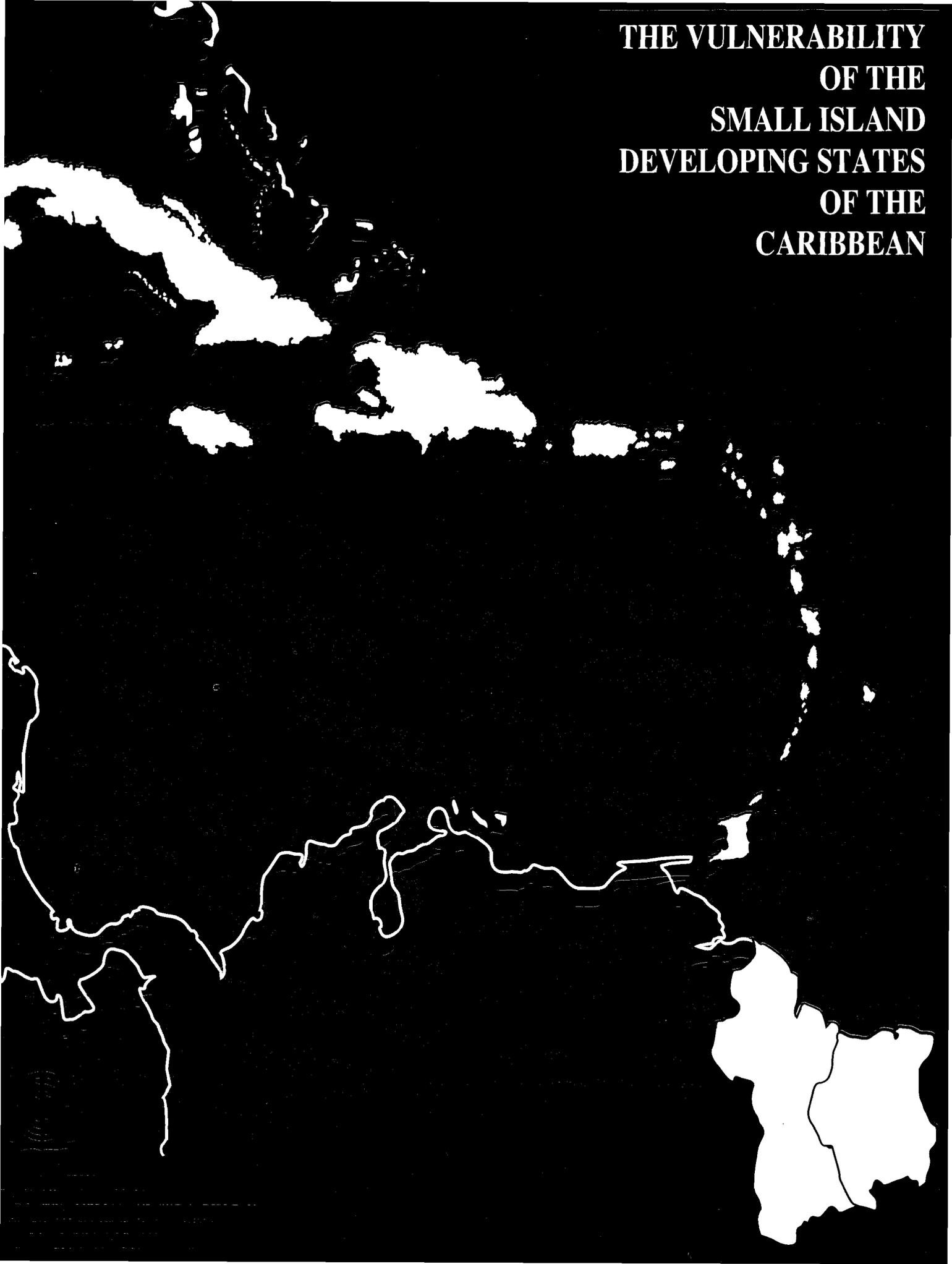


**THE VULNERABILITY
OF THE
SMALL ISLAND
DEVELOPING STATES
OF THE
CARIBBEAN**



GENERAL
LC/CAR/G.588
13 March 2000
ORIGINAL: ENGLISH

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TABLE OF CONTENTS

PART I: INTRODUCTION	1
THE SUSTAINABLE DEVELOPMENT OF SMALL ISLAND DEVELOPING STATES: THE "VULNERABILITY" QUESTION	1
PART II: VULNERABILITY OF THE SMALL CARIBBEAN STATES	2
ENVIRONMENTAL/ECOLOGICAL VULNERABILITY, PARTICULARLY HIGH EXPOSURE TO NATURAL HAZARDS.....	3
LIMITED LAND RESOURCES AND DIFFICULTIES IN WASTE DISPOSAL MANAGEMENT	5
GEOGRAPHIC REMOTENESS AND ISOLATION	6
LIMITED DIVERSIFICATION AND VERY OPEN ECONOMIES.....	6
WEAK INSTITUTIONAL CAPACITY AND HIGH COST OF BASIC INFRASTRUCTURE	8
SPECIAL SOCIAL VULNERABILITIES	8
MEASURES OF VULNERABILITY	10
PART III: VULNERABILITY IN INTERNATIONAL RELATIONS PERSPECTIVE	11
GLOBALISATION OF THE ECONOMY.....	11
CARIBBEAN SIDS, VULNERABILITY AND THE EUROPEAN UNION: A TRADITIONAL AND VITALLY IMPORTANT ECONOMIC RELATIONSHIP UNDER THREAT	12
CARIBBEAN SIDS, VULNERABILITY AND THE WESTERN HEMISPHERE: EFFORTS TOWARDS EFFECTIVE INSERTION OF SMALL STATES IN THE PROPOSED FTAA	14
CARIBBEAN SIDS, VULNERABILITY AND THE WTO	16
THE LOMÉ CONVENTION, THE FTAA AND THE WTO.....	17
PART IV: THE WAY FORWARD: OVERCOMING VULNERABILITY	18
NATURAL DISASTERS	18
WASTE MANAGEMENT	19
LAND RESOURCES.....	19
MACROECONOMIC POLICIES AND STRUCTURAL REFORMS.....	20
EXPORT-ORIENTED STRATEGIES.....	20
SOCIAL DEVELOPMENT STRATEGIES.....	20
PART V: CONCLUSION: OVERCOMING VULNERABILITY?	21
BIBLIOGRAPHY	24



THE VULNERABILITY OF THE SMALL ISLAND DEVELOPING STATES OF THE CARIBBEAN

PART I INTRODUCTION

The sustainable development of Small Island Developing States: The “vulnerability” question

