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ECONOMIC VULNERABILITY OF SMALL ISLAND DEVELOPING STATES: THE UNITED NATIONS APPROACH[1]

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Abstract. In the recent history of the triennial review by the United Nations of the list of Least Developed Countries (1997, 2000, 2003), the issue of economic vulnerability was central to the conceptual and methodological debate underlying the review. Economic vulnerability is a key issue with regard to the graduation from Least Developed Country status. It is of immediate importance for three Small Island Developing States (SIDS), namely Cape Verde, Maldives and Samoa, and of potential importance to two other SIDS, namely Kiribati and Vanuatu. The chapter examines the importance that has been given, or ought to be given, to the criterion of economic vulnerability in the treatment of potentially graduating countries. While some take the view that vulnerability is neither less nor more important than the other criteria for determining the list of LDCs, others argue that economic vulnerability should be regarded as a paramount criterion, and that this should have operational implications for the graduation rule.

1. Introduction

The notion of economic vulnerability is not new to the debate on growth and stability in developing countries. When the Least Developed Country (LDC) denomination was established in 1971, the vulnerability of poor and structurally handicapped countries was recognised, under the auspices of UNCTAD, in the advocacy of special treatment for the LDCs. In the early 1990s, the idea of measuring the extent and various dimensions of economic vulnerability came to fruition, with pioneer work by UNCTAD, in 1992, to explore the feasibility of constructing an index of vulnerability (UNCTAD, 1992). In 1994, the Programme of Action for the Sustainable Development of Small Island Developing States (SIDS) called for the adoption of a

[1] This chapter is an adapted and updated version of a paper submitted to an expert group meeting on the Least Developed Countries at the Economic and Social Commission for Asia and the Pacific (ESCAP) in Bangkok, on 22 October 2003.

vulnerability index, a tool that was expected to demonstrate that SIDS were generally more vulnerable than other countries. At that point in time, however, the recognition of vulnerable economies had not yet led to the construction of any internationally accepted indicator, let alone to the adoption of vulnerability as an operational criterion for classifying countries.

It was not until 1997, a year of review of the list of LDCs by the United Nations (UN), that the notion of economic vulnerability became a central element of the reflection on the treatment of these countries. In that year, Vanuatu was found eligible for immediate graduation from LDC status. However, the General Assembly, in its resolution 52/210 of 18 December 1997, withheld the recommendation to graduate Vanuatu, and called for an assessment of the usefulness of a vulnerability index as a criterion for identifying the LDCs. This call was made in response to the issues that had been raised by Vanuatu in the context of its qualification for graduation, in particular, through an intervention of Vanuatu's Prime Minister in the General Assembly on 7 October 1997. In turn, the Economic and Social Council (ECOSOC), at its substantive session of 1998, while deciding "to postpone its consideration of the graduation of Vanuatu", requested the Committee for Development Planning to assess the usefulness of such an index, and to consider "the work of all relevant international agencies on the vulnerability of small states".[2]

Vanuatu ceased to qualify for graduation in 2000 as a result of deterioration in its score under the quality of life criterion. However, the Committee for Development Policy (CDP), at its second session in that year, recommended that Maldives be graduated from the list with immediate effect. This recommendation was not endorsed by ECOSOC because it had generated serious concerns and a strong resistance by the Government of Maldives. The question of Maldives' graduation, after being re-examined in 2001, was postponed to the next review of the list in 2003. In that year, the CDP found that Cape Verde and Maldives were technically eligible for graduation, and refrained from recommending their graduation. In 2004, however, it did recommend that the two countries be graduated.[3]

In the recent history of the triennial review of the list of LDCs (1997, 2000, 2003), the issue of economic vulnerability has been central to the conceptual and methodological debate—and difficulties—

[2] Economic and Social Council, Resolution 1998/39 (Status of the LDCs), 30 July 1998, para. 2.
[3] ECOSOC endorsed this recommendation.

underlying the review. It is one of the key elements of the question of graduation from LDC status, a question of immediate importance to three SIDS (Cape Verde, Maldives, Samoa) and of potential relevance to two or three other least developed SIDS in the longer run (Kiribati, Tuvalu, Vanuatu).[4]

In the context of potential graduation cases, a growing issue seems to be the question of the importance that ought to be given to the vulnerability criterion. While some take the view that vulnerability is neither less nor more important than the other criteria for determining the list of LDCs, others argue that economic vulnerability ought to be regarded as a paramount criterion, and that this should have operational implications for the graduation rule.

Beyond the debate on country status determination, there is a legitimate question relating to the aim of promoting fair differentiation in the special treatment of developing countries, with particular reference to countries with highly vulnerable economies, such as SIDS. To the advocates of a more differentiated special treatment of SIDS, there ought to be a measurement of island-specific handicaps if the plea for special consideration and special treatment is to gain credibility, and if appropriate responses to these handicaps are to be developed.

The notion of economic vulnerability has never been used as an operational criterion to guide the eligibility for specific treatment in the field of development financing or any other area. In the multilateral trading system, efforts have recently been pursued by small member states of the World Trade Organisation (WTO) to gain special concessions on grounds of smallness and vulnerability, but the recognition of these two characteristics, which is well documented in the WTO's Work Programme on Small Economies, has so far not been supported by any significant move to define or measure, through criteria or thresholds, who is vulnerable in that organisation.

As the international organisation that made vulnerability an operational criterion with direct implications for the treatment of relevant countries (through the methodology for determining the list of LDCs), the UN encourages the debate on economic vulnerability in the framework of international cooperation.

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[4] It must be noted that the criterion of economic vulnerability was also the determining factor of the addition of Senegal, after the 2000 review of the list, to the list of LDCs.

This chapter first summarises the UN approach to economic vulnerability from a methodological viewpoint and through the experience of two reviews of the list of LDCs. It then examines the importance that has so far been given, or ought to be given, to the vulnerability criterion in the treatment of countries that have come near to graduating from LDC status, all of which are SIDS.

2. The Relevance of Economic Vulnerability to SIDS

The debate on the economic vulnerability of disadvantaged countries, within the UN, did not intensify until the 1990s, when the earlier idea of measuring the vulnerability of states through an index was brought to fruition. UNCTAD commissioned the first study to examine the feasibility of constructing an economic vulnerability index, under its work programme on island developing countries (UNCTAD, 1992). The difficulties faced in arriving at an international consensus on such an index were foreseen in an UNCTAD expert group meeting on island developing countries (IDCs) in July 2002, when it was felt that this type of indicator might be of limited interest for operational purposes other than the aim of demonstrating that IDCs are generally more vulnerable than other countries.

The need for a vulnerability index was reiterated with force two years later, at the Global Conference on the Sustainable Development of SIDS (Barbados, April-May 1994). The Barbados Programme of Action for the Sustainable Development of SIDS called for the construction of a vulnerability index to "reflect the status of small island developing States" (para. 113), but did not elaborate on the envisaged use of such an indicator.[5]

The context of the "non-graduation" of Vanuatu, in 1997, prompted active consideration, by the UN, of the criterion of economic vulnerability, and brought the Committee for Development Policy (CDP) to recommend the introduction of this criterion in the

[5] In fact, the language used in the Barbados Programme of Action did not help much in clarifying the scope and purpose of this indicator, as paragraph 113 first refers to the development of "vulnerability indices", before referring to the particular use of "an index". Paragraph 114, then, consistently refers to "the vulnerability index", thereby suggesting that there ought to be an internationally accepted index, although UNCTAD's study of 1992 had shown that a consensus on the construction of a vulnerability index was unlikely, and that a likely scenario was that of a proliferation of indices, because of the subjectivity underlying the concept. The multiplicity and divergence of opinions on this subject during the 1990s proved that UNCTAD had anticipated the problem correctly.

methodology for reviewing the list of LDCs.[6] With the case of Vanuatu (an LDC and a SIDS) triggering this process, the subject of economic vulnerability, though actively dealt with in relation to LDCs, continued to be cultivated in the perspective of support to SIDS.

