LESSONS LEARNED ON RESILIENCE TO ECONOMIC SHOCKS WITH REFERENCE TO SMALL ISLAND DEVELOPING STATES

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In my comments I will focus on small island developing states (SIDS) although the implications of my comments apply to all countries.

The University of Malta has been working for many years on the issue of economic vulnerability, briefly defined as exposure to external economic shocks over which the country receiving the shock has very little control. In our work, often in collaboration with the Commonwealth Secretariat, we have repeatedly found that SIDS, as a group of countries, are highly economically vulnerable, and therefore face serious constraints in their quest for economic advancement.

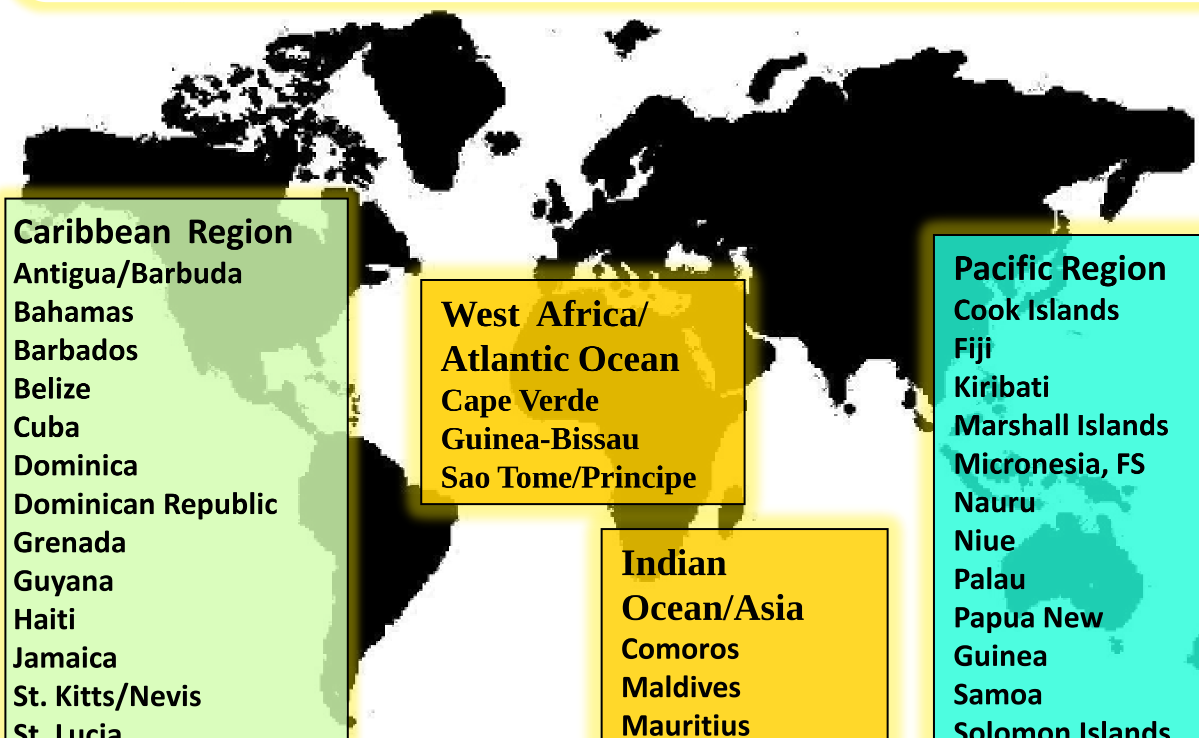
The reason for this is that they have to be highly dependent on international trade due to their small domestic market, a situation exacerbated by a high degree of dependence on a narrow range of exports and on strategic imports, highly income inelastic, including food and fuel.

Many SIDS face additional economic disadvantages associated with 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.

From the very start of our work, we have contended that this should not be construed as an argument for complacency on the part of SIDS because a number of policy options which could enable these states to build their economic resilience are open, in order to minimise the negative effects of external economic shocks, are open to them.

