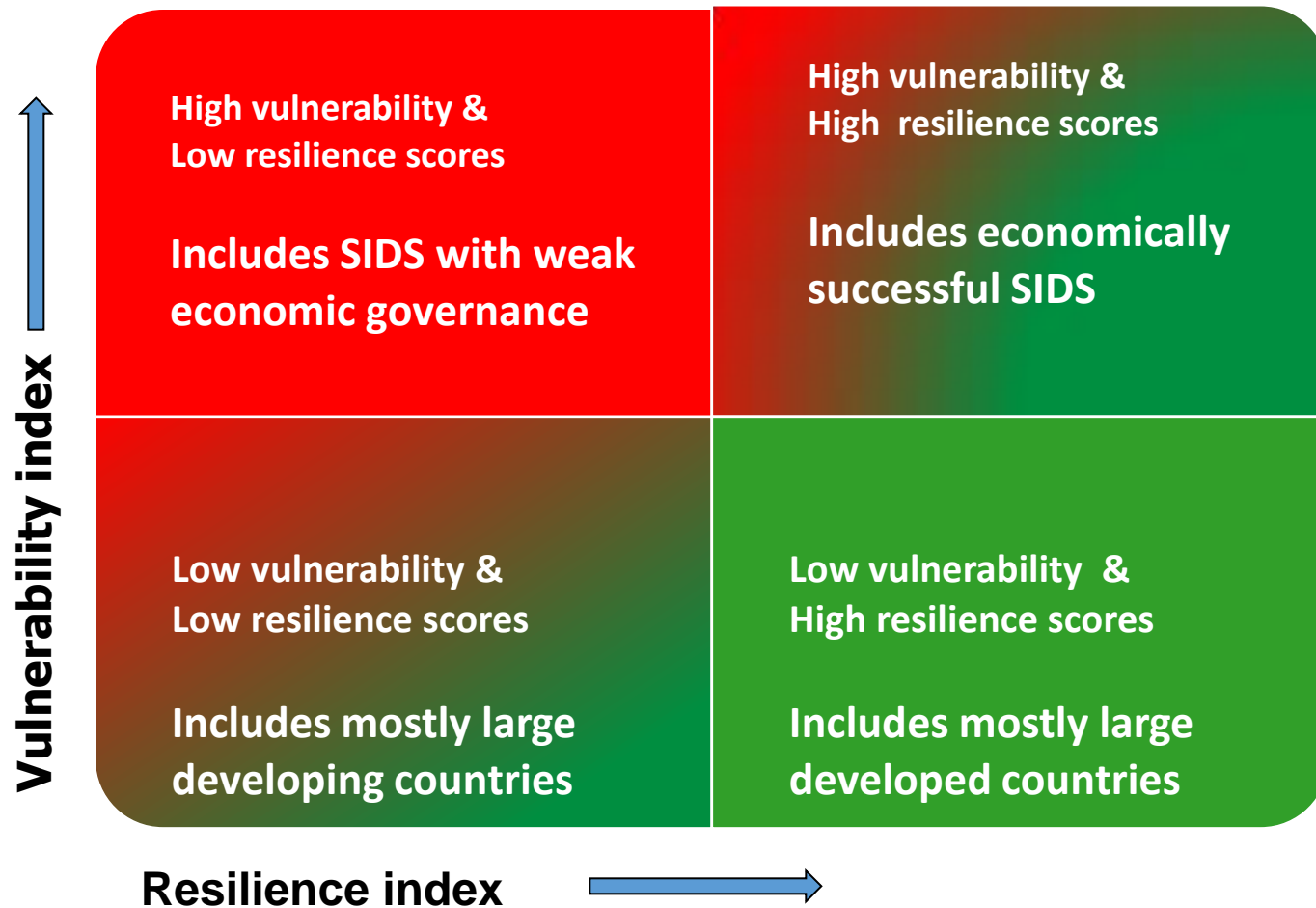
- **Increased risk** (vulnerability): This is associated with inherent conditions that expose a country to shocks, including trade openness, dependence on strategic imports, export concentration.
- **Reduced risk** (resilience): This is associated with policy-induced measures leading to economic stability, market flexibility, social development, good political governance

