



UNCTAD Framework¹

1. Most small developing States face a risk of increased economic marginalization in the context of trade liberalization and globalization. This risk closely relates to the difficulties that small developing States face in competitive terms, either in existing activities, or vis-à-vis new trading opportunities. For activities pertaining to sectors of goods or services that involve global markets, increasing or only maintaining international competitiveness is generally difficult for small economies because of the intrinsic disadvantages they incur, in particular, the implications of smallness and remoteness (e.g., the lack of skilled human resources and economies of scale; high transport costs). For primary commodities (e.g., bananas) that have been exported by small States under specially favorable terms of preferential market access, preferences are or will be eroded in the new multilateral trade system. Manufacturing activities, in which some small States have specialized with success (e.g., textile products) are also faced with intensifying competition although trading opportunities have expanded. Only in international services (with tourism as the dominant service sector) do many small States maintain a competitive advantage, even though competition has dramatically increased among suppliers.
2. For many small States in general, and small island developing States in particular, economic vulnerability is becoming a more and more complex reality. Globalization forces, beside bringing new trading opportunities, translate into competitive challenges, some of which can be analyzed as external shocks that may entail a risk of marginalization from the global economy. Remedies to alleviate the vulnerability of small States to external shocks necessarily involve development policies to reduce competitive disadvantages and facilitate evolutions in the economic structures, toward less severe external dependence and improved economic specialization.

Twenty-five years of UNCTAD action in favor of Small Island Developing States

3. UNCTAD, under two distinct mandates, deals with the 31 *Small Island Developing States* (SIDS)² and five *Least Developed* small continental States. Thus, although the notion of *Small States* is not officially dealt with as a distinct category by the United Nations, most of the small States covered by the Task Force fall under special mandates of UNCTAD, and receive considerable attention accordingly.

¹ This text is extracted from *Small States: Meeting Challenges in the Global Economy*, Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States, Washington DC and London, April 2000.

² Antigua and Barbuda, Bahamas, Bahrain, Barbados, Cape Verde, Comoros, Cyprus, Dominica, Fiji, Grenada, Jamaica, Kiribati, Maldives, Malta, Mauritius, Micronesia, Marshall Islands, Nauru, Palau, Papua New Guinea, Samoa, Sao Tomé and Príncipe, Seychelles, Solomon Islands, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Tonga, Tuvalu, Trinidad and Tobago, Vanuatu.

4. Between 1974 and 1994, UNCTAD was the focal point, in the UN system, for analyzing and monitoring the problems of island developing countries. Since 1994, UNCTAD has had a successor mandate to support the implementation of the Program of Action for the Sustainable Development of Small Island Developing States, which resulted from the Global Conference on the Sustainable Development of Small Island Developing States (Barbados, April-May 1994). UNCTAD, in its mandated support to this implementation, pursues the following goals to spare SIDS further marginalization from the global economy:
 - (a) assisting SIDS in their efforts to circumvent their intrinsic competitive handicaps, which are fundamental causes of the lack of diversification and inadequate specialization of many SIDS economies;
 - (b) enhancing the capacity of SIDS to take advantage of new trading opportunities in the context of trade liberalization and globalization, in particular, vis-à-vis relevant niche markets and in the area of international services;
 - (c) facilitating recognition, by the international community, of the economic vulnerability of many SIDS to a variety of external shocks, with a view to encouraging the provision of special concessions to SIDS (especially those that are not among the Least Developed Countries) in terms of access to foreign markets and external finance, in order to help these countries to overcome their competitive disadvantages.

