Measures in Support of Small Island Developing States

Daniel Gay
Dan Hetherington

Prepared for UNCTAD

June 2012

emergent economics
www.emergenteconomics.com

Table of Contents

Acronyms

CARICOM	Caribbean Community
CDP	Committee on Development Policy
COP	Conference of the Parties to the UNFCCC
CSD	UN Commission on Sustainable Development
DGC	developing country (that is not an LDC)
DIC	developing island country (a term used interchangeably with island developing country, but more prevalent prior to the early 1980s)
ECD	East Caribbean dollar
ECCB	Eastern Caribbean Central Bank
ECCU	Easter Caribbean Currency Union
ECOSOC	UN Economic and Social Council
EcVI	Economic Vulnerability Index, a criterion of LDC classification
EIF	Enhanced Integrated Framework for trade-related assistance to LDCs
EnVI	Environmental Vulnerability Index, a UNEP/SOPAC composite index
FSM	Federated States of Micronesia
GDP	gross domestic product
GNI	gross national income
IDC	island developing country (interchangeable with DIC)
IMF	International Monetary Fund
LDC	least developed country (a UN category)
LLDC	land-locked developing country
NAPA	National Adaptation Programme of Action
NIU	National Implementation Unit, the EIF office located within the government of an EIF country, which implements DTIS proposals
OECS	Organisation of Eastern Caribbean States
PICTA	Pacific Island Countries Trade Agreement
PIF	Pacific Islands Forum
PIFS	Pacific Islands Forum Secretariat
PNG	Papua New Guinea
PPP	purchasing-power parity
PSW	personal support worker
RMI	Republic of the Marshall Islands
SDT	special and differential treatment (generally in the WTO context)
SIDS	small island developing state(s)
SOPAC	Applied Geoscience and Technology Division of SPC
SPC	Secretariat of the Pacific Community
SVE	small, vulnerable economy (proposed WTO non-category)
UN	United Nations
UNCTAD	UN Conference on Trade and Development
UNDP	UN Development Programme
UNEP	UN Environment Programme
UNFCCC	UN Framework Convention on Climate Change
WTO	World Trade Organisation

1 Executive summary

Small island developing states (SIDS) encompass great diversity – from the tourism–orientated economies of Mauritius, the Seychelles, the Maldives and Fiji; to resource-rich Trinidad and Tobago, Papua New Guinea and Solomon Islands; to the enormous and fragmented archipelagos of the East and central Pacific.[1] SIDS are generally distant from their nearest large neighbours and from each other, scattered as they are across the globe. The range of economic compositions, stages of development and physical distance have in some cases presented difficulties for international cooperation. Discussing these countries under a common umbrella is a testing yet worthwhile task, one to which governments are increasingly rising.

Despite the diversity of SIDS, a consensus is emerging that they do face common challenges and that these challenges can be addressed through a collaborative approach. Partly as a result of the existing impacts and the looming threats of climate change, SIDS have begun to coalesce around a common set of goals and action plans, culminating in their greater prominence in international fora including the WTO; a 2010 UN General Assembly call to discuss the vulnerability of SIDS; a joint expert meeting in 2011 between the Indian Ocean Commission and UNCTAD to consider ways of moving the SIDS agenda forward; greater recognition at the 2011 Conference of the Parties to the United Nations Framework Convention on Climate Change in Durban; and a subsequent consideration of SIDS' specific development needs at UNCTAD XIII.

This new consensus must be rooted in a coherent framework, recognising that the conventional economic methodology used until now may not accommodate the specific circumstances of SIDS, and that adapting to and prospering amid climate change requires a strong economy. Despite being small and open to international trade many SIDS struggle to develop based on static comparative advantage. Domestic and international factor mobility is low, while transport and transactions costs are so significant in some cases as to present insurmountable barriers to trade. Even if specialisation is possible, it can undermine economic resilience. In general it has been assumed that liberalising the domestic economy and international trade will create spontaneous economic growth, but it is becoming apparent that significant intervention will be required to propel many of these economies on to a more desirable economic path.

One specific economic challenge facing SIDS is the unique role for government owing to the significance of monopolies. The most unlikely services — such as corner shops — can form a monopoly on a sparsely populated outer island. Kiribati, Tuvalu, the Solomon Islands and several other SIDS have distant islands with only a few hundred inhabitants, restricting competition and the functioning of markets. Government must play a 'backstopping' role, making its size and remit larger. The private sector may play a greater role and public sector efficiencies can be achieved – indeed countries like Mauritius provide a dynamic example of private-sector development – but in many cases special consideration needs to be given to the role of the state as a complementary or supportive player in the development process.

Some government functions are indivisible, and these constraints can be inevitable and permanent. For instance several countries do not have the resources to devote sufficient time and attention to trade negotiations. Outsourcing certain government roles has been considered.

An further important reason why the state plays a particular role and why SIDS deserve special attention is that they are more vulnerable than other developing countries. UNCTAD research finds that they are a third more susceptible to external shocks with economic consequences than are other developing countries. SIDS are 12 times more exposed to oil price-related shocks than non-SIDS and structurally at least 8% more vulnerable to climate change effects than developing nations in general.

---

[1] For analytical purposes UNCTAD informally lists 29 countries as SIDS (see appendix B).

Several of the peculiarities of SIDS bring developmental benefits, including social cohesion due to smallness and isolation; the significant geographical influence and commercial opportunity accorded by their large exclusive economic zones; and their potential to achieve greater international recognition than their smallness would suggest.

Having acknowledged the need for a coherent view of SIDS based on economic, political and geographical specificities, it may be necessary to narrow down the definition beyond the informal UNCTAD list of 29 originally drawn up in 2004. Papua New Guinea's population has grown rapidly, reaching 6.8 million, and it is now an obvious outlier. The $22,000 per capita GDP of the Bahamas raises questions over its development status, being 35 times larger than that of Timor Leste. Trinidad and Tobago is a more debatable case, but its absolute GDP of $20.4 billion, the highest in the group, is 340 times that of Nauru. Recognising these basic characteristics of SIDS and their particular requirements, the following 10 areas of intervention are proposed:

(i) **Supranational collaboration**

It is difficult to discuss the outsourcing of government functions comprehensively owing to regional variations and political sensitivities. However opportunities may exist in regional financial supervision, trade negotiations, security and even Customs. The Caribbean has already committed to the pooling of state operations at a regional level, establishing its Court of Justice (CCJ) with considerable centralised jurisdiction over the single market and economy. Any such initiatives must originate with governments rather than being imposed from outside.

(ii) **Effective advocacy: a strong SIDS group**

Despite successes to date, a consensus on SIDS' definition will be necessary in any new programme of assistance so as to establish credibility and commonality of purpose and demands. The division between LDCs and non-LDCs within the existing UNCTAD list has important implications, as does the split between WTO and non-WTO members.

(iii) **Information and communications technology**

ICT has been severely under-prioritised in many of the less-developed SIDS. Yet it is a means of reducing or bypassing distance from world markets and, in archipelago states, addressing economic fragmentation. ICT is a means of adding value and building services trade, which comprises 40% of total trade in SIDS, double the proportion in low income countries. Any heightened emphasis on productive capacity and the supply side must prioritise ICT. A comprehensive country strategy should consider how best to balance financial and institutional investments at different levels. International submarine fibre optics; inter-island links; 'first-mile' and point-of-use considerations are all important.

(iv) **Labour mobility**

Transport costs, cultural differences and small populations limit internal migration in SIDS, meaning that they must rely more than most countries on international labour mobility. The Caribbean Community has established a broad inter-SIDS labour mobility programme. The Pacific is working on a less ambitious platform as part of the PICTA trade in services agreement, a move perceived as a step to an international agreement with developed markets. A study of Tuvalu and Vanuatu showed that a seasonal migration scheme to New Zealand established in 2007 created by far the highest annual per capita income gain out of six interventions surveyed. The scheme raised household income and consumption, allowed households to buy more durable goods, increased subjective living standards, and had additional benefits for communities. It also increased child schooling in Tonga. SIDS should entrench labour mobility within bilateral or regional trade agreements.

(v) **The diaspora**

SIDS tend to rely on the diaspora, mostly in the form of remittances. Market knowledge and business contacts are more effectively conveyed via personal or family links. The diaspora also acts as a social safety net; a link to educational institutions; and a source of investment finance, labour and tourism. It can play an important role in civil society, internationalising the outlook of organisations. The role of the diaspora should be enhanced, through reductions to the cost of remittances and revising laws relating to immigration, emigration and capital controls. Matters such as the costs and benefits of prohibiting foreign bank accounts and dual nationality could be critically evaluated as part of an explicit strategy. Campaigns may encourage returnees or visits by long-term émigrés. Governments and donors may wish to collaborate on diaspora research.

(vi) **Trade negotiations**

SIDS often struggle to participate fully in trade negotiations owing to a lack of institutional resources; insufficient preparation; and the administrative burden of a large range of trade rules, many of which are inappropriate. SIDS should continue to negotiate directly on their own behalf but workshop a limited range of policy positions in key strategic areas including offensive subjects such as labour mobility, technical barriers to trade and rules of origin, as well as the most significant defensive interests, including tariffs and services. Targeted technical support from established SIDS experts can be highly valuable. At the WTO SIDS have often struggled with both accession and membership, and for certain countries with extremely limited resources it may be worth taking steps to make non-membership more palatable.

(vii) **Research and knowledge management**

The unique nature of SIDS and their limited number of advanced research institutions can lead to suboptimal advice and attempts to use policy solutions from inappropriate contexts. SIDS-dominated blocs have built up regional expertise, particularly in the Caribbean, but all SIDS should share knowledge and research. It may be possible to establish a global think tank or policy forum specifically dedicated to SIDS, publishing an electronic journal with national and international collaboration including the Enhanced Integrated Framework (EIF).

(viii) **The role of civil society**

Civil society in SIDS plays a particular role. Political instability creates a need for long-term policy-making activity and consensus-building outside parliament. In some countries civil society groups run services not provided by government. Proposals concerning ICT, domestic research and the diaspora all have implications for civil society. International collaboration between non-governmental organisations (NGOs) in SIDS should be supported.

(ix) **Developing environmental resilience**

Non-LDC SIDS share enough of the particular environmental vulnerabilities of LDCs that their situation justifies inclusion in National Adaptation Programmes of Action (NAPA). Ideally instead of creating a parallel programme SIDS would apply for funding from the existing LDC Fund, to which donors could be encouraged to commit additional resources. The energy sector frequently poses challenges to SIDS because they cannot generate scale economies. This is particularly true of archipelago states, which struggle to build traditional grid systems. Although renewables such as solar and wind power have potential, few governments have the financial resources for the initial investment and would have to rely on donors.

(x) **An Enhanced Integrated Framework for SIDS**

The EIF for trade-related assistance to least-developed countries (LDCs) is an increasingly important component of global aid. It comprises a comprehensive baseline analysis; institutional resources for the EIF itself; trade mainstreaming; mechanisms for donor coordination; and seed project funding to initiate recommendations. In several SIDS it has proved a powerful tool, and one of the first times that trade has been analysed systematically and given explicit support. However the programme does not extend to non-LDC SIDS, and it may be worth considering a parallel programme explicitly for this purpose, tailored to the requirements of SIDS.

2 Background

The forerunner of the UN conception of SIDS, the developing island country (DIC), dates back almost as far as the General Assembly institution of the LDC category at the beginning of the 1970s (UNGA, 1971). The category was created largely as a component of UNCTAD advocacy for a New International Economic Order (NIEO) to respond to the failure of the Bretton Woods system and to address various features of the international trade environment that were perceived to be "systematically biased against [developing countries'] development goals" (Grote, 2010). The NIEO would provide differential treatment to various groups of particularly disadvantaged developing countries, including LDCs, LLDCs and DICs, to prevent a "widening gap" emerging between different developing country groups that could mirror the "widening gap" perceived to be extant between developed and developing countries (or between the periphery and the core in the vernacular of the time). Despite the rapid failure of the NIEO, the concept of developing island countries persisted along with the idea of their particular, differentiated needs as opposed to other developing countries. UNCTAD III summoned a panel of experts to examine the particular difficulties of developing island countries, which published a report on its findings in 1974.

The report made various recommendations that remain relevant today. Noting the economic vulnerability that stemmed directly from lack of diversification and consequential exposure to global price fluctuations, it "advised against adherence to the 'orthodox prescription' of pursuing a comparative advantage by specialising on a few lines of production, recommending instead the diversification of the island economy" (Grote, 2010). Regional integration could enable joint development and the formation of regional training institutions and labour markets to combat the problematic outward migration of skilled workers.

In 1975, the first Lomé convention defined and gave preferential treatment (equal to that of LDCs and LLDCs) to "island ACP" states. This concatenated group was collectively defined in the text, which was not the case in the UNCTAD discourse. The 1974 expert report discussed various facets of smallness as a typical feature of developing island countries and yet included Indonesia and the Philippines within its scope (current populations of 237m and 94m respectively: IMF, 2011; DESA, 2010).

UNCTAD advocacy in favour of the needs of developing island countries peaked with the adoption by the General Assembly of five resolutions concerning an "Action Programme" in favour of DICs between 1976 and 1982, during which time a Special Programme for LDCs, LLDCs and island developing countries was established within the UN.

The momentum of advocacy was almost entirely lost during the 1980s, as the political climate shifted to the right, and the idea that differences between developing countries were economically important or required any variation in policy approach came under serious attack (Campling, 2006). In some circles, comparative advantage was seen to be every bit as effective within a microstate for whom it would mean abandoning all economic diversity as for any other economy.

It was not until the late 1980s that a new opportunity arose for island developing countries to re-emerge as a distinct group, and it was only as a consequence of increasing concern over the newly perceived threat of climate change and sea-level rise. After a conference convened for small states in the Maldives concerning sea-level rise in 1989, the following year the Alliance of Small Island States (AOSIS) was established as a lobbying group at the Second World Climate Conference. AOSIS became influential in negotiations of the UN Framework Convention on Climate Change (UNFCCC). The Rio Conference on Environment and Development in 1992 made vague recommendations concerning sustainable development within SIDS, but mostly called for action at the national level or by "a generally unspecified 'international community'" (Grote, 2010). The Barbados Global Conference on the Sustainable Development of SIDS was then convened as the result of a General Assembly resolution in 1994. It attempted to formulate a specific policy, the Barbados Programme of Action (BPOA), covering climate change and sea-level rise as well as a variety of areas of sustainable development and resilience-building — but remained vague about who, apart from the countries themselves, was to be responsible for implementation.