The Framework



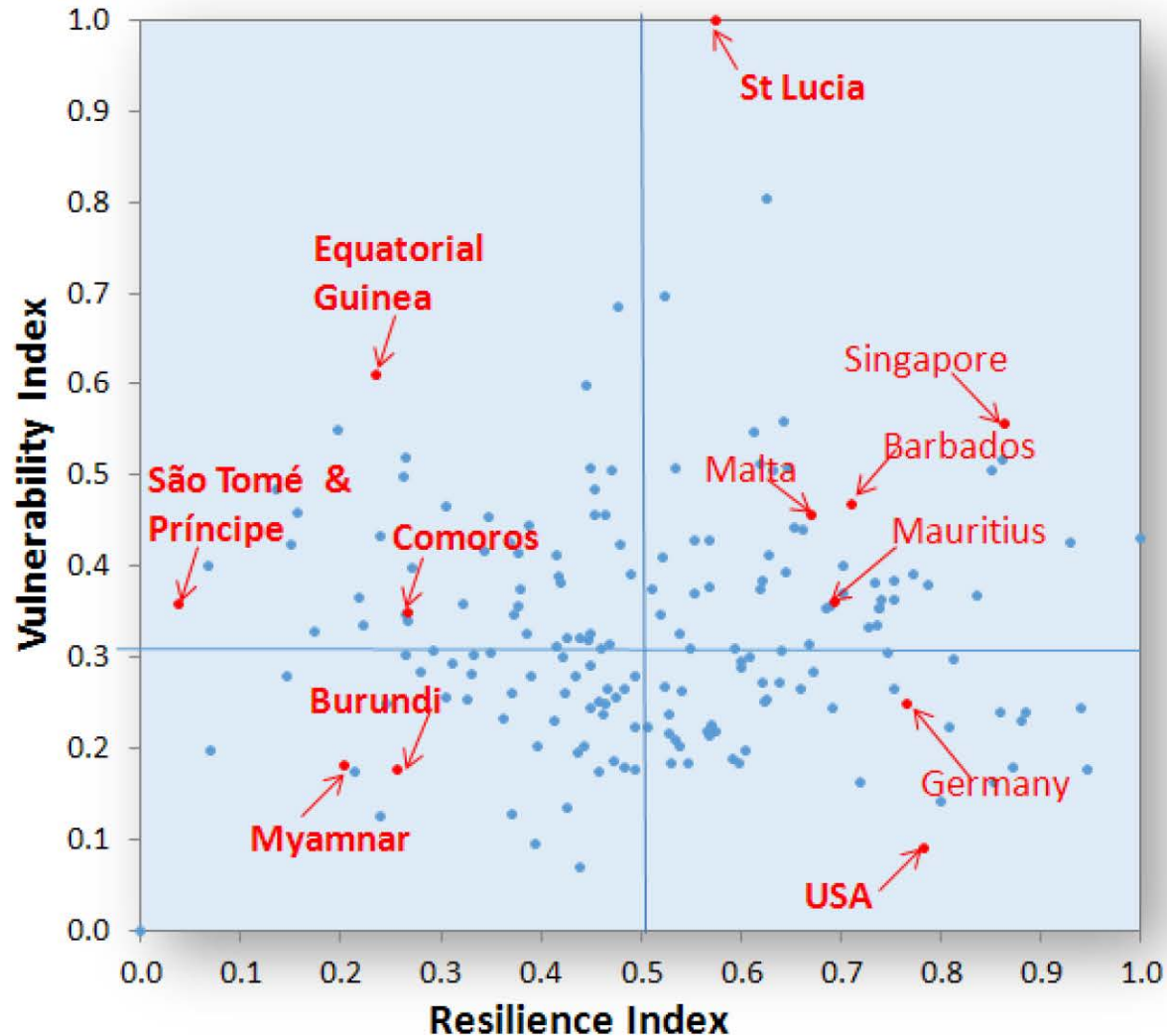
4. The Vulnerability/Resilience Framework