The CDP, in the report on its first session (April 1999), proposed the establishment of a vulnerability criterion through the construction of an economic vulnerability index to replace the Economic Diversification Index (EDI) which had been a component of the set of criteria since 1991.[7] In the 2000 review of the list of LDCs, the ECOSOC, for the first time, used an economic vulnerability criterion (essentially based on a composite economic vulnerability index), in addition to the low-income criterion[8] and the criterion of weakness in human capital.[9]

The UN's Economic Vulnerability Index (EVI) was constructed as a composite indicator based on five components. These components (in italics below) are considered by the CDP as essential to explain the three fundamental dimensions of the economic vulnerability of countries, namely:

i. the magnitude of external shocks beyond domestic control (measured through indicators of the instability of agricultural production and instability of exports of goods and services);
ii. the exposure of the economy to these shocks (captured through the share of manufacturing and modern services in the gross domestic product, and an indicator of merchandise export concentration); and
iii. the structural handicaps that explain the high exposure and vulnerability of the economy (approached through the handicap of economic smallness, which is measured through a population variable).

6 The Committee for Development Planning, which had been in existence since 1966 as a high-level body to advise ECOSOC on emerging development issues and formulate policy recommendations, was renamed Committee for Development Policy through an ECOSOC resolution of 31 July 1998. Its 24 members, all experts in the field of economic, social, or sustainable development, are appointed for a period of two years, in their personal capacity, by the ECOSOC upon nomination by the Secretary-General of the UN.

7 At the same time, the CDP considered that "an index of economic vulnerability could give only a partial and approximate measure of the relative level of vulnerability of a country", and recommended that a country-specific "vulnerability profile" be prepared for each potential graduation case on the occasion of every review of the list (cf. United Nations, 1999: para. 122).

8 This was based, at that time, on a three-year average estimate of the gross domestic product per capita (under US$900 for inclusion; above US$1,035 for graduation).

9 This involved, at that time, a composite Augmented Physical Quality of Life Index (APQLI) based on indicators of nutrition, health, education, and adult literacy.

The Magnitude of External Shocks

The index of instability in the agricultural production is regarded as reflecting the physical impact of natural disasters, while the index of instability of exports of goods and services reflects the impact of all external (economic and natural) shocks on total gross foreign exchange earnings. Though not perfectly complementary, since the second one will encompass the economic impact of shocks that may be captured through the first one, these two indicators constitute the statistical basis used for measuring the magnitude of external shocks over a relatively long period (1979-2001). In both indices, the observed instability amounts to variations around a trend. Therefore, shortfalls as well as sudden upturns from this trend are equally regarded as shocks, which implies the existence of positive shocks as well as negative shocks, although the notion of vulnerability is relevant to negative shocks only, and implicitly associated with shortfalls.

Overall, the greater the measured instability, the higher the economic vulnerability of the country is assumed to be. Such instability, when captured through the EVI, may provide a fair estimate of the physical damage that has been incurred in areas other than the agricultural sphere, such as the tourism infrastructure.[10] None of these two instability indicators was part of the EDI, the composite index of structural fragility that was used before the 2000 review of the list of LDCs by the Committee for Development Planning.

The Exposure of the Economy to External Shocks

The index measuring the share of manufacturing and modern services in the gross domestic product is used as a general indicator of economic diversification through specialisation into economic activities with a higher value added. Modern services essentially include commercial services, either domestic or exportable. Tourism often is the largest sector in the sphere of modern services. The index of merchandise export concentration as calculated by UNCTAD[11] is also regarded as an indicator of economic diversification (the notion of concentration

[10] It has been argued that this assumption will not hold in cases where natural disasters are not violent, though equally devastating, such as cases of chronic drought (as happens in Cape Verde). In such cases, the agricultural production instability component may be seen as contributing to elevate the EVI score artificially. This apparent bias may actually do justice to the situation of dependence on external sources of food supplies (for food import-dependent countries with little agricultural production), thereby capturing the vulnerability of the economy, fairly.

[11] UNCTAD (2003a): 389-391.

is by definition opposite to the notion of diversification), though confined to the sphere of exports. These two indicators, which were already components of the EDI,[12] are deemed complementary in measuring, within the EVI, the exposure of a national economy to external shocks.

The rationale for the first of these two indicators is that, the smaller the share of manufacturing and modern services in GDP, the higher the economic vulnerability of the country is likely to be. The opposite causality prevails in the export concentration index: the greater the concentration of merchandise exports, the higher the vulnerability of the economy. In the latter case, a larger share of the national economy is likely to be affected by external shocks if the economy is based on a small number of export activities involving tradeable products that are severely impacted by these shocks (e.g., a cyclone, a decline in the international price of a commodity, an international crisis affecting the international tourist demand).

The Structural Handicaps Explaining Exposure to External Shocks

In addition to the indicators of shocks and exposure, there is an effort to measure some of the structural handicaps explaining the exposure to external shocks. This third dimension of economic vulnerability, though fundamental conceptually, has been the most difficult to capture statistically, considering the need to find a variable that is available across the board to enter a composite vulnerability index that will cover all developing countries. Economic smallness is generally regarded as a key element of the structural handicaps explaining the difficulties faced by countries that are highly exposed to external shocks.

It was therefore decided that a population variable would constitute a fair dimension in the construction of the index. In short, the smaller the country, the more likely it is to be economically vulnerable.[13] Population size has been used to that end, in logarithm so that the considerable gap between the population figures of the smallest and largest developing countries is reduced.

[12] However, the EDI involved the share of manufacturing, not the share of manufacturing and modern services, in GDP.

[13] Contrary to some of the criticism that was addressed from outside the UN to CDP members, this population component does not introduce a bias in favour of small states, since economic smallness is recognised as a determinant of vulnerability, the same way the magnitude of external shocks and the exposure to shocks are determinants. A country that is small and economically little diversified, and has been hit by natural and/or economic shocks, is likely to be among the most economically vulnerable countries.

The rationale underlying each of the five components that constitute the EVI can be summarised as follows:

- the smaller the population of the country, the higher the economic vulnerability of this country;
- the lower the diversification of the economy, or the higher the concentration of merchandise exports, the higher the economic vulnerability of the country;
- the greater the instability of agricultural production and/or of exports of goods and services, the higher the economic vulnerability of the country.

Vulnerability Scores of SIDS

Table 1 presents the scores of 24 SIDS according to the UN's E VI, in decreasing order of economic vulnerability. The table also includes, at the lower end, a sample of non-SIDS developing countries (four LDCs, five African non-LDCs, and China) that rank lower than the 24 SIDS according to the EVI. This provides selected examples of the extent to which SIDS are economically more vulnerable than non-SIDS.[14] The two extreme index scores in Table 1 (Tuvalu: 70.32; China: 8.03) indicate the range within which the EVI spreads.

It should be noted that the threshold of graduation from LDC status was established at the score of 33. This is the threshold of economic vulnerability above which an LDC will not be deemed eligible for graduation from LDC status if it does not pass the graduation threshold according to at least one of the other two graduation criteria (namely, the low-income and human capital weakness criteria), by virtue of the graduation rule. The 33 threshold can be regarded as the implicit EVI score above which countries are considered highly vulnerable economies.

Table 2 presents the determinants of the EVI scores of the same 24 SIDS for which EVI data are available. For each SIDS, the figures show the relative influence on the overall EVI score of the country, of the five variables entering the calculation of the composite EVI score. Table 2 reveals that the agricultural production instability component has been very high in only one country (Cape Verde), and relatively high in two other SIDS (Kiribati and Tuvalu) presumably as a result of violent natural disasters and adverse environmental shocks. The export instability component has been particularly high in Tuvalu and Comoros, for reasons ranging from external shocks to economic isolation.