It is important to note that until this point, advocacy for DIC, IDC and SIDS had avoided categorically defining any of these terms or establishing definitive lists. Lomé's definition had merely been of island ACP members, and AOSIS membership, as an advocacy and lobbying organisation, had rightly been inclusive, so that it encompassed low-lying non-islands like Belize, developed countries like Singapore, and a number of non-state overseas dependencies. Citing UNCTAD (2004a), Grote (2010) writes that:

> "The aftermath of the Barbados Conference saw a veritable proliferation of lists of SIDS by UN organizations concerned with island affairs. Yet because official criteria for the SIDS category were never defined, the respective lists do not coincide in their definition of which countries constitute SIDS… the lists of SIDS currently in use comprise a heterogeneous compilation of 'small and not so small island and non-island States and non-States'."

In the following years, SIDS continued to feature prominently in the development discourse but there was little further movement towards concrete action, and if anything the ten-year review of the BPOA in Mauritius in 2005 "represented a subtle downgrading of SIDS' status in the international arena" (Grote, 2010).

As mandated by the Sao Paulo Consensus, adopted by UNCTAD XI, in 2007 UNCTAD defined 92 countries as "structurally weak, vulnerable and small economies" (SWVSEs), of which 72 were already defined as LDCs, LLDCs and/or SIDS (UNCTAD, 2004b and 2007). All 29 UNCTAD SIDS are included within the SWVSE definition.

In 2010 the UN General Assembly called for discussion of the vulnerability of SIDS, which led to a joint expert meeting in December 2011 between the Indian Ocean Commission and UNCTAD to consider ways of moving the SIDS agenda forward. Around the same time SIDS achieved increasing recognition at the 2011 Conference of the Parties to the United Nations Framework Convention on Climate Change in Durban. Subsequently consideration of SIDS' specific development needs came under discussion at UNCTAD XIII.

The history even of the idea of differentiated treatment of small economies within the WTO system is shorter, the first reference to "small economies" being made in a 1998 Ministerial Declaration. Ministers (WTO, 1998, paragraph 6)

> remain deeply concerned over the marginalization of least-developed countries and certain small economies, and recognize the urgent need to address this issue[.]

This oblique mention represented the first success in obtaining recognition and special treatment for small economies within the WTO. It should be understood that at the time this aim was extremely ambitious, since the WTO had previously only recognised categorisation of countries into developed, developing and least-developed groups. The last of these is a UN category in use since 1971 (UNGA, 1971) and the previous two do not have a WTO definition, but rather are self-selecting. There was considerable resistance to the creation of another subgroup from a broad range of WTO members. Opposition was clearly voiced even in the action of creating a new work programme for SVEs, which finally took place at the Doha Ministerial (WTO, 2001):

> **Small economies**
>
> 35. We agree to a work programme… to examine issues relating to the trade of small economies. The objective of this work is to frame responses to the trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system, and not to create a sub-category of WTO Members.

Despite the caveat that an SVE sub-category would not be created, repeated in a similar declaration in Hong Kong, the SVE work programme has progressed towards the creation of an SVE sub-category in all but name, that would be granted comprehensive special and differential treatment (SDT) in Doha modalities across agriculture, NAMA and rules.

Until Doha completes, neither the SDT granted to SVEs, nor even their definition, will be finalised, but nevertheless a working definition has emerged, at least for agriculture and NAMA (Smith, 2009):

> the country's average world share between 1999–2004 should not have exceeded 0.16 per cent of global merchandise trade; 0.1 per cent of NAMA trade; and 0.4 per cent of agriculture trade.

This definition would encompass at least 45 developing country members. Despite several LDCs having been active in advocacy for an SVE group, LDCs that technically fit the SVE definition are often ignored as current Doha modalities invariably grant greater SDT to LDCs than SVEs, making LDCs' status as SIDS redundant. A SIDS category aiming to mobilise a broader range of appropriate aid ought not merely to provide "LDC-light" treatment, but instead should offer types of aid aimed at tackling the effects of smallness, vulnerability and distance from major markets, in a manner that would be beneficial to LDCs and non-LDCs alike.

Despite the adoption of the term "vulnerable" (because of its appearance in the Doha declaration), the WTO definition merely identifies economies that represent a small proportion of world trade. Whilst these economies may all stand at risk of marginalisation by the global economy, they vary wildly in other characteristics. Some are relatively large in terms of area (eg Mongolia at 1.5 million km^2) or population (eg Cuba at 11 million), some are land-locked (Bolivia, Paraguay) and some are close to major markets (eg Albania, Guatemala, Honduras). If multilateral assistance and concessions for SIDS are to be tailored to specifically ameliorate the impact of remoteness, extremely small size and vulnerability, then the SVE definition is an inadequate starting point.

The following is a summary of basic data on SIDS. Detailed and disaggregated data on UNCTAD SIDS can be found in Appendix B:

Table 1: Statistical summary of SIDS characteristics

	Total	Minimum	Average[2]	Maximum	Factor variation
Share of world merchandise trade	0.205%				
GDP (million current US$)	80,081	27	2,761	20,398	768
GDP per capita (current US$)		623	5,703	21,985	35
Land area (km^2)	570,761	21	19,681	452,860	21,565
Population	18,548,828	9,267	639,615	6,858,266	740
Human Development Index		0.433	0.667	0.793	1.8
ODA per capita (current US$)		5	405	1,785	346

[2] Averages are calculated by country, ie not weighted by population.

Percentage below poverty line		1.8	37.3	72.8	40
Gini coefficient		19.0	42.7	64.3	3.4

3 Characterising SIDS

Reducing the large range of descriptive statistics and recurring features to an essential character is more than a process of definition. The character of SIDS needs to communicate the fundamental difficulties that SIDS face, as a group, in such a way that a common approach to addressing these difficulties makes obvious sense. That is not to say that SIDS must become a single homogenous bloc for whom a template solution must be made to fit, but if SIDS do not share common challenges that can be addressed in a unified way, then there is little purpose in advocating a SIDS category. Such a category cannot function merely as a way of seeking 'more aid' — SIDS already receive substantially more assistance per capita than other developing countries (see **Table 1**), and such an approach would not be received sympathetically. Rather, a SIDS category should have as its aim assistance that is better tailored to SIDS defining needs, and that makes better use of lessons learnt through SIDS experience by sharing that knowledge not just regionally, but amongst the global SIDS community.

Characterising SIDS is a subtle economic, political and technical challenge. The characterisation of SIDS must provide a strong narrative with which SIDS can appeal to the international community for specific, differentiated assistance. It must convince donors not that SIDS are necessarily 'more needy' than other recipients, but that either their problems or their solutions are both different to those of non-SIDS, and common to SIDS as a group. Only if donors are compelled by this argument will a fruitful work programme for SIDS ever exist.

But the characterisation of SIDS must also reflect the type of aid that SIDS themselves demand in addition to current modalities. Here lies another political choice, particularly in light of the fact that no commonly accepted definition of SIDS yet exists.

The unique character of SIDS poses challenges to standard economic theory, and the failure of policy initiatives that have failed to take this into account is a common feature of SIDS' experience. Contrary to the assumptions of traditional economic models SIDS never experience perfect competition or even a close approximation of it; they face severe uncertainty; and in several SIDS, particularly in the more community-orientated cultures of the less-developed SIDS, individualistic utility maximisation is an inappropriate framework within which to conceptualise economic activity.[3]

In trade, one of the most promising avenues of development for SIDS, a conventional neoclassical economic approach is often applied irrespective of the size, fragmentation, distance and vulnerabilities of SIDS. Standard economic theory predicts that a country will tend to specialise in its comparative advantage, and that opening up by liberalising barriers to trade will help generate a more efficient productive structure, with a country exporting products and services at which it is more suited to producing and importing goods and services at which trading partners are better at producing. Countries are supposed to specialise in the products for which the relevant factor – labour or capital – is relatively abundant. It tends to be assumed that the supply response is automatic. The standard neoclassical method has promoted a tendency to focus on the demand-side rather than the supply-side, and to reducing trade barriers through trade agreements and domestic liberalisation rather than to building productive capacity through state or donor intervention.

[3] Gay, 2009, pp125–7.

As an approach to development this theory is not particularly helpful in many SIDS.[4] Many are so small and undeveloped that the range of options for production is limited and competition is highly imperfect. In several of the 65 inhabited islands in the Vanuatu archipelago, for instance, there is limited infrastructure, including no asphalt roads, no wharves, limited electricity and highly infrequent inter-island transport. Participation in the cash economy for some islands, often with a only a few hundred inhabitants, is limited to cutting copra and selling it on the beach when a ship happens to visit. It is unrealistic to expect new infrastructure and in turn economic activities to emerge soon without significant external intervention. Long-term specialisation in copra production, one of the lowest-valued international commodities, is not conducive to development. Moreover the production base is so small that the development of goods exports is curtailed and the majority of consumer goods must be imported. Most Pacific island states have run persistent goods trade deficits since independence. World Bank data shows that goods trade weighted by GDP is 60% of total trade for SIDS, compared with 80% for low income countries.[5]

The relative abundance of labour or capital becomes something of a secondary question owing to factor immobility and a lack of technology, skills or training. Again, in Vanuatu, which attracts considerable foreign capital as a tax haven and has a relatively high GDP per capita of $3,042, the vast majority of economic activity and investment is concentrated in the main island, Efate, an outcome which is concomitant with the extreme inequality between the main towns and elsewhere. Capital does not move easily to different geographical locations. Cultural and linguistic barriers present a surprising barrier to labour mobility between and among the outer islands, and educational attainment must improve further before a rapid move is made into value-adding activities.

Winters and Martins (2004) confirm this generally critical view of conventional theory by quantitatively examining the higher costs faced by SIDS, which leads them to argue that the combination of transaction costs and scale diseconomies alone may prevent SIDS from participating in the world economy without preferences, concluding that "free trade could mean no trade for these economies."

This is not to suggest that the development of trade is not possible, but that the standard approach to trade is misplaced and that a greater role for external intervention is both necessary and inevitable. Markets are frequently highly undeveloped or non-existent, and either they must be actively stimulated by some kind of external agency or some economic activities must be conducted by the state. Moreover, as reflected in the recommendations in section 4 below, governments and development partners have focused unduly until now on goods rather than services trade.

Amongst the SIDS group, only the Maldives did not participate in the Cotonou Agreement, and the large majority of countries have received substantial valuable tariff preferences in the EU market for more than a generation. This inducement to specialisation, in the context of tiny economies, has often lead to an unhealthy reliance on the export of a very small selection of products, exacerbated by the inflexibility of SIDS resources. SIDS' small size and economic remoteness often guarantees that these industries cannot compete in the absence of such preferences, which has proved a vulnerable position since the WTO ruling against the Cotonou preferences.

---

[4] Economists increasingly question whether the approach is relevant anywhere, including Keen (2011), Rodrik (2008), Stiglitz and Charlton (2004, 2005), and Chang (2007).

[5] World Trade Indicators:
http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:22421950~pagePK:148956~piPK:216618~theSitePK:239071,00.html

Economic analysis of SIDS issues requires a substantially different approach that incorporates a better awareness of SIDS unique character. The following two subsections further investigate two important areas in which SIDS stand out.

3.1 A unique role for government

The role of government in SIDS economies is a topic that has proven particularly difficult for many development specialists to conceptualise, and consequently it is in this area that some of the most inappropriate advice has been given. SIDS economies have unique features that force government into a substantively different role than they do and should play in other developing or developed economies. For instance government expenditure in countries such as Kiribati and Tuvalu has at times comprised over 100% of GDP, and remains high. Efficiency savings can certainly be made, but rather than the government 'crowding out' private activity in many cases the state has simply been compelled to provide infrastructure, goods and services that the private sector would otherwise fail to provide.

Firstly, natural monopolies are much more significant in SIDS than elsewhere, and in the smallest SIDS are ubiquitous. The most unlikely markets — such as a corner shop stocking a few dozen products — may well form a monopoly on a sparsely populated outer island. Linked to this, the government is often called upon to play a 'backstopping' role, which even at a conceptual level can be difficult to understand in a non-SIDS context. In most economies the failure of a corner shop has a negligible impact on the functioning of a market, but if it is the only source of soap, kerosene and regular transportation for a tiny isolated community, its failure could pose significant health and welfare risks, creating a justifiable rationale for government intervention, at least in the short term. SIDS governments find themselves frequently faced with such dilemmas, easily ignored by prescriptions that stem from economic theory transplanted from a very different context. Without a deep understanding of the economic context of SIDS, it may be difficult to understand how government expenditure in a country such as Tuvalu could represent 85 per cent of GDP (Gay, 2010b, p72). But this deep understanding is absolutely necessary in order to provide policy advice in such an unusual economic environment.

The second unusual feature of SIDS government is the challenge posed by indivisibility in various government functions. As discussed below, trade negotiations provide an example of an area in which SIDS governments may never appropriately gain the scale necessary to participate with the same level of technical understanding as a larger country. Whilst it is a commonplace to suggest that developing country governments face capacity constraints, in the case of SIDS some of these constraints are *inevitable* and *permanent* — and the planned development trajectory of the country should take this into account. Conceptually, the 'outsourcing' of certain government functions to a constitutionally-controlled regional or global agency is the only cost-effective means of providing this category of services competently to SIDS economies, especially the smallest. However, this approach poses serious political and technical challenges.

3.2 Permanent lack of diversified goods industry

A defining feature of the development trajectory of SIDS is that its ultimate aim cannot feature a diversified range of goods industries. Distance from major markets places SIDS at an immediate competitive disadvantage in goods trade due to both cost and lead-time, a disadvantage that can be mitigated but never eliminated. But above all else, the SIDS' small (and often scattered) populations do not provide the economic scale necessary to establish a varied industrial base. World Bank data show that SIDS on average have higher export and import concentration indices than low income countries, meaning that trade is concentrated among a relatively small number of goods and services.[6]

Comparative advantage may be a planned or an emergent phenomenon, but economic history suggests that a country's existing comparative advantage may not be conducive to long-term development and that comparative advantage can change, either through conscious decision-making by a centralised authority or by a large number of market actors — and usually some combination of the two. This is no less true for SIDS than for larger economies. Mauritius provides a clear example of an economy whose comparative advantage has evolved dramatically in recent decades, a result of state intervention supportive of the market along with a measured approach to liberalisation grounded in changing local conditions (Rodrik, 2001, Vandemoortele, 2011).