Approaches to “sustainable development” typically embody two major elements relating, respectively, to “intergenerational equity” and the need to incorporate environmental factors into national development strategies and policies. In this context, “intergenerational equity” refers, in general terms, to the pursuit of developmental objectives at the present time without prejudicing the prospects of future generations to do likewise. This concept is used in a more comprehensive way in relation to the Small Island Developing States (SIDS), to refer to the primary challenge to these geographical entities against the backdrop of a physical and spatial environment that is not only at risk but also imposes severe constraints on their sustainable development prospects. Both elements find expression in the Small Island Developing States Programme of Action (SIDS POA), which was adopted in 1994, at the United Nations Global Conference on the Sustainable Development of Small Island Developing States (UNGCSIDS). That document embodies the most focused effort, to date, at the international level to elaborate principles and strategies to promote the sustainable development of SIDS and builds on the Rio Declaration on Environment and Development and Agenda 21 adopted at the United Nations Conference on Environment and Development (UNCED) in 1992, as the blueprint for global sustainable development. In its approach to “sustainable development”, it speaks of “development that meets present needs without jeopardizing the welfare of future generations by undermining the environment on which all life depends.”

One of the central themes that informed the deliberations at the UNGCSIDS was the proposition that the “sustainable development capacity” of SIDS was severely undermined by a number of characteristics that were unique to such entities and which translate into specific development problems that impede their achievement of such development. These characteristics may be crudely categorized, recognizing the inevitable overlapping of categories, by reference to the overall geo-economic, social and environmental/ecological profiles of the entities concerned. It is in the structure of those profiles that the specific aspects of “vulnerability” or profound disadvantage are to be found. In this context, vulnerability is observed in connection with the incidence of certain phenomena of certain magnitudes, which impact on these geographic, economic, social and environmental/ecological profiles of SIDS over time. Another approach to “vulnerability” focuses on the extent of the capacity of SIDS to withstand the impact of these phenomena.

In the Preamble to the Programme of Action for the Sustainable Development of Small Island States, popularly referred to in the Caribbean as “the SIDS POA”, the observation has been made to the effect that:

“Although they are afflicted by economic difficulties and confronted by development imperatives similar to those of developing countries generally, small island developing States also have their peculiar vulnerabilities and characteristics, so that the difficulties they face in the pursuit of sustainable development are particularly severe and complex.”

The significance of this observation lies in the fact that elements identified as constraining the development of all developing States would, in all probability, be applicable to most, if not all, such entities. However, in the context of SIDS, these elements are held to acquire an exaggerated significance and, consequently, impact in a manner that presents what are recognized by SIDS to be in the nature of peculiar expressions of the particular constraints in question.

Such expressions of vulnerability are postulated to be in the nature of “risk factors” or as factors which provide an indication of the degree of exposure of given States to certain phenomena that might adversely impact their sustainable development prospects. The key elements in the vulnerability context have been indicated to be the frequency of recurrence of given events associated with given risk factors, the severity of such events and the ability of States to cope with them. It is, particularly, in relation to the observed limited capacity of small island developing States to cope with the impact of these events, that the term “fragility” is often applied to more vividly capture the essence of what is more popularly termed “vulnerability” in connection with small island developing States. Both concepts, however, need to be explored in depth if a more comprehensive understanding of characteristics peculiarly attributable to SIDS is to be afforded. Set out in the following section of this paper are a number of elements in the more critical areas of vulnerability that have been operationalized to date, in the particular context of SIDS.

PART II VULNERABILITY OF THE SMALL CARIBBEAN STATES

In the Preamble to the SIDS POA, it is noted, *inter alia*, that:

“ There are many disadvantages that derive from small size, which are magnified by the fact that many island States are not only small but are themselves made up of a number of small islands. Those disadvantages include a narrow range of resources, which forces undue specialization; excessive dependence on international trade and hence vulnerability to global developments;”

Caribbean States are more vulnerable than many other developing countries. Their higher level of vulnerability can be traced back to the interaction of the following socio-economic and natural characteristics:

- Environmental/ecological vulnerability, particularly high exposure to natural hazards
- Limited land resources and difficulties in waste disposal management
- Geographic remoteness and isolation
- Limited diversification and very open economies
- Weak institutional capacity and high costs of basic infrastructure
- Special social vulnerabilities

Some of these vulnerabilities are enhanced by the current context of globalisation and erosion of trade preferences. The issues involved are dealt with in Section III below.

Environmental/ecological vulnerability, particularly high exposure to natural hazards

Perhaps the most fundamental aspect of the environmental/ecological vulnerability of SIDS relates to their very geographical location. In the case of Caribbean SIDS, these are located in the “hurricane belt” and the almost annual recurrence of these phenomena has profound implications for all aspects of the sustainable development of these entities. The Caribbean is also the site of considerable volcanic activity. These phenomena, especially hurricanes, have increased in frequency and intensity in recent years (Table 1).

Table 1: Selected Hurricanes affecting the Small Island States of the Caribbean Region

Year of hurricane	Name of Hurricanes / Storms	Island(s) affected
1992	Andrew	Bahamas
1994	Debby	St. Lucia
1995	Luis & Marilyn	Anguilla, Antigua/Barbuda, St. Kitts/Nevis, Dominica, Montserrat
1996	Bertha	British Virgin Islands
1998	Georges	Antigua and Barbuda, St. Kitts and Nevis
1998	Mitch	Belize (flooding)
1998	Floyd	Bahamas
1999	José	Antigua and Barbuda
1999	Lenny	Entire northeastern Caribbean

Source: Caribbean Disaster Emergency Relief Agency (CDERA)

The small size of the population and economy of most Caribbean States means that whenever a disaster strikes it affects a large proportion of the economy and people, and development of the countries set back by several years. For example, the 210 miles per hour winds of Hurricane Luis which struck Antigua and Barbuda in 1995 have been estimated to have caused over EC\$810 million in damages and resulted in the closing of all hotels (Table 2). This amounted to 71 per cent of the island's GDP. This was particularly severe as 83 per cent of GDP is derived from tourism. Anguilla also suffered damages, which were estimated to be 147 per cent of its GDP. In addition to the loss of income and employment that such disasters cause,

scarce resources have to be diverted to the repair of infrastructure, such as roads, power and water supplies, away from social essentials, such as health and education which are also frequently damaged during these storms.