[14] Table 2 will show that, on the basis of the entire EVI series, SIDS are economically more vulnerable than non-SIDS developing countries by 17.5 percent.

Table 1
United Nations Economic Vulnerability Index:
Scores of 24 SIDS (2003)
(Least Developed Countries are shown in bold type)

Tuvalu	70.32
Kiribati	64.80
Comoros	59.11
Cape Verde	55.54
St Lucia	52.89
Seychelles	52.47
St Kitts and Nevis	51.43
St Vincent and the Grenadines	51.39
Dominica	50.08
Bahamas	49.34
Tonga	48.48
Solomon Islands	46.74
Vanuatu	44.51
Grenada	44.47
Sao Tome and Principe	41.83
Samoa	40.93
Antigua and Barbuda	37.67
Fiji	37.21
Papua New Guinea	36.12
Mauritius	34.34
Trinidad and Tobago	34.24
Maldives	33.57
Barbados	33.49
Jamaica	31.82
Nepal	29.46
Morocco	29.41
Kenya	28.38
Tanzania	28.27
Côte d'Ivoire	25.44
Bangladesh	22.93
Egypt	22.24
Madagascar	21.60
South Africa	19.45
China	8.03

Source: Committee for Development Policy (2003).

The lack of economic diversification has been a determining factor of economic vulnerability in Papua New Guinea. The export concentration component has been high in Kiribati, Comoros, Seychelles and the Solomon Islands, four countries in which the primary economy is now dominated by fish exports.

Table 2
United Nations Economic Vulnerability Index: Determinants of SIDS Scores (2003)
(Relative influence on EVI score of the five different components of EVI)

	P	D	C	A	E
Tuvalu	100	49	45	58	100
Kiribati	82	42	71	67	62
Comoros	64	68	85	10	70
Cape Verde	68	43	39	100	28
St Lucia	77	45	61	56	26
Seychelles	82	29	82	51	18
St Kitts and Nevis	89	39	60	45	24
St Vincent /Grenadines	80	47	45	59	27
Dominica	84	41	44	42	40
Bahamas	71	45	60	42	29
Tonga	81	36	55	38	32
Solomon Islands	67	51	66	28	21
Vanuatu	75	49	35	30	34
Grenada	81	41	49	21	30
Sao Tome and Principe	78	31	29	26	45
Samoa	77	37	36	27	28
Antigua and Barbuda	85	36	18	17	33
Fiji	63	39	35	35	13
Papua New Guinea	47	58	42	4	30
Mauritius	60	25	24	33	30
Trinidad and Tobago	59	37	29	18	28
Maldives	71	52	36	5	3
Barbados	72	45	11	24	14
Jamaica	53	36	50	13	7

Source: Calculations by UNCTAD based on Committee for Development Policy data.

Legend of column headings:
P = Population component (2002)
D = Economic diversification component (2001)
C = Export concentration component (2001)
A = Agricultural production instability component (1979-2001)
E = Export instability component (1979-2001)

Finally, and not surprisingly, 20 of the 24 SIDS for which the UN's EVI data are available, because of their small size, are countries demonstrating a great influence of the "smallness" component on the EVI score. In all of these 20 countries, smallness is the most significant factor of economic vulnerability, which is based on the argument that permanent structural handicaps are crippling factors of economic vulnerability of no lesser importance than external shocks beyond control.

Table 3 provides an overview of the three SIDS regions, compared with non-SIDS developing countries, in terms of economic vulnerability as measured through the UN's EVI. The table shows that Pacific SIDS are economically more vulnerable than Caribbean SIDS. This can be explained mainly by a sharp contrast between the two regions in terms of the export instability component. During 1979-2001 the export instability of Pacific SIDS was 39 percent higher than that of Caribbean countries. The contrast, to a large extent, reflects the impact of natural external shocks. It is, however, under the agricultural production instability component that SIDS in general have been more disadvantaged than non-SIDS developing countries. This instability was caused largely by natural factors. Of interest is that the instability of exports of goods and services of SIDS was lower than that of non-SIDS developing countries, due mainly to the low score assigned to the SIDS of the Caribbean region.

Table 3
Average EVI for SIDS according to Regions

Regions/sub-regions	D	C	A	E	EVI-2003
Atlantic/Indian Ocean[a]	118.5	115.9	135.6	93.7	118.0
Caribbean[b]	119.0	102.9	125.7	79.3	111.7
Pacific[c]	112.6	113.5	131.8	110.4	124.4
All SIDS	116.7	109.7	130.2	93.2	117.5
Non-SIDS[d]	100.0	100.0	100.0	100.0	100.0

Source: Calculations by UNCTAD based on Committee for Development Policy data.

Legend of the first four column headings is the same as for Table 2.
NSDS = Non-SIDS Developing Countries

[a] The 6 Atlantic/Indian Ocean SIDS for which EVI data are available are Cape Verde, Comoros, Maldives, Mauritius, São Tomé and Principe, Seychelles.

[b] The 10 Caribbean SIDS for which EVI data are available are Antigua and Barbuda, Bahamas, Barbados, Dominica, Grenada, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Trinidad and Tobago.

[c] The 8 Pacific SIDS for which EVI data are available are Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

[d] There are 102 non-SIDS developing countries for which EVI data are available, including 40 non-SIDS which are also LDCs.

Avenues for Improvement in the EVI

In its efforts to capture the most "measurable" structural handicaps through the EVI, the UN is trying to go beyond the notion of smallness, although the latter is deemed to provide a fair approach to the explanatory factors of the difficulty to diversify an economy durably, and reduce its vulnerability. The idea of introducing, in the EVI, the notion of remoteness through a geographical variable based on distances from large markets has recently gained momentum, and might be pursued by the CDP in the near future. A remoteness dimension could either be added to the present components, or replace one of the existing components. In the latter case, one of the "exposure" variables, either economic diversification or export concentration, might be sacrificed, since they are, among the current five components of the EVI, the only variables which may be measuring a similar reality, and one of them may therefore be redundant.

It could be argued, for example, that export concentration is a better indicator of exposure to external shocks than economic diversification as captured through the share of non-traditional activities in GDP. Others, however, might contend that the share of non-traditional activities (manufacturing and non-governmental services) in GDP is more consistent with the idea of strengthening the structure of the economy and lessening the exposure to shocks, while the merchandise export concentration index, by disregarding international services, misses an important part of the open economy.

Though no relevant indication has yet filtered out from the CDP, there might be a trend towards a reform of the EVI through which the composite index would retain the three dimensions that were described earlier, still through five indicators, but with a redistribution of the five variables among the three dimensions:

- two instability indicators would remain (agricultural production instability and goods and services export instability);
- only one indicator of exposure to shocks would remain (either economic diversification or export concentration); and
- there would be two indicators of structural handicaps instead of one (a smallness variable, and a remoteness variable.

With the introduction of a remoteness element, the permanent handicaps of the majority of SIDS could be better captured.

3. Economic Vulnerability and Graduation from LDC Status

In the context of the triennial review of the list of LDCs, the question of graduation from LDC status has placed the notion of economic vulnerability at the heart of a difficult debate since 1997. This debate presently affects two SIDS, Cape Verde and Maldives. A similar concern occurred with regard to Vanuatu in 1997, and is likely to recur with the case of Samoa in 2006, and perhaps with another Pacific LDC at a later date.

