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The Challenge of Small Island Developing States

Wim Naudé, Mark McGillivray and Amelia U. Santos-Paulino

A vital part of WIDER's research agenda has in recent years focused on the challenges faced by Small Island Developing States (SIDS) – a group of countries and territories often neglected in the mainstream development discourse. Understanding the challenges faced by SIDS is important, particularly given the impact of global crises and natural disasters on their development prospects. In many ways, SIDS are bearing the brunt of crises in climate, food and finance and their responses and efforts at building resilience may provide valuable lessons for other countries and regions. In this article, we provide a brief overview based on three journal special issues and sections emanating from the WIDER research project on Fragility and Development, dealing with the core concerns of SIDS.

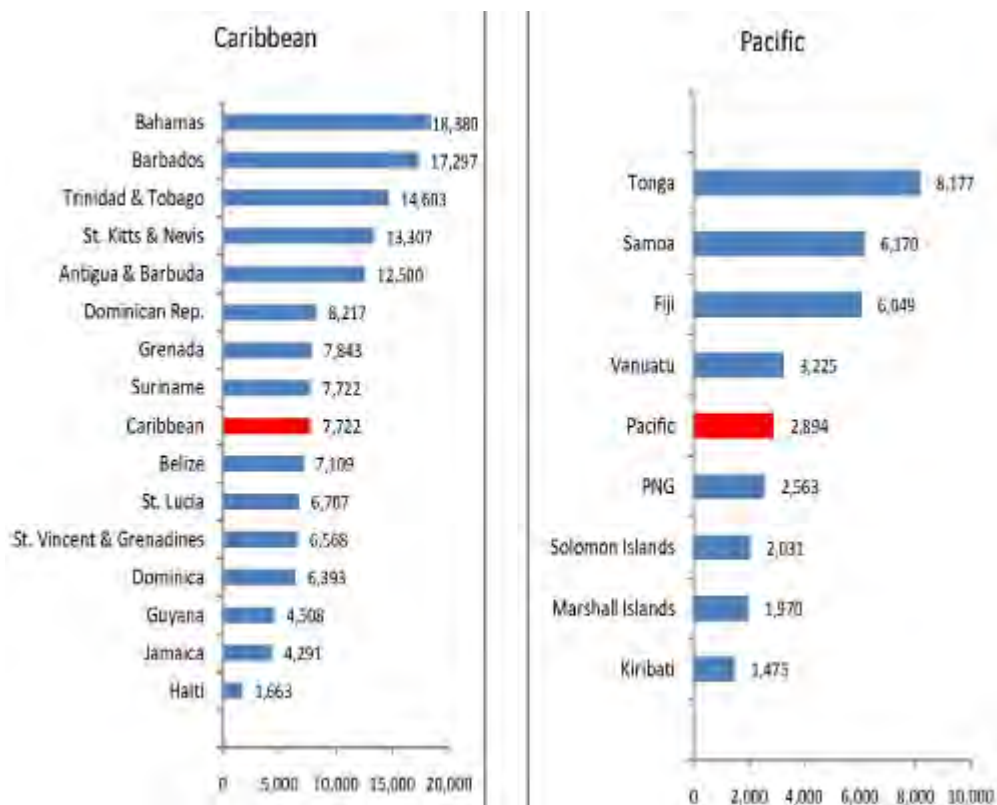


The flight arrivals and departures notice board at Bonriki International Airport, Kiribati's only international airport.
Photo: Mark McGillivray

A Diverse Group

SIDS is a diverse group in a number respects – in fact the United Nations currently classifies 52 countries and territories as Small Island Developing States (SIDS). More than 50 million people live in these countries. Forty-three of them are located in the Caribbean and the Pacific regions. The group includes countries that are relatively rich by developing country standards, such as Singapore and Bahamas, but also some of the poorest countries in the world, including Comoros, Haiti, Kiribati and Timor-Leste.

As Figure 1 shows (comparing GDP per capita in the Caribbean and Pacific) that, GDP per capita ranges from \$US 28,000 in Singapore to only \$US 369 in the Comoros.



(Source: adapted from Naudé, McGillivray and Santos-Paulino, eds. *Vulnerability in Developing Countries*, Chapter 10).

Sharing a Common Vulnerability to External Shocks

Despite this, all SIDS are vulnerable to economic shocks and natural hazards to a degree that few other countries or regions are. This is reflected in the volatility of SIDS GDP growth. SIDS located in the Pacific region record the lowest average and by far the most volatile GDP growth. Pacific SIDS growth rates range from 2.0 to 9.1 percent and the volatility, as measured by the coefficient of variation is more than twice that of all developing countries and the SIDS group as a whole. Volatility in GDP growth rates is also higher in SIDS located in Africa and the Caribbean, respectively, than in all developed countries.

SIDS rely heavily on trade to drive growth, hence the volatility of their growth. Work carried out for the WIDER project, for instance, shows that in the Caribbean the top five export commodities for between 70 per cent and 96 per cent of the regions' exports. This creates economic vulnerability to changes in export demand and commodity prices. Trade flows, expressed as the sum of commodity exports and imports relative to GDP, are far higher in SIDS than in all other Developing countries (DCs) and the Least Developed Country (LDCs) group. Commodity exports and imports as a percentage of GDP in any one year were no less than 95 and as high as 141 per cent, and averaged 110 per cent over the period 1980 to 2007. The equivalent numbers for all developing countries were 64, 94 and 78 per cent, respectively.