However, in developing their own comparative advantages, SIDS are constrained by their sizes and locations. And unlike typical countries, they must remain cognizant of the underlying tension between comparative advantage and vulnerability in very small economies. A comparative advantage built on industrialised fisheries may be a viable option for some SIDS, but the costs of making an entire economy dependent on a single market, especially one in which they are a small player in a global marketplace, is too dangerous for a responsible government to consider. SIDS must tread carefully between the opposing poles of specialisation and resilience.

In this context, many of the proposals below primarily focus on services. Firstly, with sufficient investment in information and communications technology, SIDS can overcome their distance from major markets in service provision. Secondly, many service sectors have a much smaller minimum efficient scale than industrial goods sectors, making it feasible for SIDS to develop competitive firms that do not dominate their domestic economies enough to increase their vulnerability to changing market conditions.

3.3 **Vulnerability to environmental and economic shocks**

The emergence of a self-identifying SIDS group in the last two decades, after a loss of interest in the concept, owes much to the environmental vulnerability that SIDS share. At the same time, SIDS' lack of factor mobility and economic diversity constrains policy making at all levels. Vulnerability is certainly a common feature of SIDS, but two questions should be considered: (a) is the type of vulnerability common to all SIDS, and (b) do SIDS' vulnerabilities set the group apart from other developing countries? These are important questions in developing a SIDS narrative that is able to justify a new work programme, particularly in the eyes of other developing countries — almost all of whom are acutely aware of their own vulnerabilities, which are quite real in comparison to developed nations.

The first observation to make is that there is variety in the types of vulnerability of different SIDS. Countries such as Tuvalu and the Maldives have an extreme vulnerability to sea-level rise, with maximum heights above sea level of 4.5m and 3m respectively (Gay *et al*, 2010, SACEP, 2011). Many SIDS, particularly in the Caribbean and Pacific are affected by hurricanes and tornados. Whereas "other SIDS prefer to stress the economic vulnerabilities for SIDS in the new international trading regime" (Campling, 2006: 252) — the SIDS group is divided by WTO membership (16 members, 13 non-members or acceding) and their vulnerability to preference erosion inside or outside the EU EPAs. After discussing this diversity, Campling goes on to ask:

> "[I]f SIDS are unable to talk with one coherent voice, who is going to listen?"

The second question poses no less a challenge to the notion of SIDS vulnerability. Indeed, the charge that SIDS are more resilient than other developing countries has some credibility. SIDS

[6] Measured by the Herfindahl-Hirschman Index according to the World Trade Indicators: http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:22421950~pagePK:148956~piPK:216618~theSitePK:239071,00.html

are argued to benefit from greater social cohesion and less social-political conflict than non-island developing countries, and that this makes societal and economic adaptation to change more feasible (Campling, 2006). This peacefulness naturally extends beyond internal issues — the lack of land borders (with the exceptions of PNG and more significantly of Timor-Leste) reduces the chance of SIDS being drawn into regional conflicts, or suffering negative consequences such as large refugee flows. SIDS have also benefited from two recent global political trends. Firstly the UN Convention on the Law of the Sea has granted many SIDS large additional natural resources through their Exclusive Economic Zones (EEZs). Secondly, the modern trappings of sovereignty in the decolonised world provide small sovereign states with sources of political power and economic rent that are out of proportion to their size, such as the General Assembly vote, the ability to sell flags of convenience and, historically, the benefits of establishing a tax haven (Campling, 2006).

UNCTAD has done perhaps the most advanced work on the matter using data from the Economic Vulnerability Index of the UN Committee on Development Policy (CDP). UNCTAD[7] finds that SIDS are a third more vulnerable to external shocks with economic consequences than are other developing countries. A country is deemed vulnerable to natural or trade-related shocks beyond domestic control because it has incurred measurable shocks, and also because it has been highly exposed to the risk of such shocks because of its smallness, remoteness or undiversified economy. SIDS are 12 times more exposed to oil price-related shocks than non-SIDS, a result of the fact that non-LDC SIDS on average use more energy than in the least developed SIDS. SIDS are also estimated as being structurally 8% more vulnerable to climate change effects than other developing countries, a proportion which rises to 10% for the least developed SIDS. Structure here refers to events that are outside the control of policymakers, such as sea-level rise and an increased frequency of cyclones.

Whilst it is important to acknowledge that 'vulnerability' is a multifaceted concept which to some extent is a feature of all developing countries, there are significant commonalities within the SIDS grouping. However, these may relate as much to the types of feasible response to vulnerability as to the type or level of vulnerability. For instance mitigating strategies such as Tuvalu's trust fund could not be applied to larger economies (or even larger SIDS). SIDS typically have an unusual opportunity to benefit from their large diasporas — in several cases having diasporas larger than their domestic populations — and resilience-building strategies exist that can leverage this advantage. Despite limited variation, SIDS do share a common vulnerability to various effects of climate change, and a strong interest in reducing the ultimate magnitude of that change, but have no capacity to influence global emissions through their own domestic action. In short, it is important not to overstate the commonality or level of SIDS vulnerability as compared to other developing countries — but nevertheless SIDS share a range of similar vulnerabilities and these can be addressed through strategies that are particular to SIDS and differ significantly from work programmes designed for larger countries.

3.4 **Definitions**

If SIDS are to receive any specific assistance that includes some recipients and excludes others, then an agreed definition based on criteria is a prerequisite, as UNCTAD argues (2004a, p97):

> "No category of countries will enjoy credibility, as a platform for advocacy, unless it is systematically defined. This necessarily implies the use of established criteria. The 'SIDS' acronym provides a natural basis for adopting criteria."

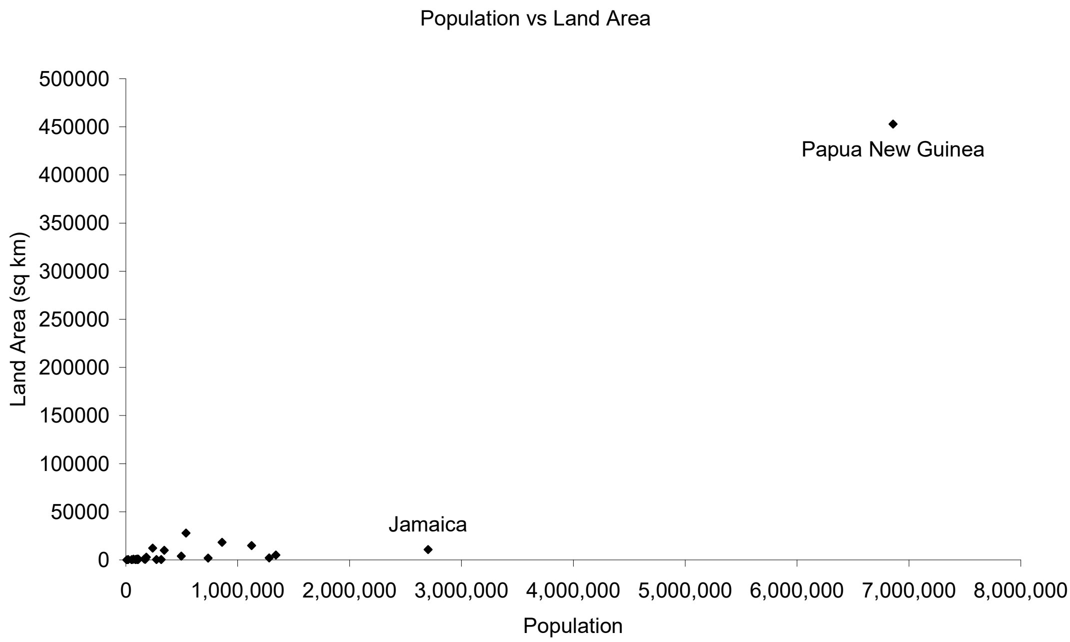
The final sentence refers to the obvious use of the four components of "small island developing state" as the conceptual basis from which definite criteria shall be drawn. SIDS are, in some way

[7] UNCTAD, 2011.

or to some extent, "small" in terms land area, population or economy, "islands", not economically developed, and full states rather than dependent territories.

Despite the existing diversity among SIDS, it is possible to identify certain natural boundaries in terms of population and economic size. The current UNCTAD list has a number of outliers, as shown in the following figures, which are drawn from data presented in the appendix in order to draw attention to those countries least typical of SIDS characteristics.

Figure 1: The population of Papua New Guinea compared to other SIDS



The former chart examines the question of smallness. The inclusion of PNG in its definition is discussed briefly by UNCTAD (2004a):

> "The approach taken by the Commonwealth Secretariat to this question is generally deemed reasonable… [which] considers 1.5 million as a suitable population threshold, and at the same time, accepts four exceptions to this ceiling, thereby raising the borderline to 5 million. Subject to an additional margin of tolerance, this exception allows the Commonwealth to recognize Papua New Guinea (population 5.6 million[8]) as a small State."

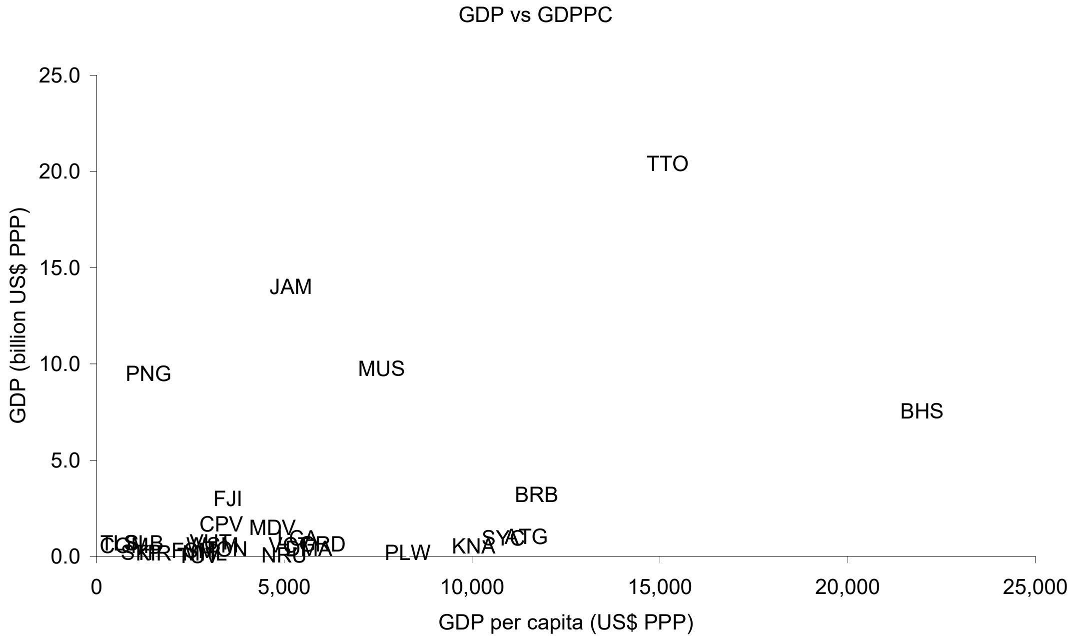
The idea of having an upper population threshold, and then admitting a country that has a population more than 4.5 times that threshold undermines the credibility of the claim that such a definition is "criteria-based". PNG has more than 2.5 times the population of the second most populous nation and more than 5 times that of the third. Moreover, the same chart illustrates that PNG is a similarly remote outlier in terms of land area: 16 times the area of the second largest, Solomon Islands. Papua New Guinea is 740 times more populous, and more than 20,000 times larger, than Nauru.

Certainly it is possible to draw out connections between PNG and other members of the SIDS group, primarily because with a GDP per capita of less than $1400 it is amongst the poorest, meaning that its raw GDP is ranked only 4th. However, the purpose of defining a SIDS group should be to encompass countries that face the same specific difficulties that require distinct

[8] This was written in 2004. According to the World Bank, Papua New Guinea's population has been growing at 2.4 per cent per annum between 2004–10, a compound increase of 18.0 per cent, now standing at more than 6.8 million.

similarities in development trajectory — not merely to give extra resources to countries that are particularly afflicted with poverty. Arguably, Papua New Guinea should be included in the LDC grouping, as are other Pacific islands with more than double its per-capita income. But it would be very difficult to argue that PNG, with a population significantly larger than New Zealand and almost twice the land area, must be permanently marginalised from the global economy on account of its size and location.

Figure 2: GDP in Trinidad and Tobago and the Bahamas versus other SIDS



UNCTAD (2004a, p100) argues that its informal list contains countries that

> "in terms of national income and/or income distribution,… leave no doubt about their developing country status."

However, this is contested by Betzold (2010, p2), who, notes that along with Singapore,

> "The Bahamas can hardly be described as developing."

With a per-capita GDP of $22,000 (and an even higher PPP GNI) it is difficult to avoid sympathy with the latter position. Trinidad and Tobago is more of a borderline case: second in terms of GDP per capita (with the highest GDP) but the difference is considerable, lagging the Bahamas by almost $7000 per capita. There are at least nine other countries worldwide that fall in this range. The Bahamas has a GDP per capita 35 times larger than Timor Leste, whilst Trinidad and Tobago has a GDP 340 times that of Nauru.

UNCTAD (2004b, p18) claims that "this denomination [SIDS] is based on permanent characteristics."[9] But if small island *developing* states truly are developing — that is, becoming developed — then surely there must be a standard of wealth beyond which they are to graduate from SIDS status. SIDS must carefully consider the extent to which inclusion of such outliers could weaken their case within the international arena.

The following definitions flow from the foregoing analysis. Two alternatives are offered, one which includes the outliers PNG and the Bahamas, one which excludes both.

---

[9] Emphasis added.

Table 2: Proposed definitions of SIDS

	Test	Inclusive definition	Exclusive definition
Small	Population	Below 7 million	Below 3 million
Island	Is an island without a bridge, tunnel or causeway connection to the mainland		
Developing	GDP per capita	Less than $25,000	Less than $16,000
	EU membership[10]	Non-EU member	N/A
State	UN membership	UN member	

4 Areas of Intervention

This section discusses proposed areas of work that address the characteristic difficulties identified in the previous section, particularly the need for measures specific to SIDS aimed at building a robust and diversified economy. The discussion starts from the premise that, with respect to SIDS, measures aimed at building supply-side capacity should receive relatively greater emphasis than they have until now, and that therefore the role of government may be different to that of some other categories of country.