The question of graduation from LDC status was first raised in 1991, at the same time as the first major revision of the criteria for determining the list of LDCs. The graduation mechanism was applied in 1991 and 1994 to Botswana (with effective graduation in 1994), so far the only country that ever graduated from LDC status. The question became controversial in 1997, after the Committee for Development Planning had found Vanuatu eligible for graduation. The controversy continued in 2000, when the CDP found Cape Verde and Maldives technically eligible for graduation, and recommended the immediate graduation of Maldives. Noting the resistance of Vanuatu (1997) and Maldives (2000) to the recommendation that they be graduated, ECOSOC, in recent years, has been giving much attention to the notion of "smooth transition" from LDC status for graduating countries.[15]

The Graduation Rule

The criteria used for graduation of countries out of the LDC list are conceptually similar (and broadly speaking, symmetrical) to the criteria for admitting new countries on the list. The graduation criteria have been based on specific quantitative thresholds for the three indicators relevant to the criteria: per capita gross national income (since 2003), the Human Assets Index (HAI),[16] and the EVI, respectively. For each of these indicators a margin was set for the inclusion threshold and for the graduation threshold.[17]

The margin is considered a reasonable estimate of the additional socio-economic progress that needs to be attained if one assumes that the graduating country is effectively engaged on a path of improvement. In other words, not only is the graduating country expected to exceed the thresholds under which non-LDCs would be admitted into the category, but it is additionally expected to exceed these thresholds by

[15] See ECOSOC resolution 2000/34 (*Report of the Committee for Development Policy*), in which the Council requested the Secretary-General "to make recommendations on additional measures that can be taken to ensure a smooth transition from least developed country status for graduating countries" (para. 3).
[16] The former "Augmented Physical Quality of Life Index" (APQLI) was renamed "Human Assets Index" (HAI) by the CDP in 2002, in anticipation of the 2003 review of the list of LDCs (see United Nations, 2002: para. 131).
[17] Until the 2000 review of the list, a margin of 15 percent was used under each one of the criteria. For the 2003 review, an expert group meeting in January 2003 recommended that different margins be used among the criteria: 20 percent for GNI per capita, and 10 percent for HAI and EVI. The inclusion and graduation thresholds relevant to the low-income criterion were established at US$900 (inclusion) and US$1,035 (graduation) for per capita GDP in 2000, and at US$750 (inclusion) and US$900 (graduation) for per capita GNI in 2003.

the relevant margin. This rule renders the assumption that a graduating country must be undergoing structural progress more robust. Accordingly, it dispels the risk that graduation be dictated by temporary or insignificant economic circumstances.

Two other essential elements of the graduation rule also imply durable structural progress in the graduating countries:

- at least two of the three graduation criteria must be met for the relevant country to be found eligible for graduation; this is a deliberate asymmetry element, since all three criteria need to be met for a country to be eligible for addition to the list;
- while pre-eligibility for graduation can be observed in any review of the list (subject to the threshold margin and asymmetrical rules referred to above), full eligibility, which normally implies a recommendation to graduate the country with immediate effect, will be recognised only after the relevant graduation criteria have been met in at least two consecutive reviews of the list.

Subsequent to the graduation of Botswana in 1994, there have been three distinct situations of full technical eligibility for graduation from LDC status (i.e., eligibility pronounced after at least two graduation criteria were met in two consecutive reviews): Cape Verde and Vanuatu in 1997; Cape Verde and Maldives in 2000; and again Cape Verde and Maldives in 2003.[18] By October 2004, ECOSOC was expected to recommend to the UN General Assembly that the latter "take note of the [CDP's] recommendation to graduate Cape Verde and Maldives from the group of the Least Developed Countries".

The Rationale for Graduation

In 1990, the Second UN Conference on the LDCs noted the importance of envisaging the graduation from LDC status of countries that would be deemed to have demonstrated sufficient socio-economic progress to be able to pursue such progress in a less externally dependent manner.

[18] It must be noted that in 1997 and 2000, the CDP explicitly recommended that Cape Verde would not graduate (despite its technical qualification for graduation) from LDC status, while it did recommend the immediate graduation of other countries (Vanuatu in 1997, Maldives in 2000). In 2003, though observing again the technical qualification of Cape Verde and Maldives for graduation, the CDP did not make any recommendation to ECOSOC on the graduation or non-graduation of any of these two countries. In 2004, however, the CDP reiterated its observation regarding the technical qualification of the two countries for graduation, and recommended that they be graduated.

The principle of graduation is generally considered important for the credibility of the LDC denomination: the special treatment offered to countries by virtue of LDC status has been expected to help these countries to reverse their marginalisation from the global economy. If this status continues to be justified, it is often argued, that there must be chances of success associated with it, and therefore, it is only natural that the eventuality of graduation is envisaged for some LDCs.

Yet, with the current potential graduation cases, the issue of graduation tends to be complicated by the "island paradox" (see UNCTAD, 2001: para. 59-60), a syndrome which policy makers of many SIDS have been pointing to: SIDS often appear to be relatively prosperous on the basis of the income criterion, which tends to be the overriding factor of their eligibility for graduation. Yet, they are generally among the most structurally handicapped and economically vulnerable countries, and often least prepared to face the loss of concessionary treatment, whether such concessions have been received by virtue of LDC status (as in the case of least developed SIDS), or as a result of other types of special treatment. The "island paradox" is a facet of the flaws that have been prevailing in the debate on special and differential treatment of vulnerable countries. It reveals the fact that the treatment is not sufficiently differentiated in the responses brought to the specific problems of handicapped countries, even though these problems have been consistently recognised in the UN.

Graduation as it affects Cape Verde, Maldives, and Three Pacific SIDS

The question of graduation, in the short to medium run, affects five least developed SIDS: two presently qualifying for graduation (Cape Verde, Maldives), one pre-eligible for graduation (Samoa), one formerly qualifying for graduation (Vanuatu), and one demonstrating progress toward eligibility for graduation (Kiribati).

The following four sets of graphs depict the evolution demonstrated by Cape Verde, Maldives, Samoa and Vanuatu vis-à-vis the thresholds relevant to the three graduation criteria.[19] All graphic data are based on the performance recorded, in the five institutional reviews of the list of LDCs (1991, 1994, 1997, 2000, 2003), through the relevant indicators:

[19] To make inter-temporal comparisons possible under any criterion (e.g., to compare the distance to the graduation threshold in 2003 with that in 2000), all performance data have been standardised in the form of an index under which the graduation threshold equals 100. Each graph also shows a line representing the inclusion threshold. The distance between the two lines depicts the margin between the inclusion threshold and the graduation threshold.

- GDP per capita up to 2000, replaced in 2003 by the GNI per capita;
- the APQL Index renamed HAI in 2003; and
- the EVI, which replaced the EDI in 2000.

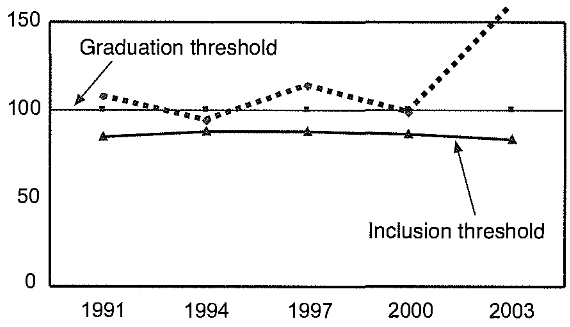
Samoa (see Figures 1a, 1b and 1c) now has a GNI per capita (US$1,447) well above the graduation threshold, and an HAI score much higher than the graduation threshold (by 40 percent). Its economic vulnerability, as reflected by an EVI score under the graduation threshold by 24 percent, remains high. Considering that Samoa met two graduation criteria in 2003, its eligibility for immediate graduation will be observed in the next review of the list in 2006, if at that time, the country still exceeds at least two graduation thresholds.