Four country scenarios



4. The Vulnerability/Resilience Framework

Some results from the 2014 study



Overall tendencies relating to the V&R framework

Best- case scenario

- **Low vulnerability scores**
- **High resilience scores**
- Includes mostly large developed countries

Self-made scenario

- **High vulnerability scores**
- **High resilience scores**
- Includes a number of small island states (such as Malta, Mauritius, Barbados, Singapore)

Prodigal-son scenario

- **Low vulnerability scores**
- **Low resilience scores**
- Includes mostly large developing countries

Worst-case scenario

- **High vulnerability scores**
- **Low resilience scores**
- Includes small island states with weak economic governance

Some Examples

- **Mauritius** is generally considered 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 the present author 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 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.
- **Singapore**, which is highly exposed to external shocks due to its high dependence on international trade (the highest in the world) is one of the best economically governed economy world-wide. Hence the term “Singapore paradox” .
- SIDS that are not economically governed well, face a double disadvantage, in that their inherent economic vulnerability is exacerbated by policies that generate economic and social instability. That is why such states are labelled “worst case”.

5. Implications of the Framework

Embedding resilience in development strategies

- The economies of SIDS are highly economically vulnerable - rendering them very exposed to external shocks. SIDS, more than other groups of countries, need to have a resilient economy, due to their high degree of exposure to such shocks. Resilience building helps these countries to reduce or withstand the harmful of such shocks.
- For this reason it is important for these countries to adopt policy measures that strengthen their economic resilience. It therefore follows that it pays SIDS to **embed resilience building measures** in their plans and strategies, to promote macroeconomic stability, market flexibility and good social and environmental governance.

SIDS' economic resilience attracts investment

- Another implication relates to the attraction of investment in SIDS which tend to be disadvantaged with regard to investment attraction due to their small domestic markets and poor natural resources endowments. Good economic governance could make up for these inherent deficiencies.
- An important implication of the present study is that environmental management is a pillar of economic resilience building and therefore, as a strategic direction, at the Third SIDS Global Conference to be held in Samoa, the governments of SIDS should assign major importance to environmental governance in order to strengthen their resilience.

A vulnerability criterion for ODA

- SIDS sometimes cannot benefit from certain ODA schemes, when these are based mainly on the income per capita considerations. The reason for this is that most SIDS are middle-income countries. 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.

Regional cooperation to generate critical mass

- Due mostly to the problem of indivisibility of certain overhead costs, certain regulatory frameworks necessary for good economic governance may be prohibitively expensive for a single small state on its own, but affordable regionally. For this reason, SIDS would benefit through regional cooperation by jointly undertaking policy-measures 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, and pooling of expertise for various purposes.

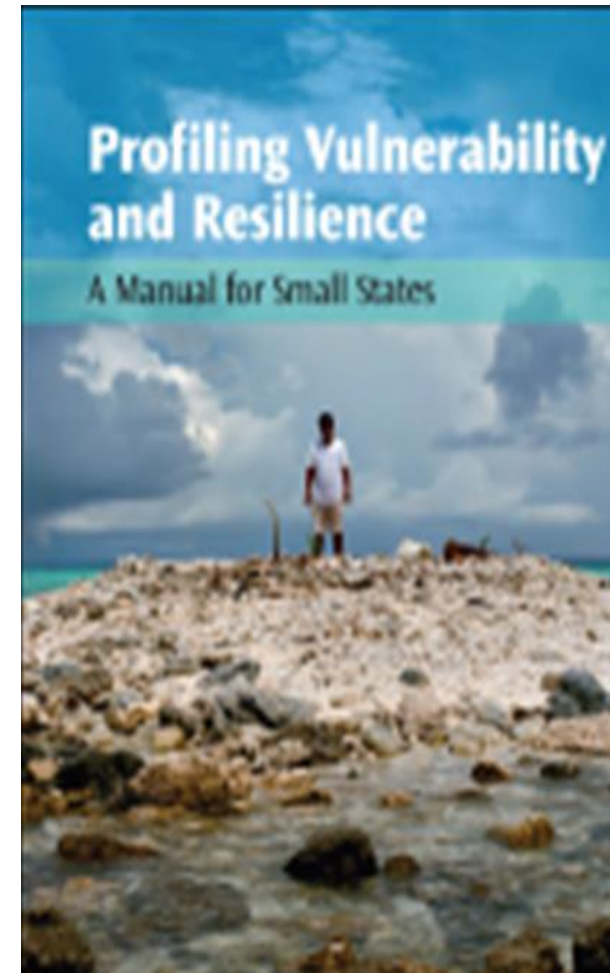
6. Use of the V&R Framework

Practical profiling

The V&R framework proposed by the present author, in collaboration with other researchers at the University of Malta, was utilised by the Commonwealth Secretariat to conduct vulnerability and resilience profiling