4.1 **Supranational collaboration**

As discussed earlier, any discussion of the role of government in SIDS requires a break with conventional thinking about the relationship between the public and private sectors. Naturally, SIDS governments already have an astute understanding of this, which is frequently better grounded and perceptive than that of international experts contracted to advise them. However, the area in which SIDS' progress is more varied is that of supranational collaboration to address indivisible government functions through a process akin to 'outsourcing'.

Those SIDS that are part of SIDS-dominated regions (ie the Caribbean and Pacific) already have long experience of programmes through which some government functions have been regionalised, or, in a sense, 'outsourced'. This process is much more advanced in the Caribbean than in the Pacific: for instance, the East Caribbean Central bank has successfully managed the East Caribbean dollar, used by six countries and two overseas territories, since 1983. While the rationale for such action is strong, it raises serious concerns about national sovereignty, which have frequently emerged during programme implementation. This has been particularly problematic within the Pacific, where the main regional institution responsible for economic programming is not constitutionally controlled by SIDS but contains two developed countries whose geopolitical interests naturally limit the extent to which SIDS can trust it to exercise supranational authority. The situation is perhaps even worse for SIDS located around Africa and in the Indian Ocean, who are typically involved in regional institutions dominated by non-SIDS members that have no opportunity for inter-SIDS collaboration on matters of SIDS-specific concern.

---

[10] If the definition of a "developing" country is an income per capita below $25,000 (or, at the limit, set marginally above the Bahamas' figure at $22,000) then both Malta and Cyprus would qualify as SIDS, which is likely to undermine the credibility of the grouping as a whole. Set at a threshold of $16,000, this additional requirement is not necessary, although graduation may be an issue for Trinidad and Tobago before long (GDPPC: $15,200).

Whilst it is difficult to comprehensively discuss the type of 'outsourcing' that may be of interest and acceptable — this must come directly from countries — it is useful to illustrate with a concrete example. Financial sector supervision (FSS) is weak amongst many Pacific SIDS. Three lack central banks, and three more lack any kind of supervisory agency (Brash and Milford, 2010)[11] (and even in larger Pacific SIDS, where effective central banks exist, these institutions often capture a disproportionate amount of the most valuable human resources in the economy, depriving government and the private sector of an extremely useful asset). The traditional options available to these countries are not appealing: they either rely on (usually foreign) banks to self-regulate, or to divert scarce domestic institutional resources to establish a new institution and legal framework that monitors financial markets but will probably still lack the capacity to enforce its own rules. In recent years, the PIFS has attempted to propose a regional approach to FSS that would enlist an international monitoring agency with a functioning enforcement mechanism. Regulation would presumably be based on a common template that was customised by each country, but monitored and enforced by a regional court or authority. In principle, at least for smaller SIDS, this would appear to be a promising option. In practice, the project failed for two main reasons. Firstly, countries' concerns about loss of sovereignty were not adequately addressed. Secondly, experts enlisted to design concrete proposals had experience of larger regional economies but no real understanding of the economic position of SIDS, so that proposals were mostly transplanted from an entirely inappropriate developed-country context. Later, an expert with Pacific experience was asked to salvage the project, but without the budget to conduct additional national consultations, was unable to make further progress. Regardless of the feasibility of this specific programme, it carries important lessons for the general approach that must be adopted if similar mechanisms are ever to be accepted and successfully established.

Any such 'outsourcing' of government functions, in whatever area that might be, is a sensitive proposition that could only be contemplated by SIDS under certain conditions. First, the organisation providing support to SIDS must be constitutionally controlled by SIDS (although the involvement of donors as observers would almost certainly be beneficial). Second, such an organisation must have in-depth understanding of SIDS issues, probably in part by taking secondees from SIDS governments. Third, the organisation's individual programmes must function on an 'opt-in' basis rather than a 'single undertaking' approach. Within the SIDS category, the largest country has hundreds of times the population of the smallest. This necessarily implies that functions that cannot realistically be performed by the smallest SIDS can and should be provided by the government of larger countries. Fourthly, there should be no a priori limitation on the scope of such an organisation — members should be free to take it in whatever direction makes sense to them as their situation evolves.

It is difficult to make concrete proposals on the pooling of state operations because of the political sensitivity involved in ceding supranational authority over areas of regulation. The Caribbean has already committed to this route at a regional level, establishing its Court of Justice (CCJ) with considerable centralised jurisdiction over the single market and economy.

The Pacific, African and Indian Ocean SIDS do not have institutions that are obviously placed to exert supranational authority, although tentative discussions toward pooling certain functions such as security and Customs have taken place. Pacific, African and Indian Ocean SIDS may lack the perception of themselves as part of a global SIDS grouping with common interests and opportunities for mutual action that would be necessary to explore such options. But these opportunities exist nonetheless, and any concrete action taken by a SIDS grouping conscious of itself as such will make this type of programme more feasible in future.

---

[11] FSM, the Marshall Islands and Palau have supervisory agencies but no central bank; Kiribati, Nauru and Tuvalu have neither.

4.2 Effective advocacy: a strong SIDS group

Despite their lack of traditional sources of power, the SIDS group has been so successful in recent negotiation processes as to have inspired theoretical work explaining this "structural paradox" (Betzold, 2010). The efficacy of AOSIS members' negotiation has not been reliant on the inherent similarities of its membership but on the confluence of their perceived interests: members' ability to agree a common position and to speak with one voice. A similar consensus will be necessary to make a serious attempt to establish any new work programme of aid for SIDS. Members of the category must expect significant individual benefits. And since the creation of any SIDS category is likely to emerge at the same time as and for the purpose of a tangible work programme, it will not be enough for SIDS to share the desire for a new category in order to be able to use their new status to pursue disparate end goals.

One important factor to consider in this regard is that the UNCTAD SIDS group is divided between eight LDCs and 21 developing countries (two of whom have graduated from the LDC category). This division is crucial to considerations of whether (and to what extent) SIDS concessions could or should duplicate treatment already granted to LDCs. For instance, extension of the Enhanced Integrated Framework to non-LDC SIDS may appeal to developing (DGC) SIDS, but creates no incentive for LDCs to participate and therefore risks undermining group cohesion, more so the more this demand is emphasised. The WTO has taken a particularly extreme approach in this regard, proposing SVE treatment that is essentially "LDC-light": that is, SDT that is of the same kind as, but not as valuable as, that granted to LDCs. The effect is to offer nothing to LDCs that would also qualify as SVEs, except possibly after graduation. In the interests of promoting effective advocacy, it makes tactical sense to identify measures that will individually be of interest to most, if not all, SIDS, rather than a composite of measures that individually will only appeal to a small number. This approach will help to ensure that SIDS advocacy can easily form a coherent narrative, rather than appearing as a disparate and unconnected wish list.

Similarly, the division of SIDS into WTO members, acceding countries, non-members and nations that should probably never join (see, for instance, Gay, 2010a and 2010b) should caution against designing a SIDS programme in which WTO activities predominate.

A second major consideration that should be addressed as early as possible is reaching consensus on a definitive list of SIDS from their own perspective. UNCTAD's informal list of SIDS provides a valuable starting point, but can be improved slightly, as suggested above. SIDS will surely face such criticism in the process of advocating for the creation of a new grouping, and so it is vital to carefully consider what outliers presently exist in UNCTAD's informal list, which of those outliers can be justifiably included in a SIDS category, and on exactly what basis. This is necessary not merely to ensure that the proposed SIDS category appears credible to donors, but also to ensure that within the SIDS category there is a commonality of purpose and demands — that SIDS are similar enough to one another to be prepared to demand a common set of concessions for similar reasons. Improvement and consolidation of the SIDS group will help generate a sense of solidarity and purpose, while if the group is defined around a meaningful set of principles it will be able to narrow down the range of goals pursued, in turn improving advocacy.

4.3 Information and communications technology

In many lesser-developed SIDS, the role of ICT is not yet fully appreciated, being considered a peripheral luxury rather than an increasingly integral part of global business, trade and communication. Yet in the states that have liberalised their telecoms industries within recent years there has been an influx of new, dedicated small service providers, rapidly expanding telephone and Internet usage. At the most basic level, ICT reduces (or bypasses) SIDS' distance from world markets. Services trade already comprises 40% of total trade for SIDS, double the proportion in low income countries, and ICT is a clear means of adding value and enhancing the role of services trade.[12] For archipelago states, its role is no less important as a means of addressing the effects of dispersion, thereby integrating a domestic economy that in many current cases is highly fragmented. ICT has strong links with many (if not all) other areas discussed below. These relationships include the following:

(a) communications technology can eliminate the need for international and domestic travel and freight, costs which are typically uncompetitive in SIDS and likely to remain so indefinitely;

(b) information technology, in the right institutional setting, can enable access to educational courses and materials that would otherwise be too specialised to provide to small population centres;

(c) access to international scholarship is necessary for any development of greater domestic research capacity, whilst the size of smaller SIDS precludes the creation of high-quality traditional libraries in the medium term;

(d) cheaper and more advanced international communications technology enable stronger links — including economic links — to be preserved and created between resident and diaspora communities.

A cost-effective and inclusive approach to improving access to ICT must operate on many levels. Submarine fibre-optic cabling may appear to be the largest obstacle for the few SIDS that still lack such links, but serious challenges are involved in extending phone and internet access to populations that are as remote as, say, those in the Marshall Islands' 24 atolls and islands spread across an area the size of Mexico. A comprehensive strategy developed at the country level should consider how best to balance investments, both financial and institutional, at different levels.

4.3.1 International links: submarine fibre optics

A brief survey of the current state of international submarine fibre optic cables in SIDS is included in annex C. Caribbean capitals generally benefited from the earliest investment in the 1990s. Various sizeable African cabling projects are coming online this year and next, and all African and Indian Ocean SIDS are expected to have high-capacity connections by the end of 2012. Pacific SIDS have some of the smallest populations and largest distances from trunk cabling, and are catching up more slowly. Some have benefited from trans-Pacific cables, although these are more frequently routed through dependent territories such as Guam. Projects are currently planned or underway in Vanuatu and Tonga, whereas no evidence could be found of planning for the connection of Nauru, Tuvalu, Kiribati, Timor-Leste or Solomon Islands.

International fibre-optics represent a large investment, but current projects in Vanuatu and Tonga illustrate that with private-sector investment or development financing from donors such as the ADB, they are not beyond the reach of the larger and less remote SIDS. Without such links, phone and internet services will remain uncompetitive due to the high cost of satellite bandwidth, which is unlikely to undergo order-of-magnitude reductions in price in the medium term. Without a cable link, projects to increase domestic access to the internet can be rendered almost non-viable, due to the underlying consideration that bandwidth either needs to be sold to end users at prices that rural populations cannot afford, or else that it must be continually subsidised at a cost that will spiral as the number of connected users increases and bandwidth-intensive applications become more popular.

---

[12] World Trade Indicators: http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:22421950~pagePK:148956~piPK:216618~theSitePK:239071,00.html

4.3.2 Inter-island links: fibre optic, satellite and point-to-point

For most Caribbean islands (the Bahamas being an important exception), an international network connection is the only significant infrastructure hurdle in extending coverage across its territory (although access to services and levels of use may remain a challenge). The situation in the Pacific is often very different. For instance, the distance between the states of Yap and Kosrae in Micronesia is almost 2,800km, significantly further than the separation of the Caribbean's most distant SIDS, the Bahamas and Trinidad and Tobago. In Kiribati, the capital is 3,300km — 8 per cent of the earth's circumference — from the Line Islands, an important population centre that until 1995 was not merely part of a different time zone, but separated from its capital by the International Date Line.

In the archipelago states of the southern Pacific the challenges of inter-island dispersion are no less significant. Solomon Islands' population of 540,000 is scattered across 350 inhabited islands. Even to begin by connecting provincial capitals means laying connections of 500km from Honiara to Taro in the north-west and 670km to Lata in the opposite direction. But very few people live in these 'urban' centres: provincial capital Lata contains only 3 per cent of the population of Temotu province.

With such radical geography and geographic variation between countries, very little generalisation is possible, but intra-national infrastructure challenges are, in some cases, much more serious than the difficulty of making a connection merely to the capital, and submarine fibre optic cabling will not be viable in all cases.

4.3.3 'First mile' and point-of-use

Even once the considerable trunk infrastructure challenges are addressed, the organisational, educational and economic problems associated with enabling a large section of rural populations to competently use internet services are substantial. Where populations are dense, sufficiently affluent to contribute some part of the cost of internet use, and have moderate levels of education, the private sector is able to provide profitable services. However, where rural populations are sparse, average levels of education are basic, there is no understanding of the potential of internet access or ability to pay for it, and communities lack mains electricity, there are formidable challenges involved in making 'first mile' connections between users and networks, and in finding a technical and organisational model that provides a working interface for new internet users.

The experience of NGOs such as the People First Network in Solomon Islands illustrate that

(a) an enormously broad range of opportunities exist for using even the most basic internet connectivity when deployed in an appropriate and sustainable institutional setting, but that

(b) the institutional effort required to establish non-commercial or semi-commercial centres for internet access in such environments is so difficult that development is necessarily slow (eg Ma'ai and Leeming, 2008).

ICT development of point-of-use facilities must be grounded in local realities. It must leverage existing organisations, especially technology NGOs and commercial operators, to the extent possible but must plan deployment at a sustainable rate that takes into account the time required to work with remote communities to develop functioning systems. Long-term financial sustainability will be central to success.

In urban centres, particularly national capitals, ICT is a means of providing badly needed library-like services to populations that would otherwise have no access to scholarship and knowledge sources more generally. Donors should enable SIDS to make scholarly content accessible in support of the development of domestic research discussed in section 4.7.

4.4 **Labour mobility**

Concerns are sometimes expressed in SIDS about the impact of brain-drain, given the countries' small populations, generally lower levels of tertiary education and pay, and the resulting scarcity of skills and technical expertise. Yet global migration is increasingly circular, making labour strategy central to economic policy. In Australia, one of the key developed markets for SIDS, the data show that for every three permanent immigrants from all countries, one returns – usually with new education, expertise or finance.[13] Those who stay form an important new component of the diaspora, which in SIDS is more important than in many other countries (see section 4.5).

Most economies rely on intra-national labour mobility as a means of improving resilience and responding to economic shocks. Labour is able to migrate from declining industries and regions of high unemployment to areas where their skills are valued. Regions such as the EU have recognised the benefits of extending this facility on a scale larger than that of moderately sized developed economies.