Vanuatu (see Figures 2a, 2b and 2c) was found eligible for graduation in 1997, but exempted from this obligation shortly after, pending the introduction of economic vulnerability among the criteria. The eligibility was not confirmed in 2000, as a result of a downturn in the APQLI score. As the performance of the low-income and vulnerability criteria is unlikely to change by sizeable margins, the question of a hypothetical pre-eligibility of the country for graduation in 2006 will depend on the evolution of the score relevant to the human assets criterion. This score has been stable since the 2000 review of the list of LDCs.

Cape Verde is the only LDC (together with Vanuatu) that continuously exceeded the graduation threshold, with regard to the low-income criterion, since the graduation principle was established in 1991 (see Figure 3a). The per capita GNI estimate that was used in the 2003 review of the list (a US$1,323 three-year average for the 1999-2001 period) placed the country 47 percent above the graduation threshold. Substituting per capita GNI for per capita GDP under the low-income criterion caused the distance from the graduation threshold to increase significantly.

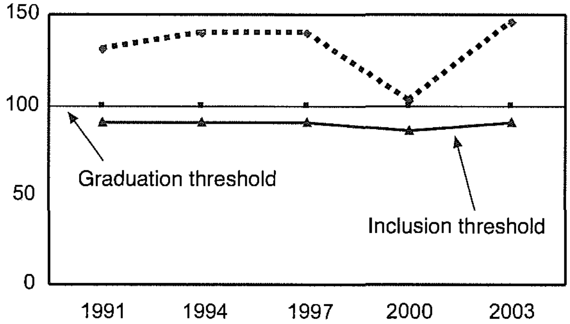
The human capital performance (in terms of physical quality of life until 2000) placed the country above the graduation threshold in the 1994, 1997 and 2000 reviews of the list of LDCs (see Figure 3b). The 2003 review again revealed a distance from this threshold (by 18.7 percent, i.e., almost three times the gap that had been observed in 2000). Among the four variables entering the composite human capital index, the relatively high per capita calorie intake (173 percent of requirements—an estimate the Government of Cape Verde questioned) has been largely explained by food aid inflows to the country.

Figure 1a
Samoa: Low-income Criterion*



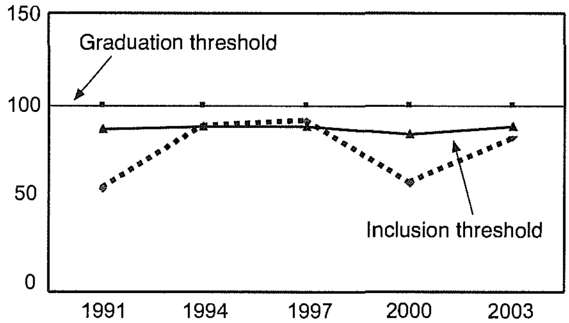
* Per capita GDP until 2000, per capita GNI in 2003

Figure 1b
Samoa: Human Capital Weakness Criterion*



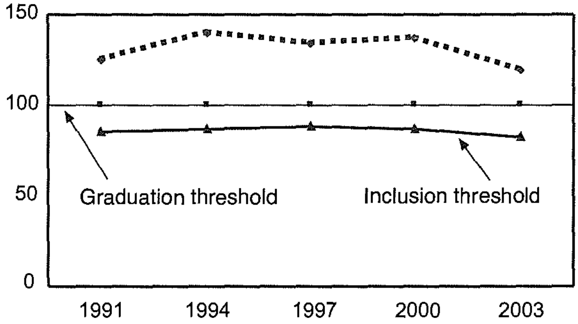
* APQLI until 2000, HAI in 2003

Figure 1c
Samoa: Economic Vulnerability Criterion*



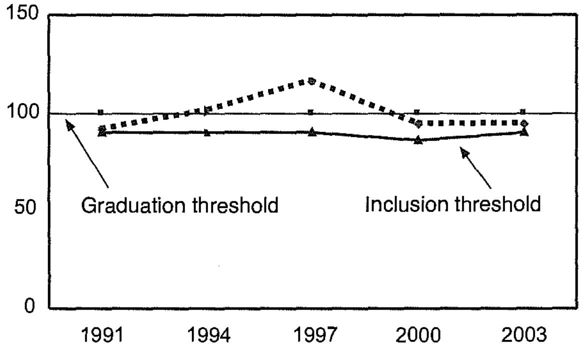
* EDI before 2000, EVI as from 2000

Figure 2a
Vanuatu: Low-income Criterion*



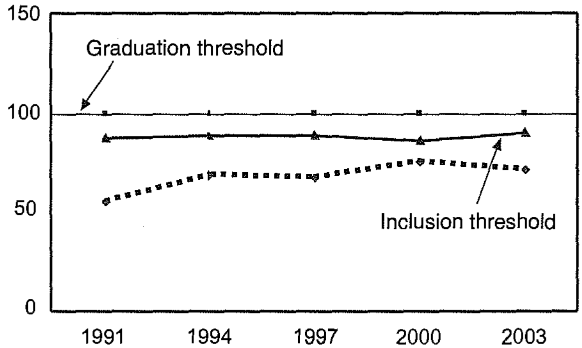
* Per capita GDP until 2000, per capita GNI in 2003

Figure 2b
Vanuatu: Human Capital Weakness Criterion*



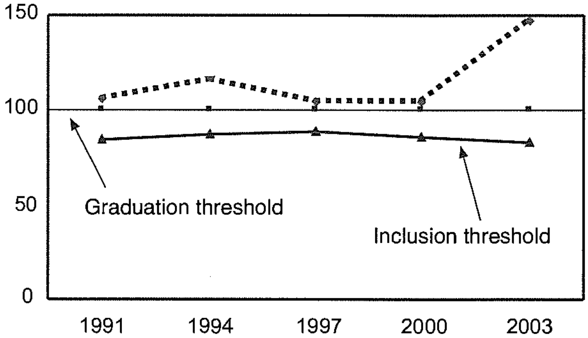
*APQLI until 2000, HAI in 2003

Figure 2c
Vanuatu: Economic Vulnerability Criterion*



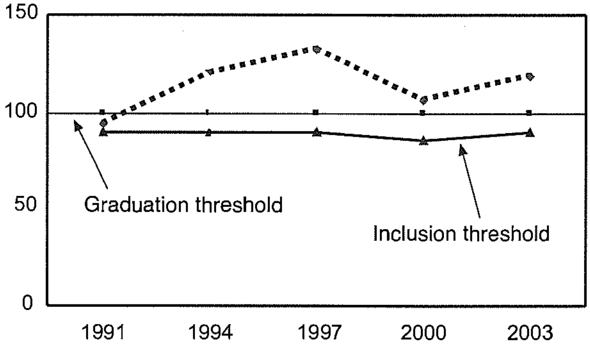
* EDI before 2000, EVI as from 2000

Figure 3a
Cape Verde: Low-income Criterion*



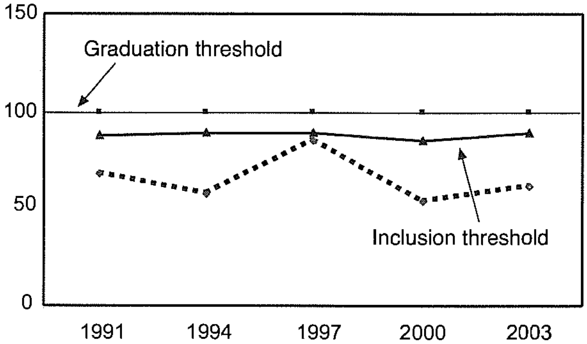
*Per capita GDP until 2000, per capita GNI in 2003

Figure 3b
Cape Verde: Human Capital Weakness Criterion*



*APQLI until 2000, HAI in 2003

Figure 3c
Cape Verde: Economic Vulnerability Criterion*



* EDI before 2000, EVI as from 2000

Substitution of the EVI for the EDI in 2000 caused a sudden increase in the distance from the graduation threshold in that year (see Figure 3c). Although a slightly lesser distance was found in 2003, the country remains at only 61 percent of the threshold. The two variables that weigh most in the EVI score of Cape Verde are the small size of the economy (captured through the population variable) and the very high degree of instability in agricultural production. Under the latter indicator, Cape Verde demonstrated the greatest instability among developing countries in 2000 (over the 1979-1998 period) and again in 2003 (over the 1979-2001 period). This observed instability reflects the impact of the chronic drought the country has been facing.

