



BUILDING THE ECONOMIC RESILIENCE OF SMALL STATES

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THE NEED TO BUILD ECONOMIC RESILIENCE

The 2006 Review of the Small States Agenda recommended that Small States build economic resilience mechanisms to offset their economic vulnerability.

Earlier, in 2005, the Mauritius International Meeting on the 10-Year Review of the Barbados Programme of Action for the Sustainable Development of Small Island Development States, produced a strategy document that emphasized the importance of economic resilience building. Article 81 of the strategy states that “Consideration should be given to the establishment of a task force to elaborate a resilience index, supported by the international community.”



MALTA INTERNATIONAL CONFERENCE

The Commonwealth Secretariat and the Islands and Small States Institute of the University of Malta have, over the past four years, been involved in a project aimed at developing the conceptual underpinnings of economic vulnerability and economic resilience, and at deriving a sound basis for their measurement.

This work culminated in the holding of an International Conference on Building Economic Resilience in Small States, held in Malta in April 2007.



MEASURING ECONOMIC VULNERABILITY

Economic vulnerability is related to inherent conditions of the country that is exposed to external shocks. The University of Malta has proposed an index of economic vulnerability, with components reflecting:

- ▶ the degree of economic openness,
- ▶ dependence on strategic imports, and
- ▶ degree of export concentration.

Similar indices were constructed by the Commonwealth Secretariat and others. The main conclusion derived from these studies is that small states tend to be more exposed to external economic shocks than larger countries.



MEASURING ECONOMIC RESILIENCE

Economic resilience is viewed to depend upon appropriate interventions to secure adequate policy approaches in four principal areas namely:

- ▶ macroeconomic stability,
- ▶ microeconomic market efficiency,
- ▶ good governance, and
- ▶ social development.

The University of Malta, supported by the Commonwealth Secretariat, has developed an economic resilience index, based on these variables, covering 86 countries.



RISK OF BEING HARMED BY SHOCKS

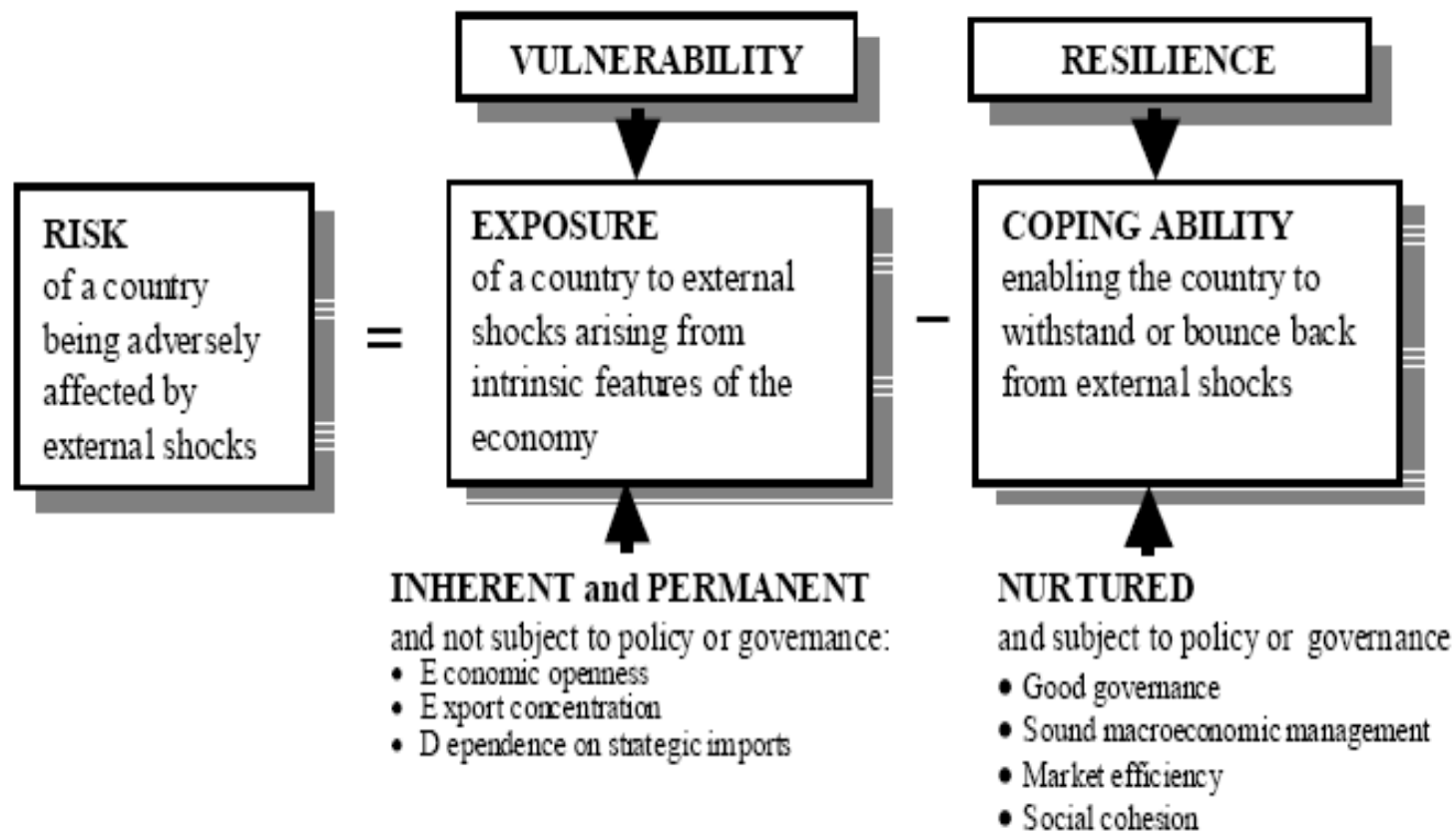
The Malta conference discussed a method for assessing the risk of being harmed by external shocks by juxtaposing economic vulnerability and economic resilience.