Table 2
Cost of damage to the five countries most seriously affected
by Hurricanes Luis and Marilyn in 1995, in relation to GDP
(millions of EC dollars)

Country	1995	Storm Damages	GDP for preceding year	Damage/GDP
Anguilla	1995	245	166.4	147.0%
Antigua/Barbuda	1995	810	1 143.9	71.0%
Montserrat	1995	8.0	147.3	5.4%
Dominica	1995	262	494.1	53.0%
St. Kitts/Nevis	1995	532	505.6	105.2%
St. Martin	1995	1,764		NA

Sources: CDERA: Report on the Economic Impact of the Recent Disasters in the Eastern Caribbean, 1998.

ECLAC/CDCC: Selected Statistical Indicators of Caribbean Countries Doc. LC/CAR/G.535 Vol. X, 1997 .

In addition to hurricanes, other natural hazards that are prevalent in the region include volcanoes, earthquakes, mudslides and floods. Global environmental developments pose additional challenges to the small, low-lying States of the Caribbean. It has been suggested that as a consequence of global warming, sea level may rise by one meter over the next 100 years (IPCC). This could lead to significant losses of land area, in addition to likely damage to coral reefs surrounding many of the islands (leading to reduced protection from the forces of the sea, changes in aquatic eco-systems - including important fish resources and biodiversity) as well as changes to the fragile eco-systems on most of the islands.

Also, in the case of the Caribbean, as is the case of other SIDS regions, the number of straits used for international navigation and the heavy maritime traffic that transits the Caribbean Sea, bearing in mind the presence of the Panama Canal as a major transit hub, translate into very high levels of pollution from oil tankers and the threat of such activity from an even more devastating source, namely, the regular movement of nuclear and other hazardous materials across the Caribbean Sea. The existence of these risks imposes great demands on the planning capacity of the small island developing States of the Caribbean region, because of the need to incorporate adequate risk assessments, prevention and mitigation measures into all aspects of sustainable development planning. It also requires the capacity to develop or otherwise acquire, then to apply, a valid and relevant methodology for the evaluation of the impact of the disasters that regularly visit their territories. Finally, it requires the ability to effectively mobilize wider international opinion in support of efforts to protect the integrity of the Caribbean Sea which defines the region and its character and on which tourism, fishing and other productive as well as recreational pursuits are based.

Limited land resources and difficulties in waste disposal management

The basic configuration of small island developing States dictates an extremely close relationship between most aspects of environmental management and the planning and utilisation of land resources. This latter element is also very closely related to the issue of coastal zone management. In addition, in these States population pressures intensify the urgency of resolving the competing claims on the use to which the necessarily limited land area is to be put. Fundamentally, it is the small size of these entities, linked to other factors, such as land tenure systems and soil types, that are recognized to limit the area available for human settlement, agriculture, tourism and other aspects which intensify land-use conflicts. Small island States are also vulnerable to a number of long-term constraints to their sustainable development, in particular, the degradation of their limited area. Such degradation might reflect the effects of population pressure, deforestation and natural disasters, among others. The net effects of the degradation process include a reduction in the fertility and, consequently, the productivity of soils; deterioration of water quality and the siltation of rivers, lagoons and even coral reefs. Attempts at agricultural output invariably result in the pollution of soils, freshwater and coastal resources.

The small size of these islands also dictates that land uses compete for a resource, which is inherently scarce. In most of the islands the rugged topography also drastically reduces the amount of land available for development to narrow coastal strips which must accommodate industry, tourism, residential and other land uses.

Since the 1960s, with the advent of international travel to these islands, tourism has exerted and continues to exert profound influence not only on employment and foreign exchange earnings, but also on the land use and land ownership in the islands. Much of the hotel plant – particularly the largest properties occupying hundreds of acres located on prime coastal beaches, are owned by international investors. Over time a sizeable amount of the already limited land resource in these islands is owned by foreigners. Added to this is the fact that over time, increasing numbers of tourists who have visited these islands have returned and purchased land on which they have built luxurious properties. The cumulative impact of these transactions is significant and increasingly problematic over the long term, precisely because of the small size of these islands.

When land leaves the local market it is traded on the foreign market usually in United States currency at much higher prices than it was purchased for. The resulting increase in land value exerts immediate impact on the price of land in surrounding areas driving up prices beyond the reach of locals, and creating artificial shortages of land for locals for housing and other essential services.

In the past, this trend towards increasing land ownership by non-nationals has created serious social problems. In a number of islands, in cases where, for example, popular tourist sites have been thus acquired, a number of popular beaches were no longer as readily accessible to the local residents. Social tensions as a result of this dynamic are evident.

As the governments of these small island States find themselves under increasing international pressure to dismantle their 'aliens' land holding legislation in the context of trade

liberalization, this aspect can be expected to present a major challenge to the management of their vulnerability in social, economic, environmental and other dimensions.

In small island developing States, a number of factors also conspire to make waste management a critical issue. Chief among these is the very limited land areas and other resources for safe disposal of waste, population pressures and the ever increasing importation of pollutants and other hazardous substances. Pollution from both terrestrial, as well as marine, sources constitutes a very closely related combination from the management point of view. Recourse to landfills is not feasible as a long-term option. Nor is incineration, given its high financial cost in addition to its impact as yet another source of pollution.

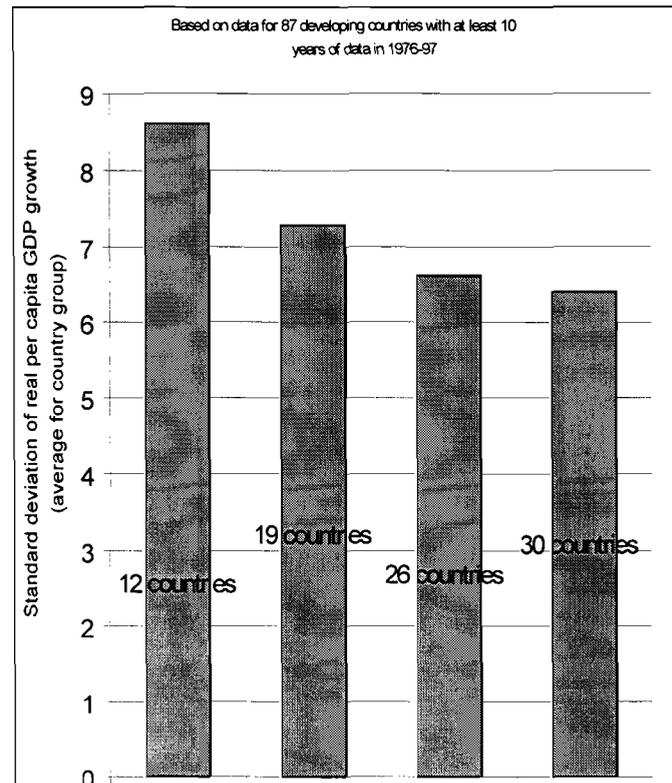
Overlapping with both its geo-economic as well as its social counterpart, reference should also be made to high population density, which increases the pressure on already limited resources; the overuse of resources and, thus, premature depletion; the relatively small watersheds and the consequent threat to supplies of fresh water. It is also recognized that SIDS tend to have high degrees of endemism and levels of biodiversity. On the other hand, the relatively small numbers of the various species impose high risks of extinction and create a need for protection. The fragile marine eco-systems of SIDS are also recognized to be among the most threatened, so that such staple economic pursuits, as fishing and tourism, need to be carried out in the context of sound integrated management programmes. Such programmes are for the most part beyond the human resource, financial and institutional capacity of SIDS.

