Sustaining development in small states in a turbulent global economy

6-7 July 2009

Commonwealth Secretariat
Marlborough House, London

OBJECTIVES OF THE MEETING

- Discuss the impact of the global financial and economic crisis on small states;
- Share information on issues of concern to small states;
- Discuss the projections for the future of small states;
- Identify and agree on the policies and strategies that can assist small states to cope with the current global financial and economic crisis.

EXPECTED OUTCOMES:

- An outcome statement of the current situation in small states and the policies and strategies that can promote the development of small states.
- Agreement on the steps that need to be taken to ensure the development and implementation of an action plan for assistance to small states.

Programme

Monday, 6 July 2009

08:00-09:00 Welcome, Coffee and Registration

9:00 -10:30 **OPENING SESSION**
Chair: Dr. Cyrus Rustomjee,
Director, Economic Affairs Division

Opening Address: Mr. Ransford Smith,
Deputy-Secretary General,
Commonwealth Secretariat

Presentation:
Financing for developments –
Dr. Jomo Sundaram, UN Assistant Secretary General for Economic Development

Discussion

10:30-10:45 Tea/Coffee Break, Blenheim Saloon

10:45-13:00 **SESSION I**
The Impact of the Global Economic and Financial Crisis on the Growth and Development of Small States
Chair: Mr. Jose Maurel, Director,
Special Advisory Services Division

Presentations:
- Caribbean Region – Professor Andrew Downes, University of the West Indies
- Response by DFID in the Caribbean region - Mr. Ian McKendry
- Pacific Region – Professor Biman Prasad, University of the South Pacific

Discussion

- African Region – Professor Happy Siphambe, University of Botswana
- Indian Ocean Region – Dr. Gerard Adonis (Consultant), Seychelles
- Mediterranean Region – Professor Lino Briguglio, University of Malta

Discussion

13:00-14:00 Lunch Break, Blenheim Saloon

14:00-15:30 **SESSION II**
Human Development
Chair: Dr. Caroline Pontefract, Director,
Social Transformation Programmes Division

Presentations:
- Addressing the social impact of the crisis – Dr. Naren Prasad, International Labour Organisation
- Re-establishing progress on the Millennium Development Goals – Dr. John Roberts, University of Mauritius

Discussion

15:30-17:30 **SESSION III**
Trade, Investment and Private Sector Development
Chair: Mr. David Ashiagbor, Adviser
International Finance and Capital Markets,
Economic Affairs Division.

Presentations:
- Impact of the crisis on the trade prospects of small states – Veniana Qalo, Commonwealth Secretariat
- Aid for Trade – Dr. Nichodemus Rudaheranwa, Commonwealth Secretariat
- Impact on investment and private sector development in small states – Dr. Dirk Willem Te Velde, Overseas Development Institute

Discussion

17:30-19:00 *Cocktails, Blenheim Saloon*

Programme
Tuesday, 7 July 2009

9:00-11:00 **SESSION IV**
Economic Development Policies in Small States
Chair: Ms. Samantha Attridge, Adviser, International Finance and Capital Markets, Economic Affairs Division

Presentations:
- Monetary Policy Responses (Caribbean) – Mr. Anthony Birchwood, Caribbean Centre for Money and Finance
- Monetary and Regulatory issues – Mr Ewart Williams, Governor Central Bank of Trinidad and Tobago
- Monetary Policy Responses (Pacific) – Mr. T.K. Jayaraman, University of the South Pacific
- Monetary and Fiscal Policy Responses (Indian Ocean and Africa) – Dr. Gerard Adonis (Consultant), Seychelles

Discussion

- Small States Debt Problem – Mr. Edgardo Favaro, World Bank
- Fiscal Policy Responses (Pacific) - Professor Paresh Narayan, Deakin University, Melbourne, Australia
- Fiscal Policy Responses (Caribbean) - Dr. Marielle Goto (Consultant)
- Social Policy Responses – Dr. Naren Prasad, International Labour Organisation

Discussion

11:00-11:15 Tea/Coffee Break, Blenheim Saloon

11:15-13:15 **SESSION V**
Development Prospects for Small States
Chair: Ms. Janet Strachan, Adviser and Acting Head, Small States Environment and Economic Management

Presentations:
- Diversifying the economic base of small states – Dr. Keith Nurse, Director Shridath Ramphal Centre
- Benefiting from environmentally friendly policies – Mr. Cletus Springer, Organisation for American States
- Building economic resilience – Professor Lino Briguglio, University of Malta

Discussion

13:15 – 14:15 Lunch Break, Blenheim Saloon

14:15-16:15 **SESSION VI**
Partnerships for Small States Development
Chair: Mr. Jonathan Ockenden, Adviser and Head, International Finance and Capital Markets, Economic Affairs Division

