

# RESILIENCE BUILDING IN VULNERABLE SMALL STATES

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## 1. Introduction

Small states are characterised by their very high degree of economic openness, export concentration and dependence on strategic imports, such as fuel and food. These factors are associated with economic vulnerability, as they render a country highly exposed to the harmful effects of external shocks.<sup>1</sup>

In spite of such exposure, many small states register relatively high rates of GDP per capita. Briguglio (2004) has termed this reality “the Singapore paradox” referring to the possibility that a very vulnerable small country could actually be very successful economically. The present article argues that such a seeming contradiction can be explained by the juxtaposition of economic vulnerability and economic resilience.

## 2. Economic Vulnerability

The meaning of the word “vulnerability” originates from its Latin root *vulnerare*, meaning “to wound”. This etymology associates the word with exposure to damage or harm and with precariousness. When applied to the macro-economy, this term is generally used to refer to the country’s susceptibility to being harmed by external forces as a result of exposure to such forces. A number of vulnerability indices were constructed (Briguglio, 1995, 1997, 2014; Crowards, 2000; Atkins et al., 2000, Briguglio and Galea, 2003, UNDESA, 2011).<sup>2</sup> In the vulnerability indices proposed by the present author, vulnerability was defined in terms of inherent features which render countries exposed to external shocks, including high degrees of trade openness, exacerbated by high degrees of export concentration and dependence on strategic imports.

A common conclusion that emerges from most economic vulnerability indices is that small states, particularly island ones, tend to be more inherently economically vulnerable than other groups of countries, and this in spite of the differences in the components and the approaches utilised. In the literature, therefore, there is a high degree of consensus in this regard. Cordina (2008) shows that seven out of the eight vulnerability indices that he reviewed had statistically significant positive correlation coefficients between country size and vulnerability scores, implying that in general, the indexes tend to agree that small countries are more economically vulnerable than larger ones.

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<sup>1</sup> There are other characteristics of small states that pose economic disadvantages but do not lead directly to economic exposure to external economic forces. These include limited ability to exploit economies of scale—mostly due to overhead-cost indivisibilities associated with small-scale operations—as well as limitations on the effectiveness of domestic competition policy, due to the ease with which a small market can be monopolised or dominated by a few firms. In the case of small states which are also islands, there are additional economic disadvantages, associated with insularity and remoteness, proneness to natural disasters and vulnerability to climate change.

<sup>2</sup> Gonzales (2000) points out with regard to the various vulnerability classifications that, “While small developing states on average emerge as being comparatively vulnerable, rankings of individual countries can differ substantially between alternative indices.”