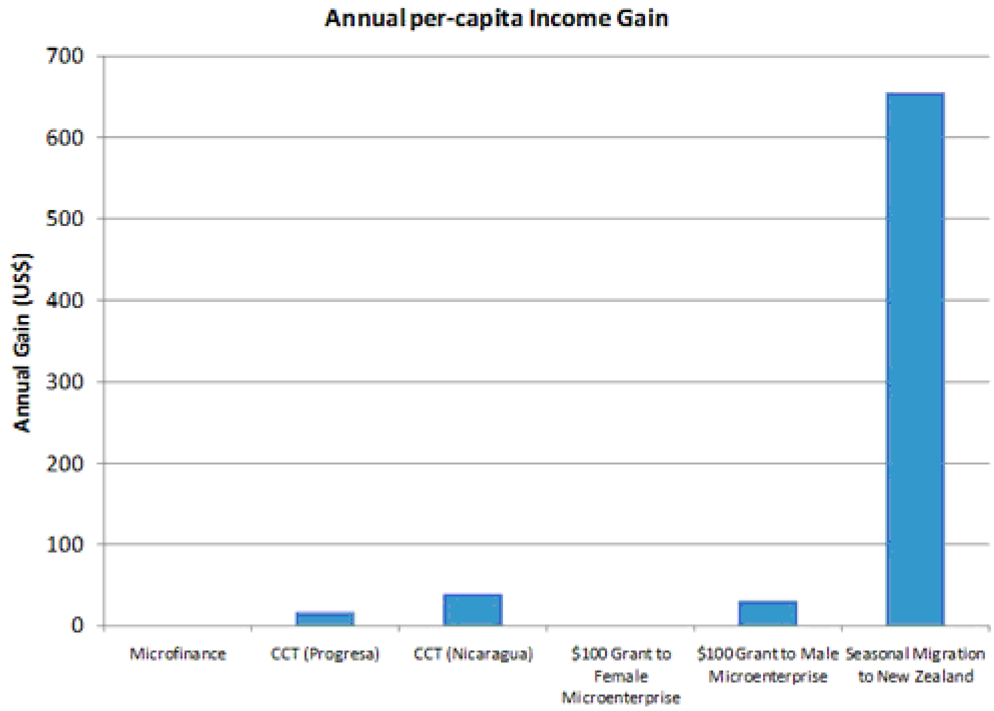
SIDS face natural barriers in taking advantage of this mechanism. Internal labour markets are small and the limitations of domestic educational institutions reduce the diversity of available skills. CARICOM has addressed these challenges by establishing a broad inter-SIDS labour mobility programme, and the Pacific region is currently working on a somewhat less ambitious platform as part of the PICTA trade in services agreement, although the latter is likely to be hindered more by transport costs.

Whilst these initiatives represent a reasonable response to the difficulties of a small labour market, the Pacific initiative is perceived by many to be, first and foremost, a step towards negotiating greater labour mobility access to developed markets. Given that a surplus of unskilled labour is a common feature of most islands, and that many skills shortages are also uniform across the region, the advantages of merely intra-regional mechanisms are limited.

Mobility that permits access to developed markets brings a number of additional advantages: it is an opportunity to gain skills and experience that would be impossible at home; it creates social and economic linkages with foreign markets that form the basis of future international service delivery; and higher wages in developed markets can provide a unique opportunity to accrue investment capital. In certain SIDS, the failure of financial markets has been identified as a major inhibitor of growth (see, for example, Gay *et al*, 2009). Even in economies where excess liquidity exists, banks are unwilling to lend because they lack information about potential lenders, and collateral is also scarce, particularly in countries with little alienated land. The saving made possible through labour mobility opportunities is a rare means of escaping this constraint, enabling a migrant worker to save for his or her own investment, or to lend using informal information about borrowers (especially family).

A World Bank study (McKenzie and Gibson 2010) of Tuvalu and Vanuatu showed that the seasonal migration scheme to New Zealand established in 2007 (see box below) was by far the most effective development gain out of six interventions surveyed, measured by annual per capita income gain. The study found that the scheme "increased income and consumption of households, allowed households to purchase more durable goods, increased the subjective standard of living, and had additional benefits at the community level. It also increased child schooling in Tonga. This should rank it among the most effective development policies evaluated to date."

[13] Guest, 2011, pp23–24. There are currently 215 million first-generation migrants, an increase of approximately 50% since 1990 (Guest, p16).



Source: McKenzie and Gibson 2010.

Case Study: New Zealand Recognised Seasonal Employers (unskilled)

The RSE scheme started in 2007, offering 5,000 Pacific Islanders from Kiribati, Tuvalu, Vanuatu, Samoa and Tonga the opportunity to work on New Zealand farms in horticulture and viticulture on a seasonal basis. The scheme was originally conceived as a response to a labour shortage in New Zealand, but the implementation has taken into consideration the development needs of partner countries, and has prioritised Pacific SIDS over other sending countries in the Asia Pacific region. Most workers are eligible to work for up to seven months in an 11-month period, although workers from particularly remote Pacific islands may work for up to nine months. The cap was raised to 8,000 in 2008 and all Pacific island countries except Fiji were made eligible. The scheme works as follows:

- Upon satisfying authorities that no New Zealanders are available to fill positions and being certified by the NZ Department of Labour, employing companies are able to recruit from any eligible Pacific SIDS.
- Recruitment is largely carried out within Pacific SIDS with varying levels of involvement by national authorities. A checklist of common requirements covers medical checks, police clearances and visa processes.
- Employers contribute 50 per cent of workers' air fares and undertake to provide accommodation and a minimum of 30 hours' work per week. Should workers prefer to arrange their own accommodation off-site, they are guaranteed this option.
- Employers also undertake to provide basic pastoral care such as helping workers settle into local communities.
- Within New Zealand, the Department of Labour is responsible for certifying employers and monitoring potential abuses of workers' rights, including low pay, breaches of safety, holiday entitlements and substandard accommodation.

- In addition, Pacific departments of labour are invited to participate in the monitoring process, especially when complaints are received. Reports are also made by workers on their return home.
- The NZ Department of Labour also works with employers to get their workers insured under an affordable medical and health insurance scheme.
- Various channels of communication are open for workers to express concerns, including to Departments of Labour or New Zealand High Commission in the workers' home country, Pacific representatives in New Zealand, or unions.
- New Zealand initially provided 'kick-start' countries with some assistance in marketing and awareness raising activities around the RSE, as well as providing a database and supporting monitoring. Since mid-2008 New Zealand has helped all six kick-start countries to strengthen their systems to ensure their sustainable participation in the RSE.
- Some New Zealand employers are encouraging workers to transfer their knowledge to their own agricultural work once their contracts end and investigate potential opportunities to develop exports or invest in Pacific SIDS.

Based on: Gay, 2010b

Case Study: Caregivers (semi-skilled)

The unmet demand for labour in the developed world is not merely a feature of unskilled markets. There are also sectors which are known to have a predictable, structural, long-term need for semi-skilled and skilled labour. One which is common to a variety of developed markets is caregiving: the provision of personal care to children, disabled or elderly people, often within the household.

Demographic trends within the developed world guarantee that this will be a growth industry in the coming decades. Modelling future demand, Wittenberg *et al* (2010) anticipate an increase in the share of GDP spent on caregiving in England from 1.4 per cent to 2.7 per cent by 2032—representing an increase in the workforce of 79 per cent. Successive government policies have acknowledged serious difficulties in recruitment and retention. The result has been that "between 2001 and 2009 the proportion of foreign-born care workers more than doubled—from about 7 per cent in 2001 to 18 per cent in 2009"—an increase of around 90,000 foreign workers (Shutes, 2010), even though the number of UK-born caregivers was rising during the same period. The New Zealand Government estimates that the continuation of current trends without policy intervention would lead to a shortfall of 26,800 aged-caregivers by 2036.

Changes in immigration law to accommodate this demand are already well established in many countries. Canada has a "Live-In Caregiver Programme" which offers work visas to qualified caregivers intending to stay for a *minimum* period of two years. To qualify for a visa, an applicant needs the equivalent of a Canadian secondary school education, and either six months' training or one year of practical experience.

This is a sector in which SIDS have the ability to compete with larger developing countries. A key requirement in most markets is a sound knowledge of the English language (or, less often, French). Further, the typical requirement that caregivers stay for an extended period (at least two years in Canada's case) reduces the importance of the high cost of travel from SIDS to major markets.

There have already been successful instances of institutions within SIDS taking advantage of these opportunities. An example is the St Vincent and the Grenadines Caregiver Training College, a vocational training centre offering 6-month diplomas comprising 750 hours of classroom training and 240 hours of practical experience. In partnership with a commercial placement agency, it is successful in matching its graduates with positions as caregivers within Canadian homes. Experts from this institution have recently assisted the Pacific Islands Forum Secretariat in designing a pilot scheme based on the same model to be established in the Pacific.

As will be seen from the boxes, there are opportunities in unskilled and semi-skilled areas. Naturally, taking advantage of semi-skilled opportunities requires more intense institutional effort, and the close integration of trade and educational strategies. Many educational institutions in SIDS exist primarily or exclusively to teach skills only of relevance for overseas work. One such institution is the Tuvalu Maritime Training Institute, whose influence has a substantial macroeconomic effect on the country (Gay, 2010b). Such institutions will be of increasing importance if semi-skilled labour mobility is prioritised by SIDS governments. SIDS will benefit from sharing institutional learning and pooling resources in the development of new institutions, the diversification of existing institutions and in sharing capacity regionally. SIDS will also have to coordinate more closely between ministries of education, trade and foreign affairs in order to harmonise vocational training with supply shortages in developed countries supported by appropriate institutional arrangements.

There has been substantial interest in the inclusion of guaranteed labour mobility opportunities in free-trade negotiations between some SIDS and developed partners. The failure of the EU to seriously consider Pacific proposals in this area was a key reason why negotiations for a comprehensive Economic Partnership Agreement have been so unsuccessful. In more recent discussions concerning a possible free-trade agreement between Pacific SIDS, Australia and New Zealand, the Pacific side has once again highlighted the importance of labour mobility opportunities as a key demand, despite the fact that New Zealand already hosts more than 5,000 Pacific islanders annually (see box and NZ DOL, 2009) on a unilateral basis.

There are sound economic reasons that SIDS should consider seeking to entrench labour mobility arrangements within bound trade agreements, if the opportunity arises. The NZ RSE scheme was originally designed to fill a shortfall in supply of unskilled labour in the horticulture and viticulture industries and is still very much a demand-led arrangement. Recruitment of Pacific islanders is only permitted where recruitment of NZ nationals is considered to be impossible. The danger with this type of scheme is that where employment demand is cyclical, correlated with the global business cycle, it will act to exacerbate SIDS' vulnerability to the impact of this instability. In a sense, it is a means for developed countries to 'export volatility', by passing the variable component of cyclic unemployment onto already vulnerable economies. Considering larger and developed countries' much greater capacity to manage this volatility, it is undesirable to pass it on to small, underdeveloped economies in this way. Bound rules as part of a free-trade agreement could ensure that SIDS do not shoulder an undue share of the impacts of cyclical unemployment. There is, however, the need to balance this strong economic rationale with a sensitivity to domestic political opinion in the host nation. Labour mobility schemes such as the RSE have largely been possible to the extent that they have been effectively managed and have not attracted negative public attention. Managing the public image of such programmes is central to their long-term success, and guaranteeing migrant workers employment when domestic unemployment is high is an inherently risky proposal. Australia has had considerable difficulty in setting up a scheme following that of New Zealand, partly as a result of media criticism.

4.5 **The diaspora**

For a SIDS, there are important benefits from having a large, economically successful diaspora in one or more developed economies that has close links to domestic society. For these benefits to be realised, it is not necessarily true that outgoing workers ultimately return to their country of origin, although it is certainly beneficial if they maintain close ties of one sort or another. Such links can provide a range of advantages. Market access is insufficient for SIDS and similar economies; market knowledge and business contacts are also critical. A large diaspora may well be much more effective in addressing these constraints than more formal solutions such as trade fairs and international business association links. As discussed earlier, a prosperous diaspora can be in important source of investment finance, having access to informal borrower information that traditional lending institutions are unable to use. They may also provide direct assistance and advice to facilitate greater labour mobility, with a more subtle understanding of immigration law in their new home territory. Remittances act as an important social safety net and source of resilience, even if they are subject to the business cycle. A diaspora can contribute to the transmission of new skills and experience through a variety of channels. In the process of developing better domestic research (see section 4.7) the diaspora may play an important role, especially initially, combining local knowledge and contacts with links to overseas educational institutions. They may also provide impetus as consumers of tourism, especially in its initial stages, as there will be reduced cultural distance between suppliers and customers and greater willingness to travel to SIDS regardless of their international competitiveness. The diaspora also play an important role within civil society, and particularly in internationalising the outlook of civil society organisations —New Zealand is perhaps the most likely cultural space for Pacific communities to share their concerns. Although as Campling (2006) points out, it is not uncommon for émigré communities to become more politically conservative than residents if they come to develop an idealised view of 'home' and lose familiarity with ongoing social struggles. There is a strong case for programmes aimed at revitalising links with second-generation migrants, not only to arrest remittance 'decay' but to refresh perceptions of the home country.

Case Study: The cost of remittance

The charges associated with transmitting money internationally may be substantially more important than is commonly realised. In SIDS with underdeveloped banking systems and — perhaps more importantly — a lack of financial understanding amongst the population, these costs can be shockingly high. Gibson (2006) finds that the:

> "ten percentage point spread between the most popular and the cheapest remittance methods means a potential loss for Tonga equivalent to *four percent of GDP*. Extrapolating from this remittance corridor to the rest of the Pacific, avoidable transactions costs may total NZ$60 million per year for remittances from all sources. [Emphasis added]"

There are two things to note about this. First, this figure does not describe the unavoidable charges involved in transmitting money, it describes the difference between the most commonly used methods and the cheapest methods. In other words, this expense represents avoidable charges that are paid out of an ignorance of (or unwillingness to use) cheaper alternatives. In the Pacific, this problem has been identified and addressed by the Australian and New Zealand governments, who have collaborated to establish SendMoneyPacific, a website that compares the costs associated with all available means of remitting money from Australia or New Zealand to any of the Pacific SIDS. This is augmented by campaigns in-country to raise awareness.