Location of SIDS

Most small island **developing** states are located in (a) the Caribbean Sea, (b) the South Pacific Ocean and (c) the Indian Ocean/East Atlantic Ocean



Caribbean Region
- Antigua/Barbuda
- Bahamas
- Barbados
- Belize
- Cuba
- Dominica
- Dominican Republic
- Grenada
- Guyana
- Haiti
- Jamaica
- St. Kitts/Nevis
- St. Lucia
- St. Vincent/Grenadines
- Suriname
- Trinidad/Tobago

West Africa/ Atlantic Ocean
- Cape Verde
- Guinea-Bissau
- Sao Tome/Principe

Indian Ocean/Asia
- Comoros
- Maldives
- Mauritius
- Seychelles
- Singapore
- Timor-Leste

Pacific Region
- Cook Islands
- Fiji
- Kiribati
- Marshall Islands
- Micronesia, FS
- Nauru
- Niue
- Palau
- Papua New Guinea
- Samoa
- Solomon Islands
- Tonga
- Tuvalu
- Vanuatu

Most SIDS are located in the Pacific Ocean, Indian Ocean and the Caribbean Sea. They have an important voice in the international arena through the Alliance of Small Island States (AOSIS). AOSIS had a leading role in the Barbados conference on the sustainable development of SIDS (1994) and in the Mauritius conference on the ten-year review of the BPoA. The Alliance is also very visible in climate change negotiations, including the Conference of the Parties where signatories of the United Nations Framework Convention on Climate Change (UNFCCC) assess progress in dealing with climate change in order to establish obligations for countries to reduce their greenhouse gas emissions.

Inherent Economic Vulnerability

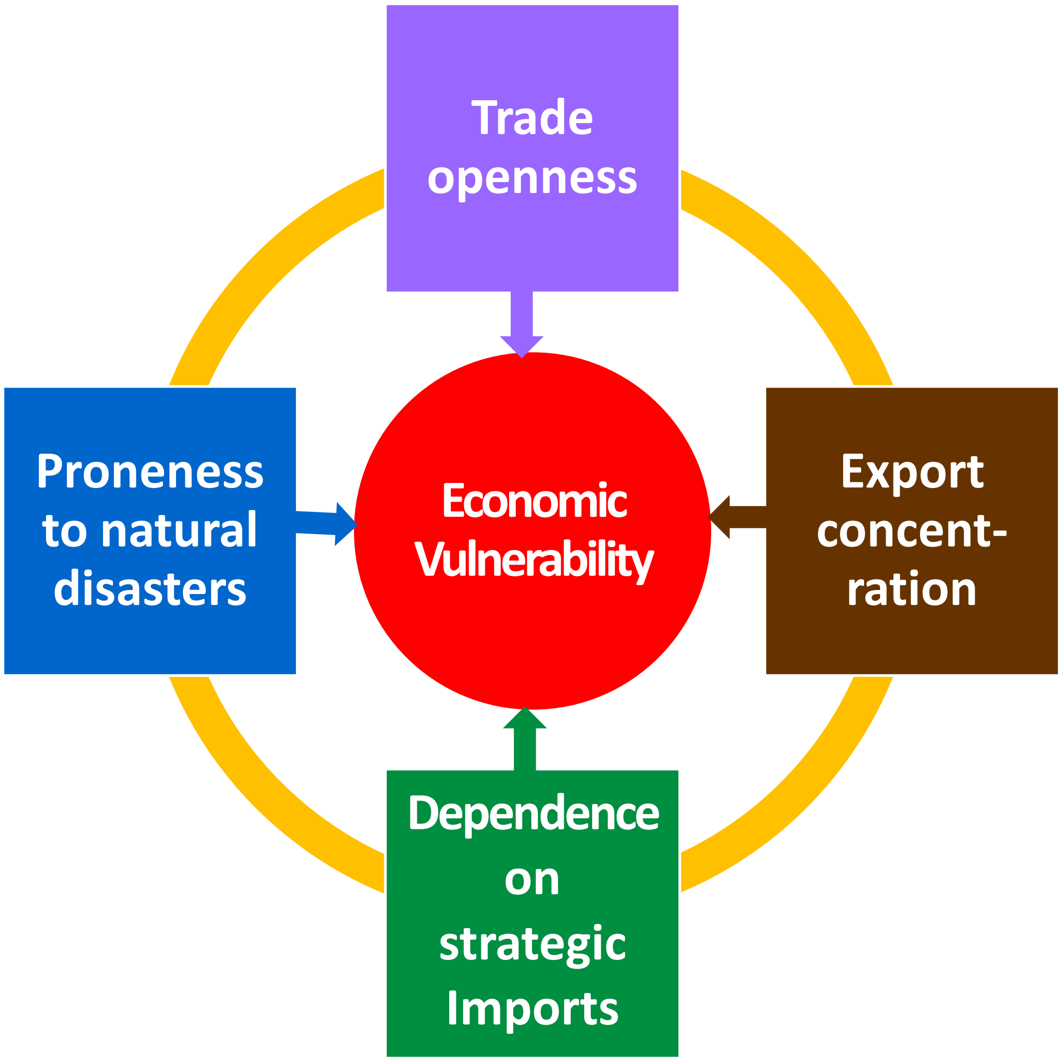
Very high degree of **trade openness** (dependence on exports and imports) render an economy highly exposed to shocks.