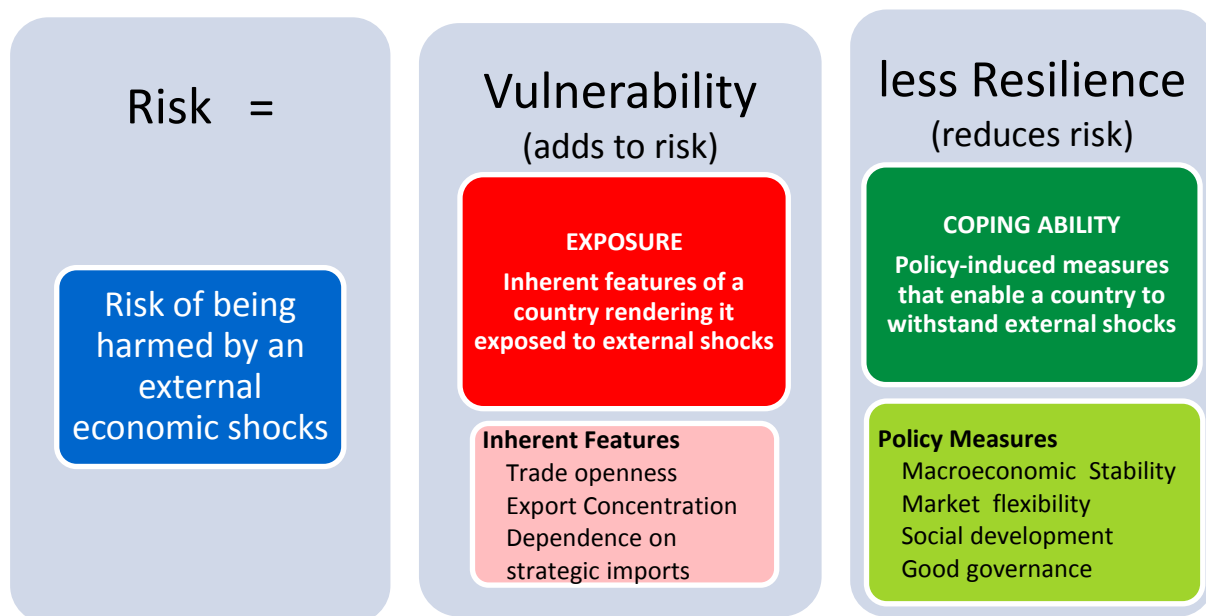
### 3. Economic Resilience

The word “resilience” originates from its Latin roots *resilire* meaning to rise again. Economic resilience has been defined by Briguglio et al. (2006) as the ability of an economy to withstand or bounce back from the negative effects of external shocks, and the authors associated such ability with policy measures. Guided by this definition, Briguglio et al. constructed a resilience index consisting of four components, namely (a) macroeconomic stability (b) market efficiency (c) social development and (d) good political governance.<sup>3</sup> These variables are to a large extent influenced by policy, and are associated with the ability of an economy to absorb or counteract the harmful effects of external shocks. In general the authors found that the 86 countries covered by the index exhibited a wide range of resilience scores, with high-income countries generally ranking higher in this regard than middle- and low-income countries. This tendency was confirmed in Briguglio (2014).

### 4. Juxtaposing Vulnerability and Resilience

According to Briguglio et al. (2006) the juxtaposition of vulnerability and resilience would indicate the overall risk of an economy being harmed by external shocks, as explained in Figure 1. The figure shows that such risk increases with economic vulnerability and decreases with economic resilience. A major implication of the vulnerability/ resilience framework is that small states can succeed economically in spite of their economic vulnerability if they adopt policies conducive to good economic, social, political and environmental governance.

**Figure 1: Risk of being harmed by external economic shocks**

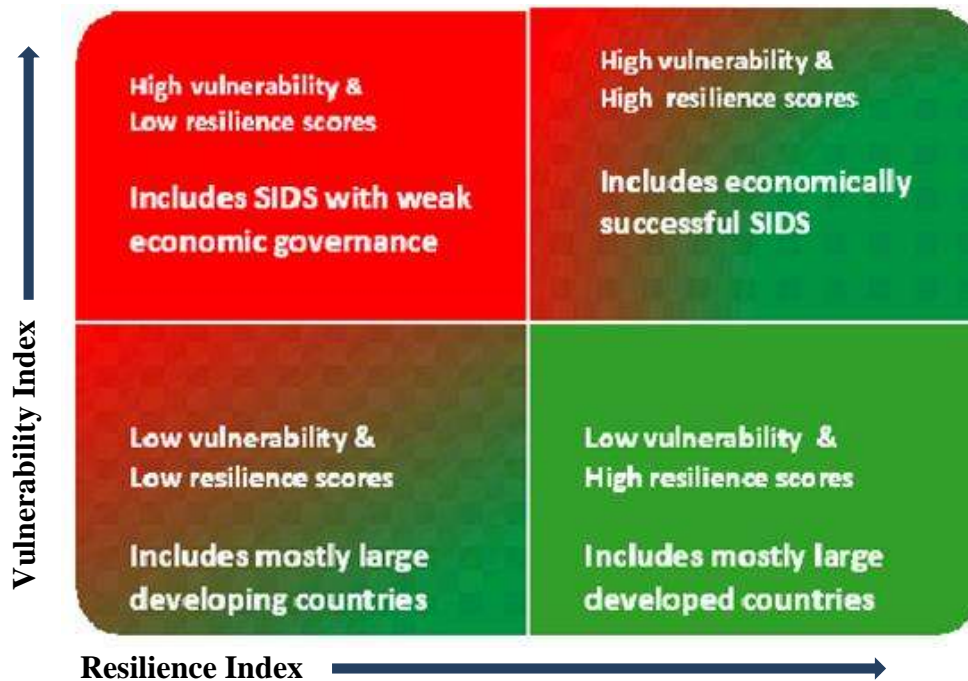


Briguglio et al. (2006), using this framework and the vulnerability and resilience indices constructed by the same authors, classified 86 countries into 4 categories, as shown in Figure

<sup>3</sup> Briguglio et al. (2006) also identified environmental management as a possible component of their resilience index, but did not include such a component due to lack of relevant data.