The Commonwealth Secretariat in collaboration with the University of Malta, also developed a manual for the practical implementation of a vulnerability/resilience profiling of SIDS.

<http://publications.thecommonwealth.org/Uploaded/Products/ProductInfoPDF/Profiling%20Economic%20Vulnerability%20and%20>



Three profiling exercises

- On the basis of this practical approach three profiling exercises were carried out in St Lucia in April 2008, in the Seychelles in June 2008, and Vanuatu in March 2009.
- These profiling exercises were fully supported by the governments of these three small island states and considerable qualitative information, not generally available in international databases, was obtained from public officials and from civil society in these three countries.
- The results of these profiling exercises were published in a 2010 book by the Commonwealth Secretariat “Profiling Economic Vulnerability and Resilience: A Manual for Small States”

Practical steps in profiling: three facets

The practical profiling exercises were based on three pillars:

- **Assessment of the causes of economic vulnerability.** This facet of the profile relates to the underlying causes of vulnerability and is aimed at identifying inherent fundamental conditions which render a country exposed to external shocks
- **Assessment of the sources of economic resilience.** This facet of the profile aims to highlight the strengths and weaknesses within the policy formulation milieu of a country, leading to economic resilience building.
- **Assessment of the juxtaposition of vulnerability and resilience.** This facet relates to the manifestation of vulnerability and resilience taken together, so as to determine whether a country is able to withstand or counteract the harm arising from external shocks.

Various references to the V&R framework

There were various references and citations relating to the V&R framework developed by the present author and his research associates at the University of Malta.

- The V&R framework was referred to in the report of the UN Secretary-General, on the occasion of the five-year review of the Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States.

http://www.un.org/ga/search/view_doc.asp?symbol=A/65/115, Footnote 17.

- ESCAP, ADB and UNDP in their report *Achieving the Millennium Development Goals in an era of global uncertainty - Asia-Pacific Regional Report 2009/10* acknowledged that their approach was inspired by the work of Briguglio et al. (2009).

http://content.undp.org/go/cms-service/stream/asset/?asset_id=2269033

Various references to the V&R framework

- UNDESA, in preparation for the Third International Conference on SIDS in Samoa in 2014, embarked on developing a vulnerability-resilience framework, similar to the approach pioneered by Briguglio et al. (2009).
<http://www.sids2014.org/content/documents/260attrdlu7.pdf>
- The IMF, in its various publications on small states refers to the work by Briguglio et al. (2009) on the resilience of SIDS... e.g. “Macroeconomic issues in small states and implications for fund engagement,” available at:
<https://www.imf.org/external/np/pp/eng/2013/022013.pdf>.

7. Concluding Remarks

Main message of this presentation

- The main message of this presentation is that the fact that SIDS tend to be highly economically vulnerable should not be construed as an argument for complacency on the part of SIDS because a number of policy options are available to these states, possibly enabling them to minimise the harmful effects of external economic shocks.
- Resilience building requires appropriate policy frameworks which in their totality are conducive to good economic governance. The most economically successful small states are those that assign importance to the pursuit of macroeconomic stability and market flexibility, supported by good political, social and environmental governance.

Main message of this presentation

- Good economic governance requires appropriate institutional frameworks, which in small states, involve considerable overhead costs, and therefore likely to be highly costly per capita for SIDS.
- The international donor community, in supporting the economic development of SIDS, should take cognizance of these states' high degree of economic vulnerability and assign major importance to reinforcing resilience building, so as to enable these states to strengthen their ability to withstand and cope with economic shocks.

The end
Thank you for your attention