Presentations:
- Conceptual issues and inter-regional and intra-regional collaboration – Mr. Cletus Springer, Organisation for American States
- North-South and South-South Collaboration – Dr. John Roberts, University of Mauritius
- Regional Organisations in partnerships for Development – Sanjesh Naidu, Pacific Islands Forum Secretariat; Raj Mohabeer, Indian Ocean Commission
- Commonwealth Secretariat Small States global meeting – Mr. David Peretz (Consultant)

Discussion

16:15-17:30 **CLOSING SESSION**
Chair: Mrs. Masire-Mwamba, Deputy Secretary General

Agreement on next steps
Approval of the final statement
Closing remarks

Background

What are small states?

The Commonwealth defines small states as sovereign states with a population size of 1.5 million people or less.[1] Using this standard, 46 countries are small.

These countries are:

Country	2006 Population ('000)	Population Rank 1= smallest
Antigua and Barbuda[1]	84	9
Bahamas, The[1]	327	24
Bahrain	739	35
Barbados[1]	293	20
Belize[1]	298	21
Bhutan	649	32
Brunei Darussalam[1]	382	25
Cape Verde	519	31
Comoros	684	34
Cook Islands	20	5
Cyprus[1,2]	771	37
Djibouti	839	40
Dominica[1]	72	8
Equatorial Guinea	496	30
Estonia	1,344	46
Fiji[1]	833	39
Gabon	1,311	44
Grenada[1]	108	13
Guyana[1]	739	36
Iceland[2]	302	23
Kiribati[1]	100	11
Luxembourg[2]	462	28
Maldives[1]	300	22
Malta[1,2]	406	26
Marshall Islands	52	7
Mauritius[1]	1,253	43
Micronesia, Fed. Sts.	118	14
Montenegro	678	33
Nauru[1]	10	2
Niue	2	1
Palau	19	4
Qatar	821	38
Samoa[1]	185	18
Sao Tome & Principe	155	16
Seychelles[1]	85	10
Solomon Islands[1]	484	29
St. Kitts & Nevis[1]	48	6
St. Lucia[1]	166	17
St. Vincent & the Grenadines[1]	120	15
Suriname	455	27
Swaziland[1]	1,138	42
Timor-Leste	1,029	41
Tonga[1]	100	12
Trinidad and Tobago[1]	1,328	45
Tuvalu[1]	10	2
Vanuatu[1]	221	19

Notes: [1]Commonwealth Small States [2] Advanced Economies
Source: World Bank data website (www.devdata.worldbank.org)

In addition, the Commonwealth also includes the larger member countries – *Botswana, Jamaica, the Gambia, Lesotho, Namibia, and Papua New Guinea* because these countries share many of the same characteristics of small states.

Therefore, the Commonwealth currently designates thirty-two of its member states as small states.

The following characteristics[2] have important implications for development and are shared by many small states:

- **Remoteness and insularity** - Of the world's 46 small states, 34 are islands, a number of which are located far from major markets – as in the case of the Pacific islands and Mauritius. Some are widely dispersed multi-island micro-states.

- **Susceptibility to natural disasters** - Most small states are in regions frequently affected by adverse climatic and other natural events which, typically, affect the entire population and economy. They may also be susceptible to severe environmental and ecological threats.

- **Limited institutional capacity** - Sovereignty necessitates certain fixed costs of providing public services, including policy formulation, regulatory activities, education and social services, justice, security, and foreign affairs. Indivisibilities in the provision of these public goods mean that small states face higher costs per person unless ways can be found to pool such costs, for example on a regional basis.

- **Limited diversification** - Because of their narrow resource base and small domestic markets, many small states are necessarily relatively undiversified in their production and exports. So capacity in the private sector is also limited, posing difficulties when faced with a need to respond to changing external circumstances.

- **Openness** - Small economies tend to rely heavily on external trade and foreign investment to overcome their inherent scale and resource limitations. While this can prove beneficial in exposing them to outside competition and ideas, it leaves them vulnerable to external economic and environmental shocks, especially where the domestic economy is undiversified.

- **Access to external capital** - Access to global capital markets is important for small states, and is one way to compensate for adverse shocks and income volatility. But the evidence is that private markets tend to see small states as more risky than larger states, so that spreads are higher and market access more difficult.

- **Poverty** - There is some evidence that poverty levels are higher, and income distribution more uneven, in smaller than in larger states.

These characteristics result in small states being extremely vulnerable. This vulnerability is manifested by high levels of fluctuations in GDP, input costs and export earnings.