Geographic remoteness and isolation

Physical distance to the major centers of trade and commerce, and isolation make it difficult for Caribbean States to overcome the disadvantages of limited size and small domestic markets by turning to world trade. While this is not a big problem for the larger islands in the region, and given their proximity to the United States and South American mainland, it still presents a challenge for the smaller States like Dominica, Grenada, and Saint Vincent and the Grenadines. Distance and low volumes of imports and exports mean that transportation costs tend to be high. For island States it is not only the actual distance that poses a problem, but also the fact that it is likely that there are only a few, monopolistic, transportation providers. These costs reduce competitiveness and, therefore, export revenues. Higher import prices mean losses of consumer welfare.

Limited diversification and very open economies

Caribbean exports tend to be highly concentrated on a narrow range of products and markets. One of the consequences of the limited diversification of the small economies is that when it is combined with their openness (exports and imports account for a large share of domestic economic activity), and their susceptibility to natural disasters, they tend to experience a higher income volatility than larger States. Figure 1 shows that 12 countries with populations of under 500,000 -a characteristic of most countries in the Caribbean-, had the highest variability of income over the period 1976-1997, followed by 19 countries with populations ranging from just over half a million to 1.5 million.

Figure 1: Volatility of incomes in small States

Source: Commonwealth Secretariat/World Bank (1999)

Competitive advantage is more likely to occur when the domestic economy is large enough to support clusters of firms in any given sector, with horizontal and vertical relationships. Smallness and high transportation costs associated to isolation mean that these economies of agglomeration may be entirely lost. It also means that diseconomies of scale in the production of non-tradable intermediates, including infrastructure and services complementary to production which reduce competitiveness. High levels of specialization also mean that most prices are externally determined.

High energy dependence adds some additional vulnerabilities in this context. The costly importation of petroleum, which remains the dominant energy source in the region, by the overwhelming majority of the countries, is financed by the proceeds from the export of goods and services. In recent decades, faced with the increasing cost of energy in the region and, also, with declining prices for exports, energy deficient Caribbean SIDS, which constitute the majority, have had to resort to borrowing to finance part of their energy imports.

Weak institutional capacity and high costs of basic infrastructure

The small size of economies and the indivisibilities of certain public service provisions produce the following characteristics in many public administrations:

- Small staffing for multiple portfolios—leading to overextended personnel, small spare/reserve capacity, few specialists attracted or retained, limited promotion and mobility;
- Limited financial resources -resulting in inadequate compensation levels, inappropriate and infrequent training, high turnover rate;
- Lack of training -leading to shortage of management skills, low problem solving capacity, low levels of innovation and entrepreneurship, low adaptability to changing conditions, timid decision-making, excessive routine dependence;
- Poor working environments -creating low morale and motivation, low job satisfaction, low productivity, high levels of fear and frustration, absenteeism, systemic uncertainty

Weaknesses in institutional capacity also mean that Caribbean States have more difficulties than larger States to represent their interest at international forums in the most effective ways. Limited resource endowment and access to financial resources, together with weak market institutions and infrastructure tend to constrain the capacity of the private sector to engage in productive investment.

The indivisibilities of infrastructure, in particular those such as airports and shipping ports, make it extremely difficult for the smaller States to develop them, since they are hardly ever able to attract the level of business to make them worthwhile, yet they are essential to the economic and social development of small States. Also the development of energy, water and telecommunications projects tends to be very costly in smaller States because of the generally small size of the beneficiary population. These high costs of essential services increase the costs of production of goods and services in small islands States and tend to make them less competitive on international markets. In addition, basic social services, such as health and education, are very costly in the smaller States in per capita terms because of the limited number of the beneficiary population.

Special social vulnerabilities

In the social vulnerability profile of SIDS, as captured in the SIDS POA, reference is made to, *inter alia*, the occurrence of rates of population growth that exceed rates of economic growth and the implications of this for the provision of basic welfare services, including the special plight of women who are heads of households. In addition, the small populations, which in absolute terms are quite small, preclude the exploitation of economies of scale in many areas and, also, the widespread use of highly skilled labour. The small sizes of national populations also imply, as noted, costly public administration and infrastructure and limited institutional capacities. Moreover, the generally high levels of emigration, especially of young and highly skilled personnel, produce another constraint on sustainable development, namely, the need to import high-cost foreign expertise to, in large measure, replace this significant outflow of human capital.

In addition to the foregoing are those concerns related to, *inter alia*, increasing poverty, HIV/AIDS with its depletion of the labour force and the diversion of resources from otherwise

productive pursuits, increasing crime and the drug problem which present major constraints to the pursuit of sustainable development by SIDS.

With respect to “social vulnerability”, particular attention needs to be drawn to the use of the SIDS of the Caribbean, among others, as transit points in the international drug trade. Their long coastlines and extended maritime spaces falling under national jurisdiction are beyond the surveillance capacity of these small and ill-equipped States, and interdiction in this vital area implies yet another form of dependence on external sources. In the small island States of the Caribbean, governments and civil society are fully aware of the nefarious effects of the drug trade in, *inter alia*, fueling demand for illegal drugs and in dramatically increasing the level of crime associated with drug dealers in the respective countries. Moreover, the associated crime of money laundering and related activities severely undermines the financial as well as the judicial system, legislatures and, in effect, the entire apparatus of governance. These socially as well as economically debilitating phenomena account for a type of social vulnerability that threatens the entire system of governance. This is also a type of vulnerability that threatens the very moorings of the cultures of these countries, extending even to the integrity of the respective States. Relating this situation to developments in the economic sphere, concern has been voiced that the erosion of trade preferences traditionally enjoyed by these countries, will provide the greatest incentive for the unemployed, among other social groups, to decant into the production and traffic of illegal drugs and other anti-social activities. Such a development could only serve to increase the social fragility of these States thereby accentuating all other aspects of their overall social vulnerability.