The second observation is that the true importance of these charges cannot be estimated until people are able to remit money more cheaply. It is very hard to estimate, firstly, to what extent people are dissuaded from remitting money by high bank charges. But more importantly, a remittance charge of 10–15 per cent *in each direction* makes it almost impossible for the diaspora to provide investment loans on commercial or semi-commercial terms. Even discounting exposure to exchange rate risk, loans would have to cover an additional 20–30 per cent interest (over the period of the loan) just to offset transfer charges. This is particularly crippling for short-to-medium-term lending. It may be that these charges are destroying a potentially prosperous market for investment financing. Members of the diaspora, with their access to extensive informal knowledge of communities with which they have familial links, have a strong informational advantage over almost all lending institutions in SIDS, even microfinance organisations. They also have money to save. At a transfer cost of 5 per cent or less, it becomes feasible that small-scale investment lending becomes a commercially superior opportunity for diaspora communities, particularly under current economic conditions where it may otherwise be difficult to earn a positive real interest rate on savings.

It is also worth considering any anachronistic features of certain SIDS law relating to immigration, emigration and capital controls. For instance, the costs and benefits of a prohibition on holding foreign bank accounts, dual nationality, etc, could be critically evaluated as part of a conscious government strategy of supporting a strong and non-alienated diaspora. Campaigns may even be conducted to encourage returnees or visits by long-term émigrés, along the lines of the Homecoming Scotland campaign[14] in 2009 which aimed to reinforce cultural links with overseas Scots and attracted 72,000 net additional visitors with associated expenditure of £50 million. SIDS and donor partners may benefit from information-sharing and collaborative research on the diaspora.

4.6 **Trade negotiations**

The negotiation of regional and inter-regional trade agreements offer both threats and opportunities to SIDS. Some SIDS see regional negotiations as a means of altering the focus of traditional agreements towards issues of greater relevance to the developing world, for instance by establishing labour mobility opportunities as an essential condition of any deal (see section 4.4). However, there are also significant threats for countries that lack the institutional resources to fully understand the complexities of contemporary trade agreements, and often the geopolitical power to resist unfavourable treaties. Gay (2010b) notes that for the smallest states, pressure from important donors (that are also negotiating partners) may be a central reason that very small states agree to participate in regional negotiations. The same study finds that in Tuvalu, more person-days are devoted to international meetings (mostly negotiations) than are available to trade department staff, because of the tendency for negotiations to draw in officials from other areas of government.

One traditional response to this overstretch is to bring in more regional expertise, and for small countries even to assign representatives to negotiate on their behalf. Despite the clear rationale of outsourcing government functions that the smallest administrations cannot hope to master (such as the full complexities of modern trade agreements), this approach raises serious difficulties. Even when such agreements are negotiated by local staff, it is common experience within many SIDS that a 'democratic deficit' opens in which there is insufficient communication between negotiators, other areas of government (including ministers) and non-state actors. Without the understanding and buy-in of government and civil society, wide-ranging negotiations (especially those with large behind-the-border consequences such as services and intellectual property) can have unexpected consequences — effects that negotiators had not considered that those directly affected knew anything about. Vanuatu's abandoned accession to the WTO (and to a large extent its more recent efforts to repeat the process) provide a clear and well-documented example of this (Gay, 2005). But a central reason for the disconnect between negotiators and domestic stakeholders was a lack of resources — negotiating trade agreements with full domestic consultation requires much greater institutional effort than merely negotiating based on technocratic opinions behind closed doors.

[14] http://www.homecomingscotland2009.com

An associated failure of many SIDS in international negotiations is inadequate preparation. It is rare for countries to arrive at negotiations with clear demands based on agreed national positions that have buy-in from stakeholders. In the Pacific, SIDS have only been able to make serious proposals within recent negotiations where a regional office has been delegated to prepare these on countries' behalf. The result, often, is that developed negotiating partners set the agenda, circumscribing negotiations to consider issues that are disproportionately of benefit to more developed economies, and ignoring SIDS' interests entirely (although, it could also be argued that in the rare instances where SIDS put forward competent and careful proposals, the result is identical, such as in the Pacific-EU EPA negotiations).

A further consideration is the irrelevance of many trade rules to SIDS. For instance, in a country that is only ever likely to develop domestic manufacturing in a very small percentage of tariff lines, it may be possible to comply with a goods agreement merely by replacing import taxes with excise duties, applied at the border. However, whilst compliance with trade rules may make no significant *economic* impact on a SIDS economy, it can nevertheless suck up tremendous institutional effort. In the smallest administrations, a good-faith attempt to implement, for example, all WTO rules would require such enormous resources that it would have a devastating effect on the government's ability to do anything else.

An appropriate balance is difficult to strike. SIDS should continue to negotiate directly on their own behalf, since another layer of representation would merely have the effect of distancing negotiators further from domestic stakeholders. However, countries should workshop a limited range of policy positions in key strategic areas, outside of any one negotiation process, and involving broad consultation across government and with civil society. Such basic policy positions should be signed off by relevant ministries, and should guide all negotiation processes. These should include potential offensive subjects such as labour mobility and demands identified as important within the specific country context, such as TBT and rules of origin. They should also discuss the most significant defensive interests, including tariffs, and service areas that could be liberalised (even if these are very few in smaller SIDS). These policy positions should be expressed in simple, accessible and general documents — including the broad strokes of red-line trade-offs — that can form the basis of all future negotiation. For political reasons it may not be possible for SIDS to opt-out of negotiations that offer them very little, but negotiating on the basis of pre-agreed national positions is the best way to limit outcomes to those that are widely perceived to be in the national interest. The consultation process should also aim to provide civil society groups with the knowledge and documentary materials to hold future government action to account (see section 4.8). Outside technical support can be of great value during the consultation phase, in providing a deeper technical understanding of how trade rules would impact SIDS societies, and should provide ongoing assistance during negotiations. But this support must come from experts that have an intimate knowledge of the specific circumstances of SIDS (not just generic trade experts) and should avoid distancing national negotiators from the process, as they are the ones that should be held to account by domestic stakeholders for their application of agreed policy. It may be worthwhile establishing an international register of SIDS experts, particularly comprising SIDS inhabitants.

Special treatment for small economies in the WTO has a short history, summarised in the subsection on the SVE work programme. The 16 SIDS WTO members would all be covered by this treatment, although Solomon Islands, the only LDC SIDS WTO member, qualifies for unambiguously better treatment as an LDC. Almost all SIDS WTO members were involved as proponents in this work programme at some point.

Within the multilateral trading system, SIDS face the same challenges as all small economies, many of which are shared by countries that are substantially larger. Strong proposals exist for a development round encompassing much more radical changes than are currently being discussed in Doha, that would greatly benefit SIDS. For example, Stiglitz and Charlton (2005) argue that in order for small economies to be able to participate meaningfully in the WTO's dispute settlement mechanism, it would be necessary for

(a) developing countries to receive legal aid, so as not to be prevented from bringing disputes on the basis of their cost, and
(b) sanctions to be executed by non-injured parties, to redress the problem that measures imposed by a large economy on a small one are overwhelmingly more effective than *vice versa*.

One means of achieving the latter goal would be to permit the monetisation of sanctions, so that a SIDS that won a case against the US could then sell the right to impose duties to China. The authors describe the extreme failure of the dispute settlement mechanism in the absence of such provisions in an earlier report (Stiglitz and Charlton, 2004):

The [EC], Japan, and the [US] were complainants in almost half (143 of 305) of all bilateral disputes in the WTO Dispute Settlement system between 1995 and 2002. By contrast, the 49 members classified by the UN as [LDCs] did not bring a single challenge in that period.

Many similarly 'game-changing' proposals exist, but they have not received serious attention during Doha talks and there seems to be little evidence to suggest that renewed lobbying for such proposals by SIDS will be effective in the current climate.

The feature of SIDS that is most particular to this category of countries is the issue of WTO membership itself. Of 29 SIDS, 6 are in the process of accession and 7 do not even have observer status. Vanuatu finds itself amongst a very small number of countries to have aborted an accession process after a full agreement had been reached. It is clear that the process of accession and the treatment by WTO members of non-members are both of great interest to SIDS. SIDS span the range of countries between those that can stand to gain from WTO membership through to those that will probably never find it in their interests to join, with a significant number in the middle for whom the decision depends significantly on their terms of accession. Despite a 2002 General Council decision to make accession more transparent, and to ensure that terms offered are comparable to existing members at similar levels of development, this has not been implemented and empirical evidence suggests that both the cost and slowness of accession are growing (Stiglitz and Charlton, 2005).

Despite the clear rationale and General Council decisions in favour of making accession fairer, this may be a difficult concession for SIDS to demand. Firstly, the accession process functions poorly for all acceding members — for instance, China was required to provide members with an ability to use additional safeguards that violates the basic MFN principle. Larger acceding countries are unlikely to support a proposal that improves accession for small economies but leaves the accession of larger economies in its present state. And it seems equally unlikely that accession will be made fairer for all countries at least until Russian accession is complete.

Instead, it may be preferable to focus efforts on making non-membership more palatable. As previously noted, without a serious overhaul of the dispute settlement mechanism, SIDS will simply not have the opportunity to enforce WTO rules on their trading partners in this way. This should raise serious questions about the possibility of very small economies participating in the multilateral trading system in the manner envisaged when that system was designed. Without dispute settlement, the benefits of participation at the WTO boil down to participation in WTO negotiations (a 'voice at the table') and treatment by WTO members. Interestingly, the Pacific non-member SIDS have achieved the former, to some extent, through involvement with a joint office that represents all Pacific member states and acceding countries. SIDS could consider lobbying for better treatment by WTO members regardless of their membership status, in the same way that the decision was made at the Hong Kong Ministerial to offer duty-free-quota-free market access to LDCs regardless of their membership status. If SIDS were able to secure an extension of this treatment to a SIDS category, they may find that many of them will be permanently better off outside of the WTO, avoiding not only the large costs and immense institutional investment in accession, but also the enormous challenges of implementation of Marrakech and any future agreements.

4.7 Research and knowledge management

The unique nature of SIDS and the limited number of advanced research institutions within their borders leads to suboptimal advice and attempts to impose policy solutions from very different contexts. Those that are part of SIDS-dominated regional blocs benefit substantially from the accumulation of SIDS-specific expertise in regional institutions, capable of generating research and policy advice that is contextually appropriate. However, all SIDS can benefit from developing their domestic research capability and improving inter-SIDS links for sharing knowledge and research that is relevant to their interests. A platform already exists at sidsnet.org, but more could be done to build a physical presence. Such research can only serve to strengthen SIDS ability to resist international pressure to adopt inappropriate policy and to design innovative solutions cognizant of their individual contexts.

The EIF programmes of larger Pacific SIDS have endorsed the need for a new policy forum. For example, a recommendation of the Solomon Islands' DTIS:

> **11.3 Support an economic think tank and/or policy forum, bringing together prominent economists and public policy specialists.** This process may alternatively be conducted on a regional level. Home-grown or regional research is currently scarce, and there is over-reliance on donors, international consultancy reports and other international publications. The domestic human resources exist for such a forum, which may publish periodic papers.[15]

Whilst there are important differences between regions, the inherent commonality of SIDS' characteristics implies that there are valuable lessons to be shared between regions, and there is no reason that a proposal of this kind could not be implemented globally.

Such a forum could benefit from the following features. It could be based on the electronic publication of a periodic journal. Contributions, to the extent possible, should come from domestic research conducted by SIDS institutions and nationals. Where domestic research skills are underdeveloped, a partnership arrangement should be used in which international and local experts co-author articles, with a strong emphasis on developing domestic capacity.

DTIS reports frequently contain recommendations for further research, for which finance from the EIF trust fund can be sought. Where these research projects do not involve confidential issues (such as areas involved in trade negotiation), a SIDS journal could be an appropriate mechanism to commission and administer such projects, in collaboration with NIUs.

The SIDS journal should be established at the global level, potentially with the long-term support of regional institutions. Ideally, the administration of the journal, including managing processes of refereeing and mentoring, should be located within an appropriate educational institution, such as the Islands and Small States Institute of the University of Malta, or the University of the West Indies.

A clear prerequisite for developing such domestic research capacity is free local access to international scholarship. Providing this, at least in national capitals, is discussed as part of a broader ICT strategy. Such research will also have a beneficial impact on the challenges discussed in the next section.

[15] Gay, 2009. A similar proposal was endorsed in Vanuatu (Gay, 2008).

4.8 **The role of civil society**

Whilst civil society is a significant force in all countries, political circumstances in many SIDS enlarge the importance of its role. Many SIDS lack substantive political parties, with the result that governments are formed of evolving coalitions with high ministerial turnover. This threatens long-term policy-making activity, including economic and trade policy. It creates an additional rationale for involving civil society groups in policy-making, not merely to exploit their ideas or secure their acquiescence in government plans, but to foster a broad consensus on long-term policy that is able to outlive the current government and enforce some level of policy stability despite rapid ministerial turnover.

Civil society cannot be built by donors or government, but there are policy options that support rather than weaken civil society groups, and several of the areas of intervention already discussed can have a positive impact in helping to develop a strong and vocal civil society. Proposals concerning ICT, domestic research and the diaspora should all consider means in which their implementation can maximise support to civil society.

4.9 **Developing environmental resilience**

The Barbados Programme of Action and Mauritius Strategy have generally focused on building resilience, especially environmental. The needs analyses involved in these documents have received input from all SIDS over the past two decades. Better information exists in this area concerning what countries perceive needs to be done, compared to other challenges faced by SIDS.

Following the seventh Conference of the Parties (COP) on the UN Framework Convention on Climate Change (UNFCCC), all ten SIDS LDCs and ex-LDCs submitted National Adaptation Programmes of Action (NAPAs) to the UNFCCC Secretariat, enabling them to apply for funding for their priorities from the LDC Fund managed by the Global Environmental Facility (GEF). These NAPAs identify countries' most urgent and immediate needs to adapt to climate change — in other words, actions that are required now in order to avoid even greater costs in future (UNFCCC, 2011). US$177 million of project spending has already been approved by the LDCF, of which LDC SIDS have received more than 20 per cent (GEF, 2011).

4.9.1 Extending NAPAs to non-LDC SIDS

It is interesting to briefly review the documents establishing the NAPA programme for least developed countries from the perspective of SIDS. Although article 4.9 of the UNFCCC recognised that LDCs have specific needs in 1992, no response to these needs was formulated until the seventh COP in 2001. In the conference report, the special circumstances of LDCs are frequently discussed side-by-side with the similar circumstances of "small island states". The first decision of the conference is a preambular ministerial declaration (1/CP.7, paragraph 2):

> [Ministers,]
>
> *Remain* deeply concerned that all countries, particularly developing countries, including the least developed countries and small island States, face increased risk of negative impacts of climate change[.]