1 *A Future for Small States: Overcoming Vulnerability*, Commonwealth Advisory Group, 1997
2 *Small States: Meeting challenges in the global economy*, Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States, 2000

Recent Economic Developments in Small States

In 2007, Commonwealth small states experienced slower growth than in previous years. Their growth rates have been lower than the world average and the average for emerging markets and developing countries as a whole. The main sources of growth included tourism, construction, agriculture, mining and petroleum. Inflation was higher on average than in the previous year, mainly because of changes in food and fuel prices, the inflation rate in the countries' trading partners and government subsidies and tax measures. At the same time, most Commonwealth small states recorded a widening of their current account deficit. In contrast, six Commonwealth small states- Botswana, Brunei, Lesotho, Namibia, Papua New Guinea and Trinidad and Tobago-, that exported predominantly minerals and petroleum products, achieved an increased current account surplus.

Development aid to small states declined in 2006, compared with the previous year, while many small states achieved increases in both remittances and FDI. Aggregate official international reserves increased by 17 per cent over the previous year. Analysis of human development trends in small states shows that although GNI per capita has increased in all small states, some countries have experienced a decline in life expectancy and adult literacy levels have remained largely unchanged. Policy-makers in small states face a number of key issues, including diversification, public sector reform, private sector development, effective macro-economic policy implementation and infrastructure development.

In 2007, the real GDP of Commonwealth small states grew by 4.2 per cent, compared with 5.1 per cent in the previous year (Figure 1.1 and Table 1.1). The growth rate of small states in 2007 was below the average for the world and that for developing countries as a whole. The lower growth rate can be attributed to the fact that 2006 was characterised by unusually high growth for a number of countries, including Maldives (recovery after the tsunami), Trinidad and Tobago (growth in the energy sector) and Antigua and Barbuda (growth in construction), as well as to slower growth in major trading partners and rising oil and commodity prices. In 2007, the world economy grew by 4.9 per cent, while emerging markets and developing countries grew by an

Figure 1:1 Real GDP Growth rates

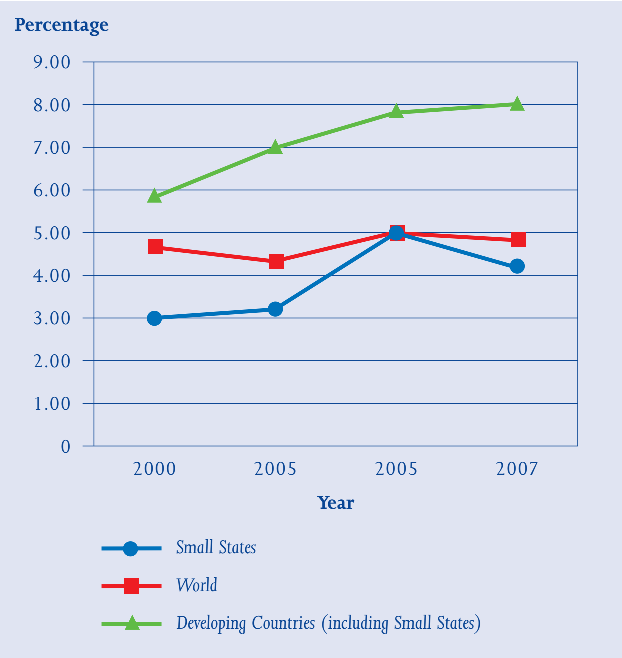

Table 1.1 - Real GDP growth rates (Annual Average, percentage)

	Real GDP growth			
	2000	2005	2006	2007
Small States	**3.03**	**3.20**	**5.08**	**4.16**
African Small States	4.32	3.92	4.78	4.80
Caribbean Small States	3.46	3.97	5.38	3.57
South China Sea Island and Indian Ocean Small States	4.80	0.03	7.83	4.48
Mediterranean Small States	2.00	3.70	3.55	4.05
Pacific Small States	0.56	4.39	3.86	3.89
World	**4.70**	**4.40**	**5.00**	**4.90**
Advanced Economies	4.00	2.60	3.00	2.60
Other Emerging markets and Developing countries (including Small States)	5.90	7.10	7.90	8.00
Regional Groups				
Africa	3.50	5.80	6.10	6.30
Central and Eastern Europe	4.90	6.10	6.70	5.70
Commonwealth of Independent States	9.10	6.80	8.20	8.60
Developing Asia	7.00	9.00	9.90	10.00
Middle East	5.50	5.70	5.70	5.90
Western Hemisphere	4.10	4.70	5.50	5.60

Source: IMF, World Economic Outlook, September 2008

impressive 8 per cent. A regional breakdown of the 2007 growth figures shows that growth in small states was led by the South China Sea and Indian Ocean small states, which grew by 4.5 per cent, and by African small states, which grew by 4.8 per cent, a rate that was 1.5 per cent lower than the growth recorded for the African continent as a whole.