Another important expression of “social vulnerability” might be identified by reference to those societies in which fundamental cleavages exist on the basis of, *inter alia*, highly skewed income distribution or other cleavages based on ethnic or religious affiliation. The existence of such cleavages would negate the possibility of generating national consensus on basic issues of national importance and thus obstruct all potential avenues to sustainable development. When these situations give rise to widespread or prolonged social disturbances or to other dysfunctional phenomena, these can be expected to translate into lost productivity, lost infrastructure and, fundamentally, lost opportunities to advance the pursuit of sustainable development.

With respect to the foregoing, it is to be noted that many of the areas of vulnerability identified in the context of Caribbean SIDS are also recognised to be relevant, to varying degrees, to all developing countries. However, in the particular context of SIDS, it is their combined effect in the overall vulnerability scenario of these entities that renders them significant as expressions of vulnerability.

Measures of vulnerability

There are a number of different measures. The Commonwealth Secretariat has developed a vulnerability index that ranks developing countries according to measurable components of exposure and resilience to external shocks.

The construction of the index is based on the observation that income volatility is the most apparent manifestation of vulnerability and starts by identifying sources of this volatility. The three most important determinants of income volatility identified by the Commonwealth Secretariat are:

- The lack of diversification (as measured by the United Nations Conference on Trade and Development (UNCTAD) diversification index).
- The extent of export dependence (as indicated by the share of exports in GDP).
- The impact of natural disasters (as reflected by the portion of the population affected).

These underlying sources of volatility are then combined to form a composite index of the impact of vulnerability on developing countries. The resulting index is then weighted by average GDP as a proxy for resilience, the second component of the Commonwealth vulnerability index. Table 3 lists the Caribbean States according to this vulnerability index.

Table 3: Country groups according to the Commonwealth vulnerability index

Country	Vulnerability
Antigua and Barbuda	high
Bahamas	high
Belize	high
Dominica	high
Grenada	high
Guyana	high
St Kitts and Nevis	high
St Lucia	high
St Vincent and the Grenadines	high
Suriname	high
Barbados	higher medium
Haiti	higher medium
Jamaica	higher medium
Dominican Republic	lower medium
Trinidad and Tobago	lower medium

Source: Commonwealth Secretariat/World Bank (1999)

PART III

VULNERABILITY IN INTERNATIONAL RELATIONS PERSPECTIVE

Returning to the basic reference on small island developing States, in the Preamble to the SIDS POA, it was recognized that there were many disadvantages that derived from small size and which are magnified by the fact that many island States are not only small, but are themselves made up of a number of small islands. Those disadvantages were held to include a narrow range of resources, which forced undue specialization, excessive dependence on international trade and hence vulnerability to global developments. Moreover, their limited export volumes, sometimes from remote locations, lead to high freight costs and reduced competitiveness

In the Plan of Action itself, it is noted that, in SIDS, “domestic markets are too small to provide economies of scale and the remoteness of many rural and outer-island communities constrains options and increases costs...”¹

With respect to the foregoing, it must indeed be recognized that the size of small States, their geographical location, their resource endowment, including their geo-morphological features, soil types, terrain and related aspects, are entirely beyond their control. Yet these are some of the factors, which have the most profound implications for their economic prosperity. In the contemporary situation of increasing globalization and trade liberalization, such prosperity must be sought through an effective insertion into the international economy. In this section of the paper, a summary review of selected major aspects of the international economic relations of the small island developing States of the Caribbean region will be undertaken in order to illustrate the extreme vulnerability of these States to what are described in the preamble of the SIDS POA as “global developments”.

Globalisation of the economy

Two additional, fundamental elements, with profound consequences for small island developing States, relate to the ongoing transformation of the international economy, in particular, its increasing liberalization and the establishment and enforcement of a rules-based system of global relevance. In the contemporary situation, these elements translate into increased vulnerability through, *inter alia*, the inexorable trend toward the opening of markets of vastly different sizes and strengths and the removal of preferential access regimes. More fundamentally, it is seen in the difficulties being encountered by SIDS in their effort to achieve a beneficial form of integration into the world economy, particularly in the areas of trade, investment, commodities and capital markets.

Recently, the legacy of dependence and vulnerability has been manifested in the ability of the international regime to frustrate the efforts at adjustment on the part of a number of Caribbean SIDS. Efforts, for example, to diversify the agricultural sector as a means of enhancing social welfare have been greeted by drastic changes in the rules governing the international trade in the relevant commodity. The challenge to the traditional access enjoyed by a number of Caribbean States to the market of the European Union (EU) amply demonstrates this

¹ Plan of Action, Chapter XII, Paragraph 53.

type of development. Likewise, attempts at diversification into services, for example, into the offshore financial services sector, now face the need to adjust to initiatives at the international level to regulate flows that could have destabilize international capital markets. These situations illustrate the conditions in which small developing countries can find obstacles as a result of developments that are externally propelled.

Caribbean SIDS, vulnerability and the European Union: A traditional and vitally important economic relationship under threat

The relations of 15 of the 23 Caribbean countries covered by the Subregional Office for the Caribbean of the Economic Commission for Latin America and the Caribbean (ECLAC) with the EU in vitally important aspects of their development problematique, namely trade and aid, were formalized and continue to be conducted in the context of successive Lomé Conventions. The first Lomé Convention was signed in 1975 and successive instruments were negotiated at five-yearly intervals with the exception of “Lomé IV” which was concluded in 1990 and given a duration of 10 years. Also, in February 2000, the African, Caribbean, Pacific (ACP) Group and the EU agreed on a new framework within which their cooperation will be conducted over the next 20 years. Within the arrangements embodied in the Lomé Conventions, the Caribbean accounts for 15 of the 71 countries of the ACP Group with which the EU conducts its relations in the areas mentioned.² This group of countries shares a major defining characteristic, namely, their status as former colonies of European States, members of the European Union. Almost one third of the ACP membership has been classified as “small island developing States” in the context of the SIDS POA and, overall, almost one half of that membership is recognized to be small States.