Annexed to decision 2 is a framework for capacity building in developing countries, that explains in detail the special circumstances of LDCs and "small island developing States" without differentiating between the groups (Annex to 2/CP.7, Section B, paragraph 9):

> Capacity building is crucial to developing countries, especially those that are particularly vulnerable to the adverse effects of climate change. The special circumstances of least developed countries and small island developing States need to be taken into account in the implementation of this framework. They include:
>
> (a) Fragile ecosystems;

(b) High population pressure and isolated geographic locations;
(c) Weak economies, low incomes, high levels of poverty and a lack of foreign investment;
(d) Land degradation, desertification;
(e) Undeveloped services, *inter alia*, meteorologic and hydrological services and water resources management;
(f) Lack of early warning systems for natural disaster management;
(g) Inadequate food security.

However, in the document's later decisions concerning specific action and differential treatment, the formulation changes (*ibid*, Section C, paragraph 17):

> The least developed countries, and small island developing States *amongst them*, are among the most vulnerable to extreme weather events and the adverse effects of climate change.[16]

SIDS doubtless feel that, for the same reasons that SIDS that are part of the LDC group frequently receive special mention for their particular vulnerability, non-LDC SIDS share enough of the particular environmental vulnerabilities of LDCs that their situation justifies inclusion in the NAPA process. Given the country-specific analysis that lies at the heart of this programme, and the successful participation of LDC SIDS, there should be no need to make structural alterations in order to include SIDS.

Ideally SIDS would apply for funding from the existing LDC Fund, to which donors could be encouraged to commit additional resources for SIDS. This is likely to be more feasible than the creation of a parallel programme for SIDS, and it would be undesirable for LDC SIDS to participate in a separate programme.

In the next few years, the focus of national adaptation programmes of action will probably shift away from short-term measures towards longer-term planning. Non-LDC SIDS would doubtless benefit from participation in this process as well.

4.9.2 Energy policy

The energy sector frequently poses challenges to SIDS. Traditional means of generation based on fossil fuels typically involve substantial scale economies, so that it is impossible to provide energy to small populations at prices that are internationally competitive without subsidy. Many SIDS rely primarily on diesel generation, a particularly expensive option, but often the only one available. Most SIDS import all of their energy-generating fuels, and high energy price volatility contributes to economic instability. Some governments face significant pressure to subsidise energy costs, but this is not a long-term option without donor support.

Archipelago states and atolls face particular difficulties in establishing traditional grid systems, having to rely on large numbers of points of generation, each serving a small population, which creates enormous challenges in terms of maintenance and scale diseconomies.

Some LDC SIDS have decided to include a review of energy policy within their DTIS (eg Gay, 2010b). It is understood that costly investment in renewables can bring down the marginal cost of production. Excellent conditions for wind and solar generation exist in many SIDS, and some larger islands also have suitable conditions for hydroelectric generation. Many renewable technologies are particularly well suited to SIDS, with small technological units of generation appropriate for isolated islands, and a reduced burden of management and maintenance relative to fossil fuel technologies. However, SIDS governments rarely have sufficient financial resources

[16] Emphasis added.

for the higher initial investment in renewables and would be reliant on donor support for a significant shift in patterns of generation.

4.10 **An Enhanced Integrated Framework for SIDS**

The Enhanced Integrated Framework (EIF) for trade-related assistance is an increasingly important component of global aid to least-developed countries (LDCs). The rationale behind the design of the EIF contains the following key components:

1. **Comprehensive baseline analysis.** The EIF recognises that its recipient countries typically lack the domestic capability to generate a general analysis of their own status and development priorities, and thus provides a country-specific analysis in the form of the 'Diagnostic Trade Integration Study'. This is typically coordinated by an international team based on country visits, with input from domestic authors wherever possible, under the oversight of a local committee comprised of government and private-sector stakeholders. The DTIS is then validated through a national public workshop.
2. **Institutional resources.** Understanding that LDC government departments are frequently insufficiently staffed to perform current duties, the EIF recognises that additional resources are required within government in order for the DTIS and EIF work programme to gain the necessary prioritisation. Ordinarily a new unit is established within government partially using donor funding.
3. **Trade mainstreaming.** A perennial problem in LDC policy formation is the inter-ministerial cooperation and the integration of line ministries' priorities into a coordinated whole-government strategy. Trade is frequently one of the areas of government activity that receives inadequate attention in planning. The baseline analysis (DTIS) and devoted institutional resources are key elements in changing this situation, enabling trade policies that have been well researched and subjected to ample public consultation to feed in to national planning, raising the profile of trade both within government and in government-donor decision-making.
4. **Donor coordination.** The creation of a baseline analysis with donor input and local validation serves as focus for complementary and coordinated donor action. The EIF unit within government acts as a coordinating secretariat for all trade-related projects, and the appointment of a 'donor facilitator' encourages donor partners to operate through this structure.
5. **Project funding.** The EIF is backed by a multi-donor fund to which international organisations as well as dozens of countries contribute, making it easier for countries to secure finance for proposals developed through the DTIS.

The EIF is currently only available to LDCs. In several SIDS it has proved a powerful tool, being one of the first times that trade has been analysed systematically and given explicit support. Some have advocated the extension of the programme to encompass SIDS as well. An alternative approach would be to develop a distinct programme, very much based on the key design components of the EIF and incorporating the lessons that have been learnt through its operation, but designed specifically for SIDS and differing from the EIF as necessary.

There are several benefits of the latter approach. Firstly, the EIF is designed to provide exclusively *trade-related* assistance. Whilst trade-related issues are of key importance to any SIDS work programme, there are also a variety of core concerns shared by SIDS that do not relate to trade, or are only peripherally related to trade. Whilst there is considerable flexibility within the EIF approach for the work programme to take into consideration country-specific needs, and many DTIS reports in SIDS have deviated substantially in structure and content from a 'typical' DTIS, it may be more satisfactory to rethink at a more fundamental level the scope and priorities of a SIDS-specific work programme.

Secondly, there is a tendency for 'aid for trade' programmes such as the EIF to place great an emphasis on stimulating goods exports (even when they do consider the importance of supply-side constraints). It may be that subjects that traditionally form key components of DTIS analyses, such as customs, technical standards and market access may not be of sufficient priority to include in an analogous SIDS document.

Thirdly, LDC SIDS are already participating in the EIF programme (except Samoa, which is due to graduate in 2014). An EIF-like programme that encompassed non-trade areas may be of great interest to these countries, additional to their existing EIF programmes.

Fourthly, a challenge for the EIF has been the distance between country offices and the Geneva-based administration. Many SIDS have limited local presence of EIF donors (such as the WB, IMF, UNCTAD) and some countries have found that this distance — both physical and in terms of local understanding — has made EIF progress more difficult than it might otherwise have been. An EIF-like programme that addressed the specific needs of SIDS would surely benefit from being administered by an organisation or organisations that had an intimate knowledge of the challenges facing SIDS, and perhaps also by detailed country knowledge of individual recipients. For this to be possible, administration may have to be located outside of an office that is currently working with 49 EIF countries, 40 of which are non-SIDS.

5 Bibliography

Advisory Board to the Joint Commonwealth Secretariat/World Bank Task Force on Small States, undated, "Small States: A Composite Vulnerability Index"

Badkar, Juthika, Paul Callister and Richard Manning, 2009, "The future demand for paid caregivers in a rapidly ageing society", NZ Department of Labour, ISBN 978-0-478-33367-1

Betzold, Carola, 2010, "'Borrowing' Power to Influence International Negotiations: AOSIS in the Climate Change Regime, 1990–1997", *Politics*, October 2010, 30:3, pp131–148

Brash, Don and Andrew Milford, 2010, "Regional Options for Financial Sector Supervision in Forum Island Countries", *Pacific Islands Forum Secretariat*, March 2010

DESA, 2010, "National Statistics Office 2000 Census-based population projection" (2010 revision), Department of Economic and Social Affairs Population Division, Philippine National Statistic Office, http://www.census.gov.ph/data/sectordata/popproj_tab1r.html [accessed 15/11/11]

Campling, Liam, 2006, "A Critical Political Economy of the Small Island Developing States Concept: South-South Cooperation for Island Citizens?", Journal of Developing Societies, September 2006, 22:3, pp235–285

Campling, Liam and Elizabeth Havice, 2007, "Industrial Development in an Island Economy: US Trade Policy and Canned Tuna Production in American Samoa", Island Studies Journal, 2:2, pp209–228

Chang, H-J. 2007, *Bad Samaritans*, London: Random House

Doherty, Martin, 2010, "The Importance of Sanitary and Phytosanitary Measures to Fisheries Negotiations in Economic Partnership Agreements", *International Centre for Trade and Sustainable Development*, Issue Paper No 7, February 2010, ISSN 1563-0544

Gay, Daniel, 2005, "Vanuatu's Suspended Accession Bid: Second Thoughts?", WTO, Case Study 43, http://wto.org/english/res_e/booksp_e/casestudies_e/case43_e.htm [accessed 28/10/11]

Gay, Daniel *et al*, 2008, "Vanuatu Diagnostic Trade Integration Study", *Integrated Framework Partnership*, ISBN 978-982-9116-01-7

Gay, Daniel *et al*, 2009, "Solomon Islands Diagnostic Trade Integration Study", *Integrated Framework Partnership*, ISBN 978-982-98040-1-3

Gay, Daniel, 2009, *Reflexivity and Development Economics,* London: Palgrave Macmillan

Gay, Daniel *et al*, 2010a, "Kiribati Diagnostic Trade Integration Study", *Integrated Framework Partnership*, ISBN 978

Gay, Daniel *et al*, 2010b, "Tuvalu Diagnostic Trade Integration Study", *Integrated Framework Partnership*, ISBN 978-982-304-036-3

GEF, 2011, "Least Developed Countries Fund: Financing the preparation and implementation of NAPAs in response to urgent and immediate adaptation needs", Global Environment Facility, http://www.thegef.org/gef/ldcf [accessed 16/11/11]

General Assembly, 2010, "Outcome document of the High-level Review Meeting on the implementation of the Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States", A/RES/65/2, 15th October, 2010

Gibson, John, 2006, "Efficient Financial Services for Development in the Pacific", *Pasifika Interactions Project*, Working Paper no 2, 14 November, 2006

Gonzales, Anthony Peter, 2000, "Policy Implications of Smallness as a Factor in the Lomé, FTAA and WTO Negotiations", 7th September, 2000

Grote, Jenny, 2010, "The Changing Tides of Small Island States Discourse — A Historical Overview of the Appearance of Small Island States in the International Arena", *Verfassung und Recht in Übersee (Law and Politics in Africa, Asia and Latin America)*, VRÜ 43, pp164–191

Guest, Robert, 2011, *Borderless Economics: Chinese Sea Turtles, Indian Fridges and the New Fruits of Global Capitalism,* London: Palgrave Macmillan

Guillaumont, Patrick, 2007, "Assessing the Economic Vulnerability of Small Island Developing States and Least Developed Countries", *United Nations University: World Institute for Development Economics Research*, Research Paper 2007/40, June 2007

Guillaumont, Patrick, 2008, "An Economic Vulnerability Index: Its Design and Use for International Development Policy", *United Nations University: World Institute for Development Economics Research*, Research Paper 2008/99, November 2008

Guillaumont, Patrick, 2009, "A retrospective Economic Vulnerability Index", *Fondation pour les études et recherches sur le développement international*, Note brève 3, November 2009

Hardee, Karen and Clive Mutunga, 2009, "Strengthening the link between climate change adaptation and national development plans: lessons from the case of population in National Adaptation Programmes of Action (NAPAs), *Mitigation and Adaptation Strategies for Global Change*, 15:2, pp113–126, 29th December, 2009

Hayashi, Michiko, 2003, "Arrested Development: Vanuatu's Suspended Accession to the World Trade Organisation", Case Study for the International Commercial Diplomacy Project, February 2003

IMF, 2011, "World Economic Outlook Database: Indonesia", April 2011, https://www.imf.org/external/pubs/ft/weo/2011/01/weodata/weorept.aspx?sy=2011&ey=2011&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=55&pr1.y=14&c=536&s=LP&grp=0 [accessed 15/11/11]

Keen, S. (2011) *Debunking Economics*, London: Zed Books

Larsen, Bent *et al*, 2006, "Maldives Diagnostic Trade Integration Study: Volume 1", *UNDP*, November 2006

Ma'ai, David and David Leeming, 2008, "People First Network and the potential of ICT in rural development", *Australian National University*, Pacific Economic Bulletin, 23:3, pp141–154

McKenzie, David and John Gibson, 2010, "The Development Impact of a Best Practice Seasonal Worker Policy", *World Bank*, Policy Research Working Paper 5488, November 2010

NZ DOL, 2009, "2009 Statistical Update on Key RSE Figures", New Zealand Department of Labour, 31 March, 2009, http://www.dol.govt.nz/initiatives/strategy/rse/facts-figures.asp [accessed 10/11/11]

Kaly, Ursula, Craig Pratt and Jonathan Mitchell, 2004, "The Environmental Vulnerability Index", SOPAC, *Technical Report 384*, December 2004

Pelc, Krzysztof J, 2010, "Why do Some Countries Get Better WTO Accession Terms than Others?", *International Organisation*, forthcoming

Rodrik, Dani, 2001, "The Global Governance of Trade as if Development Really Mattered", *UNDP Bureau for Development Policy*, October 2001

Rodrik, Dani, 2008 *One Economics, Many Recipes*, Princeton University Press

SACEP, 2011, Maldives Member Profile, *South Asia Cooperative Environment Programme*, http://www.sacep.org/html/mem_maldives.htm [accessed 6/11/11]

Shutes, Isabel, 2011, "Social Care for Older People and Demand for Migrant Workers", Migration Observatory, Oxford University, UK, Policy Primer, 29th March, 2011

Smith, Ransford, 2009, "WTO Doha Round: Small Economies and their Interests", Commonwealth Secretariat, *Trade Hot Topics*, Issue 55, January 2009

Stiglitz, Joseph and Andrew Charlton, 2004, "A Development Round of Trade Negotiations?", paper presented to Annual World Bank Conference on Development Economics: Europe, Brussels, 11th May 2004