UNCTAD's technical co-operation with small states

5. UNCTAD's ongoing assistance to SIDS is also relevant to continental small States, in particular, to the five among them that are *Least Developed Countries* (Djibouti, Equatorial Guinea, Gambia, Guinea-Bissau, Lesotho). Direct assistance is provided to individual Least Developed small States in their preparation of Round Table meetings under the Integrated Framework resulting from the 1997 High-Level Meeting on Integrated Initiatives for Least Developed Countries Trade Development. Assistance is also provided to small States in the preparation of project submissions to donors, and in the subsequent implementation of such projects (e.g., Forum Secretariat, Seychelles, St. Lucia). Technical cooperation, in this context, mainly involves subjects relating to trade and investment policies, trade efficiency, and sectoral action relevant to international trade in services.
6. Relevant subjects currently dealt with by UNCTAD, and in which cooperation could be envisaged and organized with the Commonwealth Secretariat, the World Bank, and other international organizations, comprise the following:
 - (i) advisory services to individual countries in their negotiations with WTO on accession, use of the dispute settlement mechanism, trade agreements, new issues and upcoming negotiations;
 - (ii) policy advice, technical assistance and training for institutional strengthening in relation to trade and investment;

- (iii) analysis of the implications of trade liberalization and globalization, and identification of new trading opportunities for small States;
- (iv) sensitization to, and advice and training in commodity trading risk management;
- (v) financial innovations (mobilization of private capital and development of new instruments for mobilizing investment finance);
- (vi) country-specific vulnerability studies in support of the work of the Committee for Development Policy (CDP) relating to the question of graduation from, or inclusion in the list of Least Developed Countries (see below);
- (vii) research, analysis and support to the development of economic sectors of special interest to small States: tourism, air transport, health services, environmental services, offshore financial services, music industry;
- (viii) assessment of trade efficiency and competitiveness (e.g., St. Lucia, Vanuatu);
- (ix) assistance in trade facilitation: modernization of customs (many small States have UNCTAD's Automated System for Customs Data/ASYCUDA), maritime transport, trade information (Global Trade Point Network);
- (x) investment policy review (e.g., Mauritius);
- (xi) innovation and technology reviews (e.g., Jamaica);
- (xii) support to debt management (several small States are among recipient countries).

7. Current examples of small States in which UNCTAD carries out technical cooperation are Djibouti, the Gambia, St. Lucia, Seychelles, and Vanuatu.

Measuring the economic vulnerability of small States: UNCTAD's role in the work of the United Nations in favor of the Least Developed Countries

- 8. The Committee for Development Policy (CDP), in its April 1999 session, recommended the substitution of a composite *Economic Vulnerability Index (EVI)* for the old, composite *Economic Diversification Index (EDI)* among the criteria for determining the list of Least Developed Countries (LDCs). The new *EVI*, with five components (two of which being the instability of agricultural production and the instability of exports of goods and services), is calculated by the United Nations Secretariat (DESA) on the basis of CDP's recommendations.
- 9. At the same time, CDP called for country-specific "*vulnerability profiles*" of countries near the borderline of graduation from, or inclusion into the list of LDCs, in order to appreciate the relevant characteristics of the countries. Such profiles are specially desirable for the LDCs that are small island developing States and near the borderline of graduation (Vanuatu, Maldives, Samoa, Cape Verde). With the additional information expected from the country-specific profiles, CDP aims at better understanding the complex vulnerability situation of the relevant countries, and making well-founded recommendations regarding their graduation or non-graduation.

10. UNCTAD, which has been associated with the work of CDP on LDC criteria for many years, is carrying out a series of country-specific studies to establish the desired "vulnerability profiles". The methodology used to that end is based on the following elements:

- (a) External shocks: natural shocks, economic shocks of non-natural origin, instability in the socio-economic performance
- (b) Exposure to external shocks: degree of external dependence (openness), degree of economic concentration, changes in economic specialization
- (c) Intrinsic handicaps explaining vulnerability to external shocks: issues of smallness ("islandness"), and remoteness.

Relevant events

11. Issues regarding small States are likely to receive particular attention, in accordance with UNCTAD's mandates on the Least Developed Countries and on Small Island Developing States, during the following two major events: the Tenth Session of the United Nations Conference on Trade and Development (UNCTAD X: Bangkok, February 2000); and the Third United Nations Conference on the Least Developed Countries (Brussels, April 2001).