Notwithstanding the absence in the Lomé Conventions of a literal reference to the “vulnerability” of small island developing States, recognition is given to “development problems caused by their geographical situations.”³ Also, in the Fourth Lomé Convention, is a reference to “assisting and enabling least-developed, land-locked and island ACP States to utilize fully the provisions of this chapter”. This approach connotes nothing less than a recognition of the constraints on the ability of SIDS to pursue their sustainable development, arising from deficits in resources, whether human or financial, as well as the range of other elements contained in the SIDS POA. Nevertheless, notwithstanding that cooperation in trade and aid relations has been the vaunted hallmark of the successive Lomé Conventions, there appears to have been an imbalance in favour of trade as regards the impact of the Conventions on the development prospects of the States concerned. This conclusion is articulated in a review of African, Caribbean, Pacific-European Economic Community (ACP-EEC) cooperation in the Caribbean, according to which, “trade, particularly through the special protocols in sugar and bananas...is still the dominant effective element in the assistance package”.⁴

² The Caribbean ACP States are: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago.

³ Lomé IV Convention, article 8 bis.

⁴ Quoted in “Small Developing States and International Organizations”, a background paper prepared for the seminar: Small (Island) Developing States, Vulnerability, Programme of Action for Sustainable Development, Opportunities for Post Lomé, Brussels, 1-2 September 1998.

With respect to the trade relations of Caribbean SIDS with the EU, it is vital to point out that, reflecting the constraints imposed by the small size of these countries, their basic limited resource endowment and the implications of these factors for competitiveness, this relationship has been conducted on the basis of special conditions of access to the European market. These special conditions of access, amounting to subsidies, are enshrined in Protocols to the Lomé Conventions and cover such traditional staple exports as bananas, rice, rum and sugar.

As a result of the successful challenge to the banana import regime of the EU, the World Trade Organization (WTO), in April 1999, approved the application by the United States of America of \$191 million worth of sanctions on EU exports to that country. To many observers, this development sounded the death knell of all these privileged arrangements.

The deep effect of this development, from the perspective of Caribbean SIDS, is more readily appreciated from the perspective of the inherent vulnerabilities of these States. In the region, “Because of overriding problems of size, climate and terrain, Caribbean banana producers cannot compete on price with the vast, flat plantations and more fertile soil of Latin America, where production and marketing is highly integrated ... and benefits from substantial economies of scale.” Further, “Caribbean States are uniquely dependent on bananas for their economic survival. For the small Windward Islands of Dominica, Saint Lucia, and Saint Vincent and the Grenadines, bananas provide over half of all export earnings. They also contribute about 16 per cent of GDP in Saint Lucia and 17 per cent in Saint Vincent and the Grenadines and Dominica. This is a degree of dependence unmatched anywhere in the world....”⁵

From the EU perspective, it has been reported that whether or not the Banana Protocol can be retained depends on the successful negotiation of a Lomé derogation from the WTO. Moreover the April, 1999 WTO arbitration decision, along with the reform of the common market institutions, have resulted in increased pressure on the Community to open up its market to Latin American producers with which the Caribbean countries compete on the European market. Against this situation, the EU has recognized that the Lomé-type arrangement might not be an appropriate mechanism for the maintenance of a special import regime for Caribbean bananas, among others.⁶ Trade liberalization is the favoured approach, even if appropriate transition phases could be considered towards the eventual elimination of Lomé preferences.

⁵ The Caribbean Banana Exporters Association, The EU Trading Regime: Need for the Regime .
<http://www.cbea.org/CBEA2/eu/default.htm> .

⁶ The European Commission, Analysis of trends in the Lomé Trade Regime and the consequences of retaining it .
http://www.europa.eu.int/comm/development/event/trade_en.htm.

Caribbean SIDS, vulnerability and the Western Hemisphere: Efforts towards effective insertion of small States in the proposed Free Trade Area of the Americas (FTAA)

At the Hemispheric Summit which convened in Miami in December 1994, a process was launched for the creation of an FTAA “no later than 2005” and with “...concrete progress toward the attainment of this objective...by the end of this century”. In the “Summit of the Americas Declaration of Principles” issued at the conclusion of the Miami Summit, the participating Heads of State and Government of the Americas recognized that the creation of an FTAA would be a complex endeavour, particularly in view of the wide differences in the levels of development and size of economies in the hemisphere. They also undertook to remain cognizant of these differences as the FTAA process advanced.

In the Plan of Action adopted at the “Second Summit of the Americas, which convened in Chile, over the period 18-19 April 1998, the Heads of State and Government found it necessary to reiterate the need to ensure that the negotiating process was transparent and took into account the differences in the levels of development and size of the economies of the Americas, in order to create opportunities for the full participation of all countries, including the smaller economies. This principle was stated again in the Ministerial Toronto Declaration of November 1999.

Notwithstanding the content of this and similar declarations, by October 1999, against the background of a series of Meetings of the Member States of CARICOM, accompanied by delegations of Cuba, the Dominican Republic and Haiti, the region continued to express disappointment with the treatment of the smaller economies in the FTAA negotiations. For example, the Communiqué issued by the Seventh Special Meeting of the Conference of Heads of Government of the Caribbean Community (CARICOM), held at Chaguaramas, Trinidad and Tobago, on 26-27 October 1999, States, *inter alia*, that “With respect to the FTAA negotiations, Heads of Government expressed grave concern about the seeming absence of real commitment on the part of the rest of the hemisphere to the concerns of smaller economies.”

A critical factor in the context of the vulnerability of the Caribbean countries to marginalization in the FTAA process and their fervent quest for special and differential treatment lies in the fact that the 16 countries, members of CARIFORUM,⁷ account for barely one per cent of total FTAA imports from all sources. With respect to exports, the figure is in the region of 0.7 per cent (Table 4). The intensification of the trade liberalization process also has additional critical implications for Caribbean SIDS. *It implies, in particular, that tax systems based on import taxes, quite common among SIDS, must be replaced by systems based on internal taxes.*

⁷ CARICOM members plus Dominican Republic and Haiti.

**Table 4: Value of CARIFORUM and CARICOM's imports as a percentage
Of the FTAA's imports from all sources, 1992-1997**

	SUSM					
	1992	1993	1994	1995 (a)	1996 (a)	1997 (b)
CARIFORUM (A)	9 706	9 667	9 887	1 2936	13 974	14 719
CARICOM (B)	5 889	5 922	5 953	8 064	8 361	9 951
OTHER FTAA NATIONS	823 324	894 721	1 025 074	1 137 812	1 217 070	1 359 856
TOTAL FTAA (C)	833 030	904 388	1 034 961	1 150 748	1 231 044	1 374 576
CARIFORUM AS A PERCENTAGE OF FTAA (A/C)%	1.17	1.07	0.96	1.12	1.14	1.07
CARICOM AS A PERCENTAGE OF FTAA (B/C)%	0.71	0.65	0.58	0.70	0.68	0.72

Notes: (A) Exclude data for Montserrat; (B) Exclude data for Bahamas, Montserrat and Paraguay

Source: International Financial Statistics Yearbook 1998 (IMF)

International Financial Statistics, December 1998 (IMF).