In the light of the three criteria, Cape Verde has been technically eligible for immediate graduation since 1997. Yet the country did not exit from the category because the CDP made recommendations against its graduation, on statistical grounds in 1997, then again in 2000, because the high dependence of Cape Verde on external financing was recognised. An improved socio-economic performance was observed in 2003, in comparison with 2000, but the apparent progress under the low-income criterion ought to be interpreted with care, given the change of the indicator.

In April 2003, during the review of the list of LDCs, the CDP observed that Cape Verde was technically meeting the graduation criteria. However the ECOSOC, in its substantive session of July 2003, was unable to decide on graduation or non-graduation. In April 2004, the CDP went a step further than in April 2003 by not only reiterating its belief that Cape Verde met the graduation rule, but also explicitly— and for the first time— recommending that Cape Verde be graduated. At its substantive session of July 2004, ECOSOC was still unable to take a stand on the question of Cape Verde's graduation, but a recommendation to graduate the country was expected before the end of 2004.[20]

Among all LDCs, Maldives has demonstrated the steadiest and fastest progress across the graduation line relevant to the low-income criterion (see Figure 4a). The graduation threshold was met at the time of the 1997 review of the list, after a historically high growth performance had been recorded. A score of 127 percent of the threshold was observed in the 2000 review, when the per capita GDP performance was estimated at US$1,311. In the last years of the 1990s decade, a sustained tourism performance kept Maldives on a high

[20] Details about the potential graduation case of Cape Verde can be found in CNUCED (2003).

growth path, compared with most developing countries. In 2003, the performance of Maldives (based on the 1999-2001 average period) was estimated to culminate at 220 percent of the graduation threshold, although the real growth of GDP had decreased during the relevant three-year period (from 7.2 percent in 1999 to 3.5 percent in 2001), and the real growth of GDP per capita, as a result of high demographic pressure, had diminished even more rapidly (from 5.1 percent in 1999 to 1.7 percent in 2001). The sharp increase above the graduation threshold relevant to the low-income criterion was not caused by the substitution of GNI per capita for GDP per capita, since the nominal value of the graduation threshold changed at the same time as the income aggregate did.

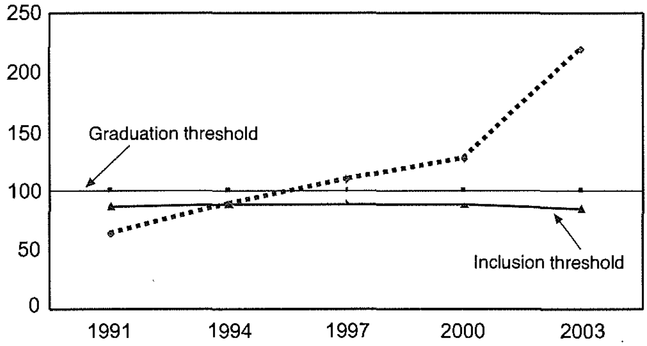
Under the quality-of-life criterion, the graduation threshold was met in the latest three reviews, with a peak of 130 percent in the 1997 review, followed by a declining trend leading to a score marginally above the graduation threshold in 2003 (see Figure 4b). The HAI score in 2003, estimated at 104.4 percent of the graduation threshold, was deemed more realistic than the 2000 score, partly because of the lower average calorie intake estimate (113 percent of the relevant requirement), and mainly because of the substitution of a secondary school enrolment ratio for the earlier primary and secondary school enrolment ratio.

The sharp upturn in the EDI performance which was observed at the time of the 1997 review (from 38 percent to 105 percent) was not explained by the predominant tourism activities (service exports were not reflected in the EDI), but caused by sudden growth in the clothing sector, although the latter was still a small part of the economy (see Figure 4c). With the adoption of the EVI in 2000, a more realistic picture was drawn: the score (marginally) under the graduation line in 2000 and 2003 was mainly explained by the serious structural handicaps faced by the islands and measured through the smallness of the population.

Although steady growth in tourism and fisheries rendered the Maldives' exports relatively more stable when compared to other developing countries, it is important to note that the narrowness of the economic base (a dimension that is captured by the EVI) has exacerbated the economic vulnerability of the country. Admittedly, any adverse development in only one of these two dominant sectors could upset the overall performance of the economy.

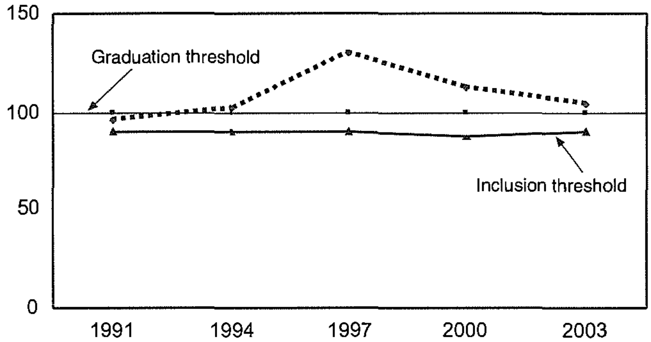
In the case of the Maldives, the simultaneous performance above the graduation thresholds in terms of all three criteria in 1997, was unique

Figure 4a
Maldives: Low-income criterion*



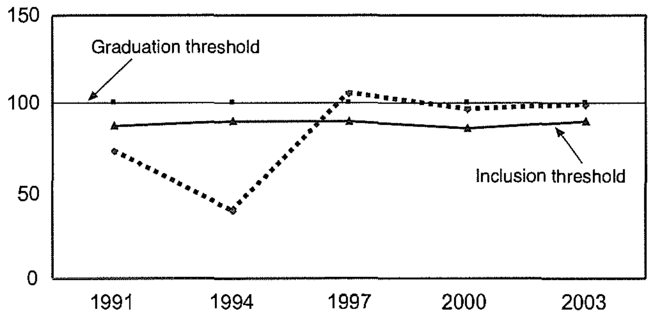
*Per capita GDP until 2000, per capita GNI in 2003

Figure 4b
Maldives: Human capital weakness criterion*



*APQLI until 2000, HAI in 2003

Figure 4c
Maldives: Economic vulnerability criterion*



*Economic Diversification Index before 2000, Economic Vulnerability Index from 2000 in the history of the LDCs. In 2003, technical eligibility for graduation was observed in terms of only two of the three graduation criteria, namely low income and human capital weakness.

The question of the Maldives' graduation was still undecided in 2003, but it was expected to be settled before the end of 2004, in the same institutional context as that relating to Cape Verde, as described above.[21]

Economic Vulnerability and Potential Graduation Cases

As already explained, the economic vulnerability criterion has been at the heart of the debate on the question of the graduation of Cape Verde and Maldives, and is likely to be a central element of the question of Samoa's graduation in the 2006 review of the list of LDCs. Two schools of thought seem to be confronting each other in this debate, which essentially relates to the graduation rule.