2. The results indicated that (a) countries with high resilience and low vulnerability scores are mostly large developed countries with relatively good economic governance (b) countries with low resilience and vulnerability scores are mostly large developing countries with relatively weak economic governance (c) countries with high vulnerability and resilience scores are mostly small states with relatively good economic governance and (d) countries with relatively high vulnerability and relatively low resilience scores include many small states with relatively weak economic governance. These general tendencies were confirmed in Briguglio (2014), where 183 countries were covered.

**Figure 2: The Vulnerability/Resilience Nexus**



Given that vulnerability refers to inherent characteristics that render countries prone to external shocks, vulnerability scores for a particular country should not differ much over time, and therefore it is not expected that a country will move vertically along the quadrants of Figure 2, but horizontal movement from the left to the right quadrant is possible for those countries that adopt measures which build resilience.

According to Briguglio et al., this method of defining vulnerability in terms of inherent features and defining resilience in terms of policy-induced changes has a number of advantages. First, the vulnerability index would refer to permanent (or quasi-permanent) features over which a country can practically exercise no control and therefore cannot be attributed to inadequate policies. In other words, countries scoring highly on the index cannot be accused of self-inflicting vulnerability through misguided policy approaches. Second, the resilience index would refer to what a country can do to mitigate or exacerbate its inherent vulnerability. Third, the combination of the two indices would indicate the overall risk of being harmed by external shocks due to inherent vulnerability features counterbalanced to different extents by policy measures.

## 5. Implications of the Vulnerability/Resilience Framework

The vulnerability/resilience framework just described may be useful to support decision-making in small states, especially for setting directions and justifying choice of priorities for resilience building. In particular, the analysis could help to disseminate information on and draw attention to issues relating to resilience building, encourage quantitative estimation of resilience-building and promote the idea of integrated action in this regard. In general, the framework can foster a better understanding of the benefits of good political, economic, social and environmental governance in a country's pursuit of withstanding external economic shocks. The vulnerability/resilience framework developed by Briguglio et al. (2006) has inspired various studies and applied work on the subject.<sup>4</sup>

A major policy implication associated with this framework is that in view of the high degree of economic vulnerability of small states, resilience building is of major importance for these states and it therefore follows that it pays these states to embed resilience building measures in their plans and strategies, by, amongst other things, promoting macroeconomic stability and market flexibility, while at the same time taking care not to take excessive risk. Embedding resilience in national plans and strategies also requires social development, environmental management and good political governance.

The framework has additional implications regarding the attraction of investment in small states, given that everything else remaining equal, in a country that is well-governed economically and enjoying political and social stability, domestic and foreign investments are more likely to be attracted, when compared to a badly governed and socially unstable country. Small states tend to be disadvantaged with regard to investment attraction due to their small domestic markets and poor natural resources endowments—however good economic governance could to an extent make up for these inherent deficiencies.

## 6. CONCLUSION

The main message of this article is that the fact that small states tend to be economically vulnerable should not be construed as an argument for complacency on the part of these states. There are a number of resilience-building policy options which could enable these states to minimise or withstand the negative effects of external economic shocks. This, in

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<sup>4</sup> The vulnerability/resilience framework proposed in Briguglio et al. (2006) did generate considerable interest among small states and international organisations working in the interests of small states. This framework was used by the Commonwealth Secretariat to conduct vulnerability/resilience profiling on the ground in three small island states, namely Seychelles, St Lucia and Vanuatu, as explained in the book by Briguglio et al. (2010). The V&R framework was also referred to in the report of the UN Secretary-General Available at: [http://www.un.org/ga/search/view\\_doc.asp?symbol=A/65/115](http://www.un.org/ga/search/view_doc.asp?symbol=A/65/115), Footnote 17) 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. ESCAP et al. (2010) sought to assess the impact of the global financial crisis by developing a vulnerability index, which is a composite indicator that measures a country's exposure to the global economic crisis and the country's coping capacity to mitigate the crisis. In Appendix 3 of their report, ESCAP et al. acknowledge that their approach was inspired by the work of Briguglio et al. (2006). UNDESA, in preparation for the Third International Conference on SIDS in Samoa in 2014, has also embarked on developing a vulnerability-resilience framework by building on the approach pioneered by Briguglio et al. (information available at: <http://www.sids2014.org/content/documents/260atrrdlu7.pdf>).

turn, entails that small states should assign major importance to resilience-building policies, and possibly embed such policies into their national plans and strategies.

This message is also relevant for the donor community in their quest to support the economic development of small states. Given that these states tend to be highly economically vulnerable, ODA and other forms of aid should include resilience-building as an important motive of such support.

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