CARICOM Member States Statistical Offices.

**Value of CARIFORUM and CARICOM's exports as a percentage
Of the FTAA's imports from all sources, 1992-1997**

	SUSM					
	1992	1993	1994	1995 (a)	1996 (a)	1997 (b)
CARIFORUM (A)	5 180	4 563	5 655	6 651	6 763	6 881
CARICOM (B)	4 353	3 810	4 762	5 598	5 683	5 879
OTHER FTAA NATIONS	704 260	738 084	826 371	959 827	1 029 835	1 123 875
TOTAL FTAA (C)	709 441	742 646	832 026	966 478	1 036 598	1 130 756
CARIFORUM AS A PERCENTAGE OF FTAA (A/C)%	0.73	0.61	0.68	0.69	0.65	0.61
CARICOM AS A PERCENTAGE OF FTAA (B/C)%	0.61	0.51	0.57	0.58	0.55	0.52

Notes: (A) Exclude data for Antigua and Barbuda; (B) Exclude data for Antigua and Barbuda and Panama; (C)

Exclude data for Antigua and Barbuda, Montserrat and Bahamas

Sources: International Financial Statistics Yearbook 1998 (IMF).

International Financial Statistics, December 1998 (IMF).

CARICOM Member States Statistical Offices.

Caribbean SIDS and the WTO

The expansion of market forces as the mainspring of the international economy has been firmly buttressed by the establishment of the WTO, as one of the major outcomes of the Uruguay Round of Multilateral Trade Negotiations. Moreover, it is expected that a major challenge that will confront the small island developing States of the Caribbean, among others, at future rounds of Multilateral Trade Negotiations, will be pressure for further liberalization of trade, including the extension of new trade disciplines to new areas of commerce. In this context, the central issue in the trade of the small island States of the Caribbean at once derives from the very minuscule percentage of world trade for which it accounts, as well as the critical importance of that minuscule percentage to their socio-economic well-being and overall sustainable development. Openness and the consequent vulnerability are the hallmarks, par excellence, of the economies of these small island developing States.

Table 5: CARICOM trade with selected countries and regions

CARICOM TRADE			
Exports to:	1980	1990	1996
United States	48.7%	40.0%	38.5%
European Union	16.5%	20.6%	18.0%
Caribbean SIDS	17.4%	20.0%	26.6%
Imports from:	1980	1990	1996
United States	27.8%	41.2%	44.4%
European Union	15.8%	15.5%	14.1%
Asia	6.0%	7.7%	14.1%
Caribbean SIDS	13.1%	12.5%	11.6%

Source: ECLAC, 1997.

Prompting the reaction of Caribbean SIDS to the prospect of demands for further international trade liberalization are issues related to their extreme vulnerability. Chief in this context is the concern for special and differential treatment for small economies in the increasingly liberalized and globalized international economy. For these economies, special and differential treatment would involve, *inter alia*, the grant of longer transition periods to meet new policy demands, more flexible thresholds, more flexibility in the area of obligations and the provision of technical assistance in all relevant areas. These countries continue to advocate the recognition, on the part of the rest of the international community, of their special circumstances in the form of specially developed measures. In the context of increasing trade liberalization, it bears reiterating that, for a number of Caribbean SIDS, customs duties account for a very high percentage of total government receipts.

In the exploration of the economic vulnerability of Caribbean SIDS in international perspective, the interrelated nature of their relations with the EU, the Western Hemisphere, specifically, the FTAA process and the WTO, is at once evident. In the above-quoted Communiqué adopted at the Seventh Special Session of the Heads of State and Government of the CARICOM, the Leaders "...noted the complexity of the inter-relationship among these

negotiations.” Of primordial relevance are, *inter alia*, the resource constraints on small countries to field adequately prepared teams at these negotiations which often take place, not only simultaneously, but also, in numerous Working Groups convening in various capitals. The establishment of a Regional Negotiating Machinery (RNM) represents a concrete response by the member States of CARICOM, the Dominican Republic and Haiti, in an effort to fashion a cost-effective mechanism aimed at overcoming this major constraint.

The Lomé Convention, the FTAA and the WTO

At the apex of the “vulnerability pyramid” are perhaps the relations of small island developing States of the Caribbean with the WTO, for these transcend all others in the economic sphere, even as they find explicit expression in the relations of these States with the different geographical regions of the world. Of even greater concern is the fact that, in the “Principles governing the instruments of cooperation” of the Lomé Convention, it is provided that:

“They shall also be based on the principle of non-discrimination by the ACP States between the Member States and the according to the Community of treatment no less favourable than the most-favoured-nation treatment.”⁸

The importance of this Principle, at least from the European perspective, is reflected in the fact that it is spelled out in Article 174.2 and entrenched in a Declaration contained in the Convention’s Annex XXVII. In the Declaration, with reference to Article 174.2, it is provided, *inter alia*, that:

“...the Community reaffirms the interpretation of that text, namely that the ACP States shall grant to the Community treatment no less favourable than that which they grant to developed States under trade agreements where those States do not grant the ACP States greater preferences than those granted by the Community.”

To some observers, this situation accentuates the vulnerability of these small States, given what is perceived as a dilemma, as they seek to intensify relations simultaneously with Europe and the Americas.

Constituting another expression of vulnerability of Caribbean SIDS is their continuing failure to secure “NAFTA Parity” as an interim measure as the geo-economic architecture of the hemisphere is redesigned. Caribbean SIDS expressed fears, even before the establishment of the North American Free Trade Agreement (NAFTA), that trade and investment might be diverted from Caribbean Basin Initiative (CBI) beneficiary countries, particularly in such profitable and, at the same time, labour-intensive sectors as textiles. The diversion of investment may already be seen in the closing of factories and the resulting loss of jobs in Jamaica. The decline in Jamaican garment exports from US\$268 million in 1995 to US\$200 million in 1998 confirms the situation.

⁸ Lomé IV Convention, Article 25.