The Global Economic Crisis

The global economic crisis has been extensively analysed and commented on in recent months. This section briefly focuses on some of the key impacts of the crisis in Commonwealth member countries. The crisis originated in the US housing market and spread through the financial systems of the US and Western Europe. Initial concern for developing countries was that the crisis would be transmitted from the advanced countries through the financial sectors of developing countries. But while developing countries' financial sectors have indeed weakened, the strongest transmission channels for the crisis have in fact been through the real sectors of these economies.

In the Commonwealth's smaller, poorer and most vulnerable developing countries, as in the case of many other countries, the crisis has reduced - and since the second quarter of 2009 has reversed - global GDP growth, resulted in sharp reductions in exports, worker's remittances and access to finance; has triggered declining fiscal revenues, increased demands for social service provision and the maintenance of social safety nets and has substantially increased levels of unemployment. GDP has declined in the advanced economies most affected by the financial crisis, for the first time since the Second World War. And in developing countries, the World Bank notes that average projected GDP growth is now about a quarter of its projected level before the crisis. For these countries, the Bank estimates that growth will decline to

1.6% in 2009, from an average of 8.1% in 2006-2007. In Sub-Saharan Africa, the worst-affected region, growth is projected to slow to 1.7 % in 2009, from 6.7% in 2006-2007.

In Commonwealth developing countries, the crisis has transmitted through several channels. Declining global demand has severely curtailed global trade volumes and has brought to a close several years of consistent increases in commodity prices. Global trade levels have declined to their lowest level in eighty years. Declining exports and falling export prices have constituted a devastating double blow to the smaller, poorer economies in the Commonwealth. The combined impact on developing countries has been severe, with export revenues sharply contracting, employment in export sectors declining substantially and government's fiscal revenues reducing significantly.

Declining global output has also impacted the level of workers' remittances from abroad, on which households in many developing countries are reliant. In many countries remittances have sharply deteriorated, reducing household income and contributing further to the reduction in aggregate foreign exchange inflows. In many instances, particularly for unskilled workers, declining remittances have been accompanied by rising unemployment, when workers abroad have been retrenched and have returned to their home countries to seek new employment.

The global crisis has also reduced access to finance across all Commonwealth developing countries. Official development assistance, including aid and other official flows, have come under threat, as major bilateral contributors, themselves profoundly affected by the global crisis, experience very substantial domestic fiscal pressure. Both foreign direct investment, including particularly equity capital, as well as commercial bank lending to developing countries and emerging markets have all declined significantly as foreign investors and banks have sought to reduce their risk exposures. Trade finance has similarly evaporated, further compounding the slowdown in trade volumes. The collective impact of declining commercial bank lending, substantially reduced access to trade credits and uncertain access to concessional financial resources has been a substantial sudden-stop in access to external finance by developing countries.

Accompanied by increasing demands for fiscal spending to address the economic and social consequences of the crisis, this has led to the emergence of a large and persistent financing gap. The World Bank estimates that the crisis has created a financing gap for developing countries of between US$270 and US$700 billion, representing the additional amount needed for developing countries to address the impact of the crisis and to maintain expenditure at pre-crisis levels.

The crisis has become unprecedented in its scale and its reach, both at a global level and indeed across all Commonwealth member countries. The implications are very significant and adverse for small and vulnerable countries, which comprise 32 of the 53 Commonwealth's membership, and for whom recovery will take far longer in comparison with larger, more resourced economies with greater access to sources of capital and greater and easier access to the global trading system. For the substantial majority of these countries, the crisis is a profound economic and social crisis; and far less a crisis either emanating in or impacting upon the financial sectors of these countries.

Yet the impact has not been confined to the smallest and poorest members. Indeed it has impacted all Commonwealth member countries, including its five G-20 members and middle-income countries, although projections for 2010 and 2011, suggest that recovery in the larger and better resourced economies will generally be stronger and quicker than in the case of the poorest and most vulnerable.

A further challenge is the unknown duration of the crisis. The crisis has depressed both investor and consumer confidence, in both advanced industrial and developing countries. Some signs may be emerging in mid-2009, of a recovery in certain variables reflective of improving confidence in the advanced economies most affected by the crisis. But it is not clear whether these signal a sustained recovery in these countries. Moreover, the duration of the crisis is expected to be far more pronounced in developing countries, which have had no fiscal space to stave off the first round effects of the crisis; and in which countries, the crisis has undermined institutional resilience and capacity and significantly increased poverty.