Stiglitz, Joseph and Andrew Charlton, 2005, "Fair Trade for All: How Trade Can Promote Development", *Oxford: Oxford University Press*, ISBN 978-0-19-921998-8

TeleGeography, 2011, "Submarine Cable Map", http://www.submarinecablemap.com/ [accessed 3/11/11]

Tuvalu Trust Fund Board, 2007, "Tuvalu Trust Fund: 20th Anniversary Profile"

UNCTAD, 2004a, "Is Special Treatment of Small Island Developing States Possible?", UNCTAD/LDC/2004/1

UNCTAD, 2004b, "São Paulo Consensus", UNCTAD XI, TD/410, 13–18th June, 2004

UNCTAD, 2007, "Structurally weak, vulnerable and small economies: Who are they? What can UNCTAD do for them?", TD/B/54/CRP.4, 11th October, 2007

UNCTAD, 2011, "Are small island developing states (SIDS) more vulnerable than other developing countries," Annex, Expert Group Meeting on addressing the vulnerabilites of small island developing states more effectively, Flic en Flac, Mauritius, 5-6 December 2011

UNFCCC, 2002, "Report of the Conference of the Parties on its seventh session, held at Marrakesh from 29th October to 10th November 2001 (Addendum)", FCCC/CP/2001/13/Add.1, 21st January, 2002

UNFCCC, 2011, "NAPAs received by the Secretariat", last updated September 2011, http://unfccc.int/cooperation_support/least_developed_countries_portal/submitted_napas/items/4585.php [accessed 16/11/2011]

UNGA, 1971, "Identification of the least developed among the developing nations", GA Resolution 2768, 1988th plenary meeting, 18th November, 1971

Vandemoortele, Milo and Kate Bird, 2011, "Progress in Economic Conditions: Sustained Success Against the Odds in Mauritius", *Overseas Development Institute*

Winters, Alan and Pedro Martins, 2004, "When Comparative Advantage Is Not Enough: Business Costs in Small Remote Economies", *World Trade Review*, 3:3, pp347–383

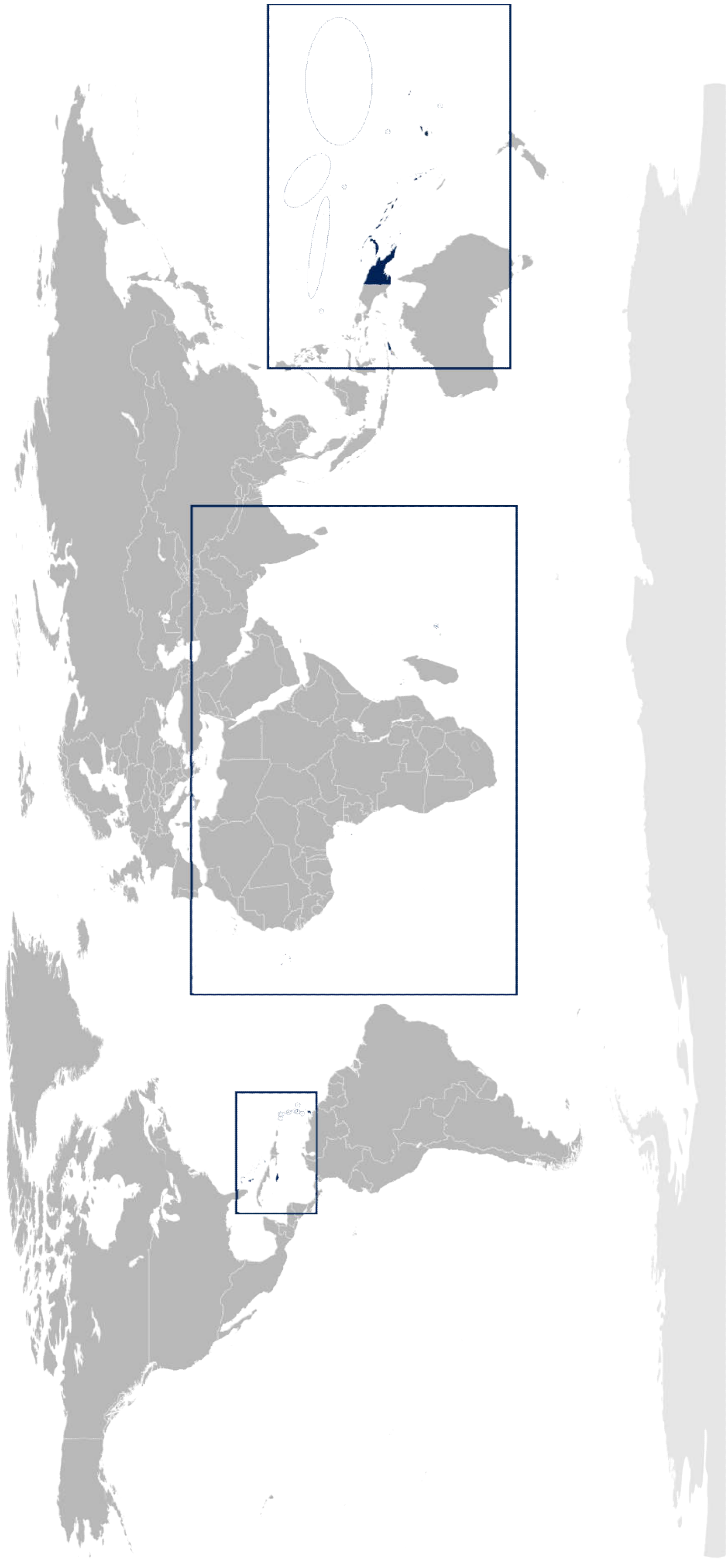
Wittenberg, Raphael, Derek King, Juliette Malley, Linda Pickard and Adelina Comas-Herrera, 2010, "Projections of Long-Term Care Expenditure in England under Different Assumptions Regarding the Future Balance between Residential and Home Care", Personal Social Services Research Unit, London School of Economics, *PSSRU Bulletin 19*, April 2010

WTO, 1998, Ministerial Declaration, 20th May, 1998

WTO, 2001, Ministerial Declaration, WT/MIN(01)/DEC/1, 20th November, 2001

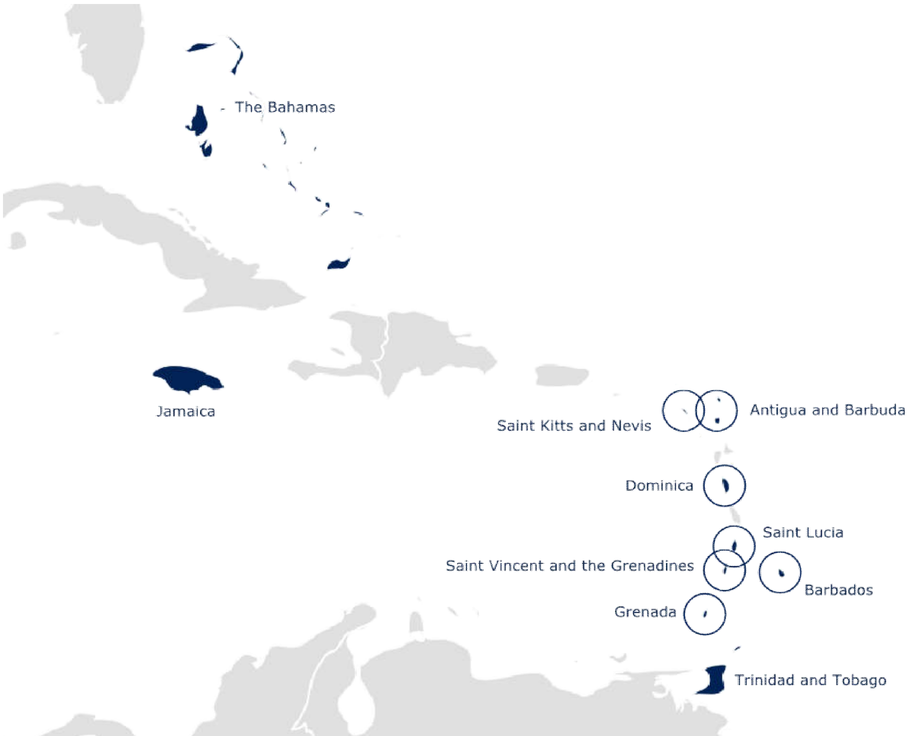
WTO, 2008, "Revised Draft Modalities for Agriculture", TN/AG/W/4/Rev.3, 10th July 2008

Appendix A: SIDS Maps



A.1 Africa and the Indian Ocean

A.2 Caribbean



A.3 Pacific


Marshall Islands
Federated States of Micronesia
Palau
Kiribati
Nauru
Papua New Guinea
Solomon Islands
Tuvalu
Timor-Leste
Samoa
Vanuatu
Fiji
Tonga

Appendix B: Statistical summary by country

Country	Main Regional Organisation	WTO status	LDC status	GDP (current millions US$)	GDP per capita (current US$)	Land area (km^2)	Population	HDI	ODA per capita (US$)	Percent below US$2 per day	Gini coefficient
Antigua and Barbuda	CARICOM and OECS	Member		1,015	11,442	452,860	6,858,266	0.764	68		
Bahamas	CARICOM	Observer		7,538	21,985	10,830	2,702,300	0.771			
Barbados	CARICOM	Member		3,203	11,718	5,130	1,341,465	0.793	45		
Cape Verde	ZPCAS	Member (since 2008)	Graduated 2007	1,648	3,323	2,030	1,281,214	0.568	399	40.9	50.4
Comoros	IOC	Observer	LDC	541	736	14,870	1,124,355	0.433	71	65.0	64.3
Dominica	CARICOM and OECS	Member		383	5,649	18,270	860,623	0.724	533		
Federated States of Micronesia	PIF	None		287	2,588	2,830	183,081	0.636	1,093	44.7	
Fiji	PIF	Member		3,009	3,497	1,860	734,750	0.688	83		
Grenada	CARICOM and OECS	Member		628	6,009	27,990	538,148	0.748	463		45.5
Jamaica	CARICOM	Member		13,995	5,179	4,030	495,999	0.727	56	5.9	

Kiribati	PIF	None	LDC	151	1,519	10,010	342,877	0.624	277		37.4
Maldives	SAARC (and IOC observer)	Member	Graduated 2011	1,480	4,685	300	315,885	0.661	107	12.2	
Marshall Islands	PIF	None		156	2,883	430	273,331		1,101		
Mauritius	IOC	Member		9,729	7,593	12,190	239,651	0.728	122		
Nauru	PIF	None		60	5,000	21	9,267				
Palau	PIF	None		170	8,288	610	174,000	0.782	1,737		
Papua New Guinea	PIF	Member		9,480	1,382	960	165,397	0.466	62	57.4	51
Saint Kitts and Nevis	CARICOM and OECS	Member		526	10,038	810	99,546	0.735	106		
Saint Lucia	CARICOM and OECS	Member		932	5,356	440	88,710	0.723	239	40.6	42.6
Saint Vincent and the Grenadines	CARICOM and OECS	Member		562	5,137	460	86,525	0.717	285		
Samoa	PIF	Observer	LDC (until 2014)	565	3,087	700	111,064	0.688	425		
São Tomé and Príncipe	ZPCAS	Observer	LDC	197	1,190	390	109,333	0.509	189	55.9	50.8
Seychelles	IOC	Observer		937	10,825	340	104,487	0.773	266	1.8	19.0
Solomon Islands	PIF	Member	LDC	679	1,261	720	104,058	0.510	393		36.1
Timor-Leste	PIF observer	None	LDC	701	623	750	67,757	0.495	197	72.8	31.9

Tonga	PIF	Member (since 2007)		357	3,435	180	54,038	0.704	382		
Trinidad and Tobago	CARICOM	Member		20,398	15,206	260	52,402	0.760	5	13.5	
Tuvalu	PIF	None	LDC	27	2,704	460	20,472		1,785		
Vanuatu	PIF	Observer	LDC	729	3,042	30	9,827	0.617	442		58

Sources

GDP, GDP per capita, land area, population, ODA per capita, percent below poverty line: World Bank, except Nauru: CIA Factbook

HDI, Gini coefficient: UNDP HDR 2011, Gini Coefficients for PNG, Solomon Islands and Vanuatu: DTISs

Appendix C: Brief survey of submarine fibre optic links in SIDS

In the Caribbean:

1. Seven SIDS have been connected to the submarine East Caribbean Fibre System (ECFS) since 1995 and the Global Caribbean Network (GCN) since 2006;
2. The Bahamas is connected to the Americas Region Caribbean Ring System (ARCOS-1) at three points, fully operational since 2002;
3. Jamaica has various connections, including to the mainland USA.

The bulk of African infrastructure is more recent but currently under rapid development:

1. Cape Verde has been connected to the transatlantic Atlantis-2 since 2000 and will be linked directly to the UK via the West Africa Cable System (WACS) when the latter becomes operational early in 2012;
2. Comoros is connected to the active East Africa Submarine Cable System (EASSy);
3. São Tomé and Príncipe will be connected to the Africa Coast to Europe (ACE) from mid-2012;
4. Mauritius is connected to South Africa and India via South Africa–Far East (SAFE) and Madagascar via the Lower Indian Ocean Network (Lion);
5. the Seychelles will be connected to Dar Es Salaam late in 2012;
6. the Maldives is connected to India and Sri Lanka via WARF.

The Pacific is slowly catching up, benefiting somewhat from cables laid primarily for dependent territories and trans-Pacific lines.

1. Fiji, Papua New Guinea, Samoa (since 2009), FSM (Pohnpei, 2010) and RMI (Kwajalein and Majuro, 2010) have operational connections.
2. Cables are planned or under construction to Vanuatu (ICN, expected 2012) and Tonga (Tonga Cable, 2016).
3. No evidence could be found that links are planned to Nauru, Tuvalu, Kiribati, Timor-Leste or Solomon Islands (even though the 2001 Australia–Japan Cable snakes around the last).

Larger subterranean cable projects represent an enormous level of investment (approximately US$600 million in the case of WACS in West Africa). However, single-destination cables of the type adequate for SIDS needs are within the financial reach of country-donor partnerships, and are rapidly coming to be seen as a necessity rather than a luxury. The 800km Tonga Cable, which will link Nuku'alofa to Suva in Fiji (which is already part of the trans-Pacific Southern Cross Cable Network, the main Australia–USA link) is estimated to cost US$32.8 million of which US$9.7 million has been offered as a grant by the ADB. It is expected to reduce connectivity costs in Tonga by "at least 50 per cent" according to the ADB.