

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

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Building resilience in small island developing States

A compendium of research prepared by the
UNCTAD Division for Africa, Least Developed Countries and Special Programmes



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Kris Terauds and Collin Zhuawu authored Chapter 1 on “Identifying alternative development strategies.”

Giovanni Valensisi and David Vanzetti authored Chapter 2 on “Tourism: intersectoral linkages.”

Anja Slany authored Chapter 3 on “Multiple disasters and debt sustainability.”

Darell Bloch and Kris Terauds authored Chapter 4 on “Aligning economic development and water policies .”

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ABBREVIATIONS

CBI	Citizenship-By-Investment
CCRT	Catastrophe Containment and Relief Trust
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CGE	Computable General Equilibrium (model)
ECOSOC	United Nations Economic and Social Council
EM-DAT	Emergency Events Database
EVI	Economic Vulnerability Index
FDI	Foreign Direct Investment
GMSL	Global Mean Sea Level
GTAP	Global Trade Analysis Project
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
ICT	Information and Communication Technology
IPCC	Intergovernmental Panel on Climate Change
IWRM	Integrated Water Resource Management
LDCs	Least Developed Countries
LDC5	Fifth United Nations Conference on the Least Developed Countries
LLDCs	Landlocked Developing Countries
MDRI	Multilateral Debt Relief Initiative
PCI	Productive Capacities Index
PICCIF	Pacific Islands Climate Change Insurance Facility
PCRAFI	Pacific Catastrophe Risk Assessment and Financing Initiative
PPG	Public and Publicly Guaranteed
R&D	Research and Development
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
SAMOA	Pathway SIDS Accelerated Modalities of Action (Pathway)
SCM	Synthetic Control Method
SDG	Sustainable Development Goal
SIDS	Small Island Developing States
SPC	Segregated Portfolio Company
SVEs	Small and Vulnerable Economies
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UN-OHRLLS	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries, and Small Island Developing States
UNWTO	United Nations World Tourism Organization
WTO	World Trade Organization

A NOTE FROM THE DIRECTOR

The structural vulnerabilities that Small Island Developing States (SIDS) face have been further compounded by new and emerging challenges. Recently, heavy external shocks such as the COVID-19 pandemic, fluctuating global commodity prices, and waning support for multilateralism have exacerbated the long-term risks posed by climate change and unequal participation in global production networks. The need for urgent action has been brought into sharp focus.

In this respect, building the economic resilience of developing countries, and SIDS in particular, remains a daunting challenge. However, the key policy lessons that can be drawn from the pandemic are clear. Above all, “business as usual” is no longer a viable option for the most vulnerable countries. A reprise of time-worn actions will not usher in the new development outcomes desired.

The upcoming fifteenth session of the United Nations Conference on Trade and Development (UNCTAD 15) in October 2021 and the Fifth United Nations Conference on the Least Developed Countries (LDC5), which will be held in January 2022, provide the international community with an unprecedented opportunity to take stock and reimagine a stronger, more inclusive, and more sustainable future, particularly for the most vulnerable. By leveraging the transformative power of productive capacities, SIDS and other vulnerable developing countries can be better equipped to face the next generation of trade and development challenges, equipped with more options for growth, and stronger partnerships for the future.

On the road to UNCTAD 15 and LDC5, this publication aims to provide a range of analysis and policy guidance on issues of pressing concern for SIDS. For this special group of countries, growth and development must be examined through a unique policy-oriented lens. This compendium tackles trade and development challenges related to SIDS’ current productive capacities and structural transformation to date; possible alternative development strategies; tourism and sectoral linkages; and debt sustainability. It draws on the extensive research and policy analysis work carried out by UNCTAD’s Division for Africa, LDCs and Special Programmes, as well as lessons learned from our technical support to the most vulnerable countries in developing key aspects of their trade and productive structures.

UNCTAD’s Productive Capacities Index (PCI) makes an important contribution to these efforts. It is the first comprehensive attempt to measure productive capacities in all economies and construct a multidimensional, global index that can provide country-specific insights and diagnostics of productive capacity development of relevance for SIDS.

The upcoming UNCTAD 15 Conference and LDC5 should be key moments in the international conversation on how to put these transformative productive capacities at the centre of efforts to ensure a better recovery from the pandemic, breaking the structural barriers of inequality and vulnerability, and working towards a more prosperous future for all.

The challenges are many for small islands to overcome existing trade and development barriers, yet this compendium confirms UNCTAD’s role as a visionary partner to support the efforts of SIDS to address them. The compendium identifies pressing issues, and, importantly, bold and innovative strategies for building the necessary productive capacities to support structural transformation. I am confident it will be a helpful resource for government officials, policy makers and the wider international community to design effective and sustainable programmes to support SIDS in building a more sustainable and resilient future.



Mr. Paul Akiwumi

Director, Division for Africa, LDCs
and Special Programmes, UNCTAD

INTRODUCTION

Small Island Developing States (SIDS) are a heterogeneous group of countries, with diverse geographic, demographic, and economic characteristics. Despite their diversity, they face common physical characteristics such as their size and geographic isolation from neighbouring markets. With increasing regularity they are hit by severe weather and other external disasters, resulting in the loss of lives, livelihoods, and infrastructure, while in some cases placing additional burdens on already tenuous public finances. For small islands, the per capita cost of reconstruction following a disaster can be exorbitant. This simply exacerbates their unifying trait: extreme vulnerability to environmental and economic shocks.

The economies of SIDS are characterized by a high degree of openness and a strong dependence on global partners through trade, tourism, remittances, financial services, and concessional financing. However, their small economies tend to militate against diversification or economies of scale. Similarly, small and vulnerable economies face serious constraints when seeking to kickstart secondary activities (particularly manufacturing and agro-processing) as a foundation for productive transformation, sustained and inclusive economic growth, and development. Most SIDS are also heavily dependent on the export of a limited number of agricultural commodities and fisheries to a small number of markets. Their

in a sharp drop in international demand. They have also taken a heavy toll on the tourism sector, which contributes nearly one third of GDP, on average, for SIDS, according to data from the World Travel and Tourism Council¹. In 2020, due to the negative impact of the pandemic, SIDS were forecast by the International Monetary Fund to experience a contraction of -9.8 percent in their gross domestic product (GDP), compared to a -2.2 percent fall in other developing countries. Despite widespread uncertainty, GDP growth is expected to recover in 2021 and 2022².

The United Nations Conference on Trade and Development has a long history of support and advocacy in favor of SIDS. Indeed, UNCTAD is mandated to help SIDS address the persistent trade, investment, and development challenges they face, in line with the targets of the SAMOA Pathway. As envisioned in the 2016 Nairobi Maafikiano, UNCTAD aims to assist SIDS in building, maintaining, and using their productive capacities to structurally transform their economies. In practice, this takes the form of intergovernmental coordination and consensus building on SIDS-related trade and development themes, coordinated technical and advisory services for capacity building and institutional strengthening, and undertaking necessary analytical research to guide appropriate policy interventions.

In addressing their multifaceted vulnerabilities, the paramount development goal for SIDS is building

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