The dominant opinion tends to be in line with the existing graduation rule, and therefore, with the CDP's approach to graduation. In this approach, the economic vulnerability criterion, though important, is not assigned more emphasis than the other two criteria. The low-income criterion tends to be regarded as a paramount yardstick of socio-economic progress, particularly if the country under review, like Cape Verde, Maldives and Samoa, demonstrates a level of national income per capita substantially higher than the graduation threshold. The human assets performance is also regarded as a fundamental factor of the structural capacity of a country to achieve sustained progress. Those who assign equal weight to the three criteria, following the position of CDP members, will see no reason why the graduation rule should not be applied automatically as soon as the graduation threshold has been reached or exceeded under any two of the three criteria.

The other school of thought tends to prevail among countries that are deemed to qualify (or coming near to qualifying) for graduation, and also—though less explicitly—among UN member states that sympathise with potential graduation cases. According to this alternative line of thinking, the economic vulnerability criterion is fundamentally distinct from the other two criteria because it is the only one that captures the only notion that really matters in the perspective of graduation, namely, the structural economic progress

[21] Details about the potential graduation case of Maldives can be found in UNCTAD (2003b).

achieved. Structural progress implies reduced structural handicaps and a more diversified economic base, which are essential conditions for assuming that a country has gained an ability to pursue its development path in a less externally dependent manner, even in the face of external shocks.

Furthermore, it is argued, the per capita income criterion can be a poor indicator of structural progress, especially if the national income is strongly influenced—as observed in all potential graduation cases—by the rapid growth achieved by a dominant economic sector that is highly vulnerable to possible external shocks.

In stressing the primacy of the vulnerability criterion, the supporters of this school of thought recognise the intrinsic value of the human assets criterion, and admit that this criterion is an important dimension of structural progress. But they also take the view that, relatively recent—and perhaps fragile—progress in health and education, though important in the long run, is unlikely to reflect a thorough transformation in human resources in the short run.

The debate on cases of graduation of SIDS has naturally brought the proponents of this approach to invoke the "island paradox". They have noted that the apparent prosperity of relevant least developed SIDS is largely explained by the rapid growth of the tourism sector, a sphere of activity that has developed in a manner that was not conducive to reducing the economic vulnerability of the country, or inducing significant structural progress. Remittances from nationals living abroad, typically another element of the apparent positive performance of these countries, are less a reliable yardstick of structural progress than tourism growth. In short, this school of thought sees a hierarchy of criteria in which the paramount economic vulnerability criterion ought to be given priority consideration, while per capita income should be interpreted with extreme care and given minimum explanatory credit.

Those who assign primary importance to the vulnerability criterion logically take the view that no country with an EVI score that does not meet the graduation threshold should be regarded as technically qualifying for graduation, regardless of its score under the other two criteria. This leads them to propose a relatively mild reform of the graduation rule, with one of the following two alternative options:

i. either retaining the two-criterion rule and making economic vulnerability a *sine qua non* component i.e., qualification for graduation will require meeting the thresholds of any two criteria, as long as the economic vulnerability criterion is one of them; or

ii. substituting a three-criterion rule for the two-criterion rule, thereby ruling out the eligibility for graduation of any country that would not meet the EVI threshold.

Option (i) seems to be preferred by the countries currently affected by the question of graduation, but both options would equally rule out the graduation of Cape Verde, Maldives and Samoa on the basis of the scores of these countries in the 2003 review of the list of LDCs.

While the superiority of the economic vulnerability criterion has never been recognised by the CDP, and the above-described debate has never been acknowledged by its members, the Committee has contemplated the possibility of a reform of the graduation rule. An element of substitutability among the criteria is among the modalities of such reform. The methodological changes that are anticipated to take place along these lines might generate some convergence in the debate on the primacy or non-primacy of the vulnerability criterion. This debate is important to the LDCs that are already, or likely to become, affected by the question of graduation—precisely because of their high economic vulnerability—and to interested observers within the UN system.

4. Desirable Responses Relevant to SIDS

As highlighted earlier, the aim pursued by the UN through the economic vulnerability criterion is not only to measure the susceptibility to external shocks beyond domestic control, but also to capture the elements of structural fragility that explain the exposure to the shocks and hinder the structural progress that should alleviate this exposure. This rationale is reflected by the three dimensions of the EVI. This conceptual wealth, together with the quantitative basis provided by the EVI, casts some light on the elements of vulnerability that can be targeted by policy makers. This section summarises the elements that can be regarded as most desirable in the range of action to alleviate the economic vulnerability of SIDS.

At the National Level in all SIDS

Any SIDS is likely to benefit, for policy purposes, from appropriate awareness of the various aspects of its economic vulnerability, whether this vulnerability is primarily due to external shocks or to structural handicaps. Apart from the information provided by the EVI to quantify the economic vulnerability of the country, a country-specific vulnerability profile can highlight in a detailed manner the magnitude and the multi-faceted nature of this vulnerability.

Meaningful action to reduce the economic vulnerability of a SIDS necessarily implies pursuing long-run policies by encouraging sustainable economic activities that are less vulnerable to external shocks, such as strengthening the competitiveness and stability of existing economic activities, and promoting activities that are less dependent on transport of goods or short-term economic conditions in other countries. Such policies will need to be supported by a favourable international environment, in particular, preferential access to relevant export markets.

If a high exposure to external shocks is explained by serious structural handicaps, it is essential that all efforts are pursued, in the national development strategy, to reduce the most critical structural handicaps the country is faced with, in particular, in the areas of infrastructure and human resource development. This warrants favourable treatment from development partners, in terms of concessionary financing for infrastructure projects, and technical assistance for institutional capacity-building.

Actions Appropriate for SIDS nearing Graduation

Distinct lines of action ought to be pursued by those SIDS that are among the LDCs and potential graduation cases. Of prime importance for these countries is the carrying out of a detailed assessment of the benefits effectively derived from LDC status, and of the anticipated impact of graduation. Such an exercise should be complemented by a re-examination and inventory of the forms of special treatment that are deemed vital to the economy, considering its permanent and special disadvantages.

On the basis of the outcome of such analysis, a SIDS that has come near to graduation threshold and anticipates that it will sooner or later be expected to graduate from LDC status, should contemplate the formulation of an "exit strategy". This implies a reasonable time-frame for graduation, bearing in mind the possible support by development partners toward concrete "smooth transition" measures in favour of graduating countries.

In parallel to such an exercise, the country ought to promote or support, in relevant international circles, the advocacy of smooth transition measures for graduating countries. In the WTO, Maldives, which is the only potential graduation case within the current membership of that organisation, has been advocating a smooth transition proposal under the auspices of the Committee on Trade and Development through its Work Programme on Small Economies.

At the Regional Level

At the regional or sub-regional level, practical assistance could be accorded to SIDS to enable them to analyse their economic vulnerability in the light of the UN methodology, and through the preparation of country-specific vulnerability profiles or sector-specific studies.

Technical support could be extended to potentially graduating least developed SIDS in analysing the benefits associated with LDC status, and the anticipated impact of graduation from this status. Further technical assistance could be provided to the countries that wish to identify the modalities of special treatment deemed most appropriate for them, and to devise a time frame toward eventual graduation, together with an inventory of desirable smooth transition measures.

5. Conclusions

Considerable progress has been made by the UN in dealing with economic vulnerability issues in the context of ongoing UN support to the LDCs and SIDS. The most visible aspect of this progress has been the conceptual improvement in the criteria for reviewing the list of LDCs, with the introduction, in 2000, of an economic vulnerability criterion. A debate on the importance that should be given to this criterion in the periodic review of the list has taken place, and is likely to be amplified or influenced by the urgency of two potential graduation cases, and the imminence of an additional one.

It is advisable that this debate should not be confined to methodological aspects regarding the graduation rule, and that more attention be paid to the important link between the notion (and measurement) of economic vulnerability and the question of the differentiated treatment of developing countries. This could involve important steps such as proposing new LDC-specific concessions in a vulnerability reduction perspective.