PART IV
THE WAY FORWARD:
NATIONAL, REGIONAL AND INTERNATIONAL ACTIONS
TO CONFRONT VULNERABILITY

The experience of the small island developing States of the Caribbean in the implementation of the SIDS POA, to date, has served to entrench the recognition that, notwithstanding the numerous references in the POA to cooperation at the subregional, regional, and wider international levels, their sustainable development remains, fundamentally, their own responsibility. The importance of cooperation is nevertheless fully recognised.

Against this background, the SIDS of the Caribbean have, to varying degrees, sought to formulate and implement policies, strategies and programmes towards their sustainable development in, inter alia, the economic, social and environmental spheres, including the strengthening of national institutions and the mobilisation of all available resources. Similar initiatives have been launched at the regional level. The more effective pursuit of these activities is, however, inhibited by the very characteristics that led to their formal categorisation, by the international community, as SIDS.

The broad guidelines set out under the respective Chapters of the SIDS POA point the way to the kinds of actions that might be taken to confront the issues related to the vulnerability of these countries at national, regional and international levels. While action has been taken or, at least, initiated on the areas identified as being of priority interest to the countries of the region, the concern is that, for a number of reasons, progress has been significantly uneven. Activities that have been executed to a greater or lesser degree, but which appear to be in need of buttressing, at the national level, include those related to natural disasters, waste management and land resources.

Natural disasters

In the region there is still a need for greater efforts towards the establishment and strengthening of institutions for the management of disaster preparedness, as well as for prevention and mitigation, including early warning systems. A similar observation is relevant with respect to the mapping of vulnerable areas and the development of mitigation policies to deal with sea-level rise in the context of integrated coastal zone management. Fundamental to these activities is the imperative of the modernisation and rigorous enforcement of building codes as a matter of extreme urgency. At the level of the continuing deficits in human and financial resources, increased emphasis needs to be placed on the acquisition of indigenous capacity to evaluate the socio-economic and environmental impact of disasters as well as on the establishment of disaster emergency funds, taking into account, inter alia, the non-availability of several categories of insurance coverage.

At the regional and wider international level, related activities are required to support those at national level. For example, it is unquestionable that activities such as training and related aspects of human resource development would produce significant economies if pursued at the regional level. The international community might be approached for assistance in funding, as well as for the provision of technical assistance in the specific areas identified.

Waste management

A major issue across the region, given, inter alia, the intimate interface between the terrestrial and the marine environment, the small size of the countries concerned and the dependence on the environment for much of its economic fortunes, relates to the regulation of emissions and discharges through the establishment and enforcement of pollution standards aimed at the reduction, control and monitoring of the various sources of pollution. Critical in this context is the management of toxic, hazardous and solid waste. Efforts so far taken remain far short of what are required if sustainable development is to be achieved. In the same context, worthy of more intensified initiatives are the development and application of fiscal incentives and of economic instruments, in general, towards more efficient environmental management with the prospect, also, of the generation of financial contributions to broader national development endeavours. Underpinning all other activities in this and related areas is the need for enhanced and sustained education and public awareness campaigns.

At the regional and wider international level, training, related institutional strengthening and funding are aspects that promise considerable benefit, including the generation of significant economies. The regulation process, through the development of relevant Treaties, including the provision of assistance to effectively participate in the negotiation as well as the implementation of relevant instruments, is also an activity that might be intensified within the region with international support.

Land resources

The severe limitations imposed by the small size of Caribbean SIDS in the use of land, invariably with alternative uses, render critical the development or modernisation, as appropriate, of approaches to land use planning and management, including the development of the required data bases. Also relevant in this context is the acquisition or enhancement of skills in such areas as the evaluation of carrying capacity and related aspects. Closely related to this is the need for further efforts in the development of comprehensive land use plans to, inter alia, avoid conflicts of use, protect the environment and discourage dysfunctional practices such as speculation in land values.

Supplementary to this approach, is the need on the part of these countries to pursue the further development of techniques for the valuation of environmental assets and the introduction of appropriate economic and other instruments in support of their management.

Other elements in the management of land resources that require intensified action by the SIDS of the Caribbean include the preservation of adequate forest cover in support of watersheds and conservation of all biodiversity and the development of comprehensive inventories of flora, fauna and ecosystems as a basic tool in the management of biodiversity. The protection of all relevant intellectual rights is also relevant in this latter regard.

A cross-cutting issue in this context refers to the need for the development of a comprehensive policy approach to the foreign ownership of land in critical or otherwise sensitive areas.

As in other cases, the international community might provide assistance with training in such areas as database development and management, valuation techniques and the provision on favourable terms of appropriate equipment and of technology in general. The exchange of information, particularly at the regional level, should also be intensified. External funding would be required in support of institutional strengthening.

Macroeconomic policies and structural reforms

Over the last decades, many Caribbean countries have implemented policies to stabilise their economies after the macroeconomic disequilibria of the 1980s. Fiscal deficits have been reduced in most countries through a combination of expenditure restructuring and tax reforms. The expenditure restructuring consisted mainly of the decrease of subsidies to government-owned enterprises and the restrictions on wages and salaries in the public sector. The main feature of the reform of the tax system was the introduction of Value Added Tax in Trinidad and Tobago and Barbados and the restructuring of tax administration and tax procedures. The countries of the Organization of Eastern Caribbean States (OECS), whose dependency on international trade taxes averages about 50 per cent of total revenues, are in the process of implementing tax reforms in order to decrease their dependency on international trade taxes.

Exchange rates in the subregion have generally been liberalised in those countries like Trinidad and Tobago, Jamaica and Guyana where they used to be fixed and overvalued. Those countries, such as the OECS and Barbados, where the exchange rates remain fixed have consistently implemented prudent fiscal and monetary policies and maintained good fiscal balance of payments positions. The generally tight monetary policies implemented in most countries have kept the inflation rates low throughout the subregion. In addition, the countries have undertaken policies to make their economies more open to trade through the substantial liberalisation of their trade regimes. The countries have also restructured their financial sectors through the liberalisation of credit and interest rates policies and the strengthening of financial supervision. Vast privatisation programmes were undertaken mainly in Jamaica, Guyana and Trinidad and Tobago in the context of the economic restructuring programmes to decrease the role of government in the production of goods and services.

Export-oriented strategies

Most Caribbean countries have adopted new strategies to promote exports and attract foreign investment, in the context of macroeconomic stability. This new strategy has allowed them to take better advantage of the preferential access given to their products under the Lomé Convention, the CBI and the various generalised systems of preferences. Some countries, such as Jamaica and the Dominican Republic, have established export processing zones which have been attractive to foreign investors seeking quota free locations for their textiles and apparel. In addition and in reaction