In this approach, economic vulnerability is ascribed to inherent conditions affecting a country's exposure to exogenous shocks including a high degree of economic openness, high dependence on strategic imports including fuel and food and high degree of export concentration.

Economic resilience, on the other hand is associated with actions undertaken by policy-makers and private economic agents which enable a country to withstand or recover from the negative effects of exogenous shocks.

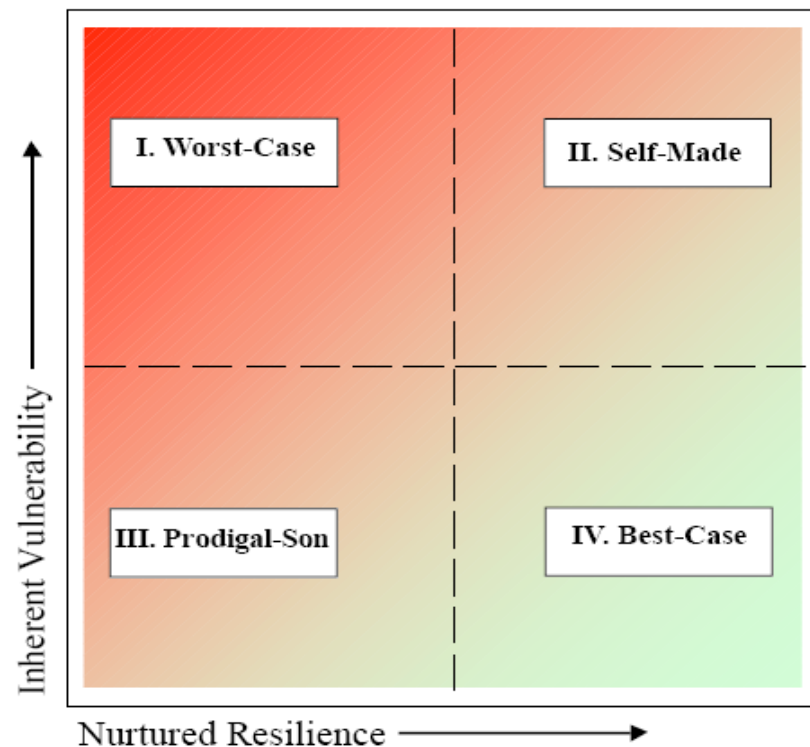
JUXTAPOSING VULNERABILITY & RESILIENCE

By distinguishing between inherent economic vulnerability and nurtured economic resilience, it is possible to create a methodological framework for assessing the risk of being affected by exogenous shocks, as shown below:



FOUR COUNTRY SCENARIOS

On the basis of this approach, it is possible to identify four possible scenarios into which countries may be placed according to their vulnerability and resilience characteristics. Small states with good economic governance are likely to fall in quadrant II. Badly governed small states are likely to fall in quadrant III.





MAJOR POLICY IMPLICATIONS

A major outcome of the Malta conference was the construction of the resilience index which has important policy implications and can be used to support decision making, especially for setting directions and justifying choice of priorities for resilience building. In particular the index could help to:

- ▶ disseminate information on and draw attention to the issue of resilience building;
- ▶ emphasise the point that small states need to build economic resilience to withstand their inherent economic vulnerability;
- ▶ promote the idea of integrated action for resilience building.