UNCTAD, through decades of work on the specific problems of LDCs, land-locked developing countries and SIDS, has been trying to enrich the UN approach to economic vulnerability. This was done mainly through a range of inputs to the work of the CDP and through direct support to various member states in strengthening their capacity to develop a policy framework, enhance trade efficiency, and promote relevant economic sectors.

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ANNEX
Summary of UNCTAD's Action in Favour of Small Island Developing States (2003-2004)

Area or Subject of Action	Nature of Action	Use made of Relevant Outputs
1. SUPPORT TO SIDS AS A GROUP		
Support to the Alliance of Small Island States (AOSIS)	Availability to provide AOSIS with advice on SIDS-specific issues, with special reference to the Mauritius International Meeting.	Background information from UNCTAD was used by AOSIS members in relevant UN events (e.g. UNCTAD X, UNCTAD XI).
Within the United Nations		
Support for the implementation of the Barbados Programme of Action on the Sustainable Development of Small Island Developing States	Advisory services to SIDS on various economic aspects of the Barbados Programme of Action, with particular focus on issues of economic vulnerability and trade liberalisation.	See specific uses below.
Support to SIDS in the preparations for the International Meeting to review the implementation of the Barbados Programme of Action (Mauritius, 10-14 January 2005)	Substantive support to SIDS, particularly at regional levels, on relevant economic issues.	Advocacy for a differentiated special treatment of SIDS in the context of the Mauritius International Meeting.
Subject to specific request from AOSIS or individual SIDS, support to SIDS in the follow-up to UNCTAD XI (São Paulo, June 2004)	Special attention to SIDS development concerns of relevance to UNCTAD's mandate.	Outcome of relevant work can be used by SIDS either as policy guidelines or to justify further UNCTAD action in favour of SIDS.
Follow-up to the Third UN Conference on the Least Developed Countries (LDC III) (Brussels, May 2001)	Special support to least developed SIDS in post-LDC III action (Cape Verde, Comoros, Kiribati, Maldives, Samoa, São Tomé & Principe, Solomon Islands, Timor-Leste, Tuvalu, Vanuatu)	UNCTAD support can be used by relevant countries toward implementation of commitments made in LDC III in the framework of the Programme of Action for the LDCs for the 2001-2010 decade.
Subject to specific request from SIDS and relevance to UNCTAD's mandate, support to SIDS in the follow-up to relevant UN conferences (e.g., Monterrey, Johannesburg)	Advisory support.	UNCTAD support can be used by SIDS toward implementation of commitments made in the relevant conferences.

ANNEX (continued)

Within the World Trade Organisation		
Area or Subject of Action	**Nature of Action**	**Use made of Relevant Outputs**
Support to SIDS members and observers of the WTO in the framework of its Work Programme on Small Economies	Advice to SIDS members and observers of the WTO in their advocacy of differentiated special treatment on grounds of island-specific structural handicaps and economic vulnerability.	UNCTAD's analytical work on SIDS has been found useful by SIDS members and observers of the WTO in their efforts to substantiate the case for a special treatment of SIDS.
Agriculture	Advice to SIDS members of the WTO in formulating relevant negotiating points under the Agreement on Agriculture.	A study by UNCTAD was used by Dominica, Jamaica, Mauritius, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago, in Dec. 2000, for a communication by SIDS on WTO negotiations on agriculture (G/AG/NG/W/97).
Services	Advice to SIDS members of the WTO in preparing relevant negotiating points under the GATS.	To be ascertained.

2. ONGOING RESEARCH AND ANALYSIS		
The economic vulnerability of SIDS to external shocks	Research based on UN data, aimed at substantiating the case for a differentiated special treatment of SIDS in the framework of international cooperation.	Background information has been useful in various advocacy activities.
SIDS and the question of graduation from Least Developed Country status	Analysis of relevant potential graduation cases (Beneficiaries: Cape Verde, Maldives, Samoa and Vanuatu).	The relevant countries have used UNCTAD's work in their submissions to ECOSOC in the context of the review of the list of LDCs.
Evolution, strategies and new opportunities in the economic specialisation of SIDS	Research on trends in the economic specialization of SIDS and opportunities in new economic sectors of special interest to SIDS.	General background information.
Multilateral trade liberalisation: implications for SIDS	Inventory of issues of special interest to SIDS members and observers of the WTO, and advocacy of a differentiated special treatment.	Background information has been used by SIDS in relevant advocacy activities.

ANNEX (continued)

Area or Subject of Action	Nature of Action	Use made of Relevant Outputs
SIDS and liberalisation in agricultural trade	Cross-country research to facilitate the formulation of negotiating points of particular interest to SIDS members and observers of the WTO.	Background information has been used by SIDS in relevant advocacy activities.
Trade and the environment: an important relationship for SIDS	Analysis of issues relevant to environment-related standards, organic exports, and exports based on traditional knowledge linked to the biodiversity. (Beneficiaries: SIDS members of CARICOM and the Pacific Islands Forum Secretariat).	Background information has been used by SIDS in formulating relevant policies.
SIDS and liberalisation in trade in services	Inventory of issues relevant to SIDS offers under the GATS. (Beneficiaries: all SIDS members and observers of the WTO).	Background information has been used by SIDS in translating elements of service development strategies into negotiating points for their schedules of commitments and restrictions under the GATS.
SIDS and the music industry	Advice on increasing the local input to, and expected economic opportunities from, the music industry in SIDS, with a focus on Caribbean and Indian Ocean SIDS.	Background information is relevant to SIDS that seek to formulate national policies for this economic sector.
Competition policy in SIDS	Tailoring competition policy to SIDS.	Background information has been focusing on Caribbean countries.
Foreign direct investment in SIDS	Detailed review of relevant trends and issues.	No particular use until release of UNCTAD publication on SIDS.
Trade liberalisation and regional integration in the Caribbean and the Pacific	Detailed review of relevant regional issues (the subject is also of interest to other SIDS).	Background information has been useful in relevant technical cooperation activities (sensitisation, training, etc.).

ANNEX (continued)

Area or Subject of Action	Nature of Action	Use made of Relevant Outputs
	3. TECHNICAL COOPERATION	
Preparation of vulnerability profiles of least developed SIDS that have come near to thresholds of graduation from Least Developed Country status	Analytical work based on the different dimensions of economic vulnerability. (Beneficiaries: Cape Verde, Maldives, Samoa, Vanuatu).	Country-specific vulnerability profiles have been used by the Committee for Development Policy in its consideration of graduation cases.
	Trade Policy	
Negotiations on accession to, or ongoing or future negotiations in, the WTO	Advisory services, sensitisation and training. (Beneficiaries: Cape Verde, Samoa).	In both cases, a trade policy diagnosis was made in the light of an analysis of key sectoral issues. Implications for negotiations relevant to the country's accession to the WTO were identified.
Negotiations in the context of regional integration	Advisory services, sensitisation and training. (Beneficiaries: Pacific island countries).	UNCTAD's assistance was sought by Pacific SIDS in the context of the creation of the Pacific free-trade area
Competition policy	Advisory services, sensitisation and training. (Beneficiaries: Barbados and OECS countries, Mauritius).	Awareness activities and policy advice have increased the capacity of relevant countries to formulate appropriate competition policies.
	Investment Policy	
Investment policy review	Survey, national seminar, policy recommendations. (Beneficiary: Mauritius).	Direct input to policy formulation at the national level.
Strengthening foreign direct investment policy	Institutional capacity building. (Beneficiary: Maldives).	Direct input to policy formulation through a "Good Governance in Investment Promotion" project.
Innovation and technology review	Survey, national seminar, recommendations. (Beneficiary: Jamaica).	Direct input to policy formulation, with particular reference to the music industry.