High degree of **export concentration** (dependence on a few categories of exports) exacerbate 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 exacerbate exposure to shocks.

Proneness to natural disasters, lead to economic shocks and exacerbate the effects of external shocks.

Components of the Economic Vulnerability Index



Note: The calculations relating to the economic vulnerability index are derived from Briguglio, L. (2014). "A Revised Economic Vulnerability and Resilience Framework". Report commissioned by the Commonwealth Secretariat

Policy Measures that lead to Economic Resilience

Macroeconomic stability, which allows policy manoeuvre following an external shocks.

Market flexibility, enabling the economy to adjust following external shocks, without excessive financial riskiness.

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

Note: The calculations relating to the economic resilience index are derived from Briguglio, L. (2014). "A Revised Vulnerability and Resilience Framework". Report commissioned by the Commonwealth Secretariat

The policies that are conducive to economic resilience building include:

1. The promotion of macroeconomic stability. Economic instability including high debt ratios, high inflation rates, high unemployment rates and high balance of payment deficits, do not leave much room for manoeuvre when a country is exposed to economic shocks.

2. Market flexibility, enabling the country to adjust when it experiences disequilibria die to external shocks, although in our study we warn that excessive risk taking under free market conditions, particularly in the financial market, could lead to additional problems, as we saw during the recent financial crisis

3. Good political governance which is an over arching requisite – without good governance it would be more likely that adverse shocks lead to economic and social chaos and unrest, thereby exacerbating the effects of economic vulnerability.

On the other hand, good governance can strengthen an economy's resilience because external shocks would be better absorbed and counteracted in an atmosphere of predictable laws and credible policies.

4. Social cohesion and social development – civil unrest and social backwardness divert the focus of the government from economic resilience building; and

5. Good environmental management, through enforceable rules, economic instruments and education aimed at encouraging good environmental practices, can be conducive to an improved ability to withstand external shocks, particularly those emanating from natural hazards.

Four major messages emerge from these arguments:

(a) economic resilience building is multifaceted and this calls for a holistic approach where social, political and environmental governance policies accompany and support economic policies;

(b) given that SIDS tend to be highly exposed to external shocks, they should assign major importance to resilience-building policies and should embed such policies into their national plans and strategies;

(c) resilience building involves high overhead costs, relating to institutional capacity building, and these are not likely to be downsized in proportion to the population, leading to the problem of indivisibility and rendering resilience building policies very costly, per capita, for SIDS; and

(d) multilateral and bilateral donors should enhance their resilience-building support facilities, particularly for SIDS, and these donors should effectively factor in a vulnerability criterion in their schemes to support SIDS.

Thank you for your attention