More pertinent is volatility in trade given its implications for vulnerability to external shocks. Indeed, SIDS trade is more volatile than for other developing countries. The coefficient of variation for SIDS trade relative to GDP for the period 1980 to 2007 is 10.23, compared to 7.56 and 8.80 for DCs and LDCs respectively.

In addition to export dependency, external vulnerability is accentuated by the fact that for most households in SIDS, remittances from abroad is a very important source of income. While this create a vulnerability towards global downturns , when remittance decline (as during the recent global financial crisis) it also acts as a buffer in the case of local hazards – it is often found that remittances to SIDS increase in the wake of a natural disaster.



A woman walks away from a burning market in Port-au-Prince, Haiti, after the January 2010 earthquake. Source: UN Photo: Marco Dormino

Natural disasters remain a looming threat to daily life in most SIDS, and many expect the frequency and intensity of natural hazards to increase as a result of climate change. The February 2010 Angle Newsletter contained two feature articles focusing on natural disasters, particular earthquakes, in the wake of Haiti's terrible earthquake of 12 January 2010. As Evans Jadotte put it in his Angle article, the earthquake 'came as a terrible unexpected shock to one of the poorest countries in the world, that is still staggering from three hurricanes and a tropical storm that wrecked almost 70 per cent of its agriculture in 2008'. To this one can add that the disaster occurred during a global slowdown, when needed remittances and aid were on a declining trajectory. Vulnerabilities to economic and natural shocks are very much intertwined in many SIDS.

The Need to Strengthen Resilience

Natural hazards and external economic shocks need not result in disasters – but this requires building and strengthening the resilience of households and states in SIDS. Education, health and infrastructure contribute importantly to household resilience. However in providing these many SIDS fall short, and often require substantial foreign aid. Overall, SIDS receive the highest levels of foreign aid of all developing countries relative to their GDP – over the period 1980 to 2006 amounting on average to 16 per cent of GDPs, compared to only one per cent on average for all other developing countries.

There is however considerable variation within the SIDS group in terms of aid, remittance and FDI flows. SIDS in the Pacific receive very large amounts of aid and remittances and low amounts of FDI relative to GDP. Aid and remittances to these countries are indeed far higher, at the equivalent of 23 and 11 per cent of GDP, respectively. African SIDS receive higher levels of FDI relative to GDP, at 19 per cent, than the other groups of SIDS. The Caribbean SIDS depend less on aid, remittances and FDI, with these flows being no higher than the equivalent of six per cent of GDP.

Resilience is often constrained by the fact that the quality of governance varies tremendously among SIDS and many are prone to state failure – SIDS are over-represented in the fragile state category countries. This is made worse by evidence that fragile and failing states are less able to absorb aid effectively.

Concluding Remarks

Achieving and sustaining development in SIDS is a complex and demanding tasks. Among its prerequisites is an understanding of the roles played by aid, trade, remittances and governance. What is the impact of aid on growth and related outcomes? How should aid be allocated among SIDS? What are the impacts of trade shocks on current account balances? What drives remittances to SIDS and what are their macroeconomic impacts? What is the relevance of governance to growth in SIDS and what are the costs of state failure in them? These issues are addressed in the three journal special issues emanating from the WIDER research project on Fragility and Development.

The papers in the WIDER special issues referred to (see further reading below) all strongly suggest that the role of the international community is crucial in the future development of SIDS. Many crucial but unresolved issues remain. As mentioned here, the role of aid in overcoming fragility and vulnerability is not straightforward, and the integration of SIDS into the global economy not without adverse affects. Many global uncertainties, amongst which global climate change, rising oil and food prices, and changing patterns of south-south trade are of rising concern to these states. Future research will have to deal with these aspects, however, the contributions in these issues emphasizes the importance of strengthening governance, establishing political stability, implementing better macro-economic policies and building human capital as immediate priorities. These will also be needed to confront future uncertainties.

Finally, despite facing a common set of complex development challenges as was emphasized here, SIDS many differences. They represent countries with different historical-institutional development paths, with differing levels of development, state formation and effectiveness, and different external relations. While there are many common solutions, eventually all solutions will have to implemented and adopted to the unique circumstances facing every individual country in this region. Much further research is required to better understand these individual country requirements to address the challenges of SIDS.

About the authors

Mark McGillivray is Research Professor in International Development at the Alfred Deakin Research Institute, Deakin University, Australia, and a previous Deputy Director of UNU-WIDER.

Wim Naudé is Senior Research Fellow and Project Director at UNU-WIDER, Helsinki, Finland.

Amelia U. Santos-Paulino is Research Fellow at UNU-WIDER, Helsinki, Finland.

Further reading

Special Issue: Fragility and Development in Small Island Developing States

Edited by Amelia U. Santos-Paulino, Mark McGillivray and Wim Naudé

Journal of Development Studies, May 2010, volume 46, number 5.



Policy Arena: Small Island Developing States: Development Challenges
Edited by Mark McGillivray, Wim Naudé and Amelia Santos-Paulino
Journal of International Development, May 2008, volume 20 number 4.



Focus: Achieving Growth in the Pacific
Edited by Mark McGillivray, Wim Naudé and Amelia Santos-Paulino
Pacific Economic Bulletin, July 2008, volume 23 number 2.



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Edited by Wim Naudé, Amelia U. Santos-Paulino and Mark McGillivray
United Nations University Press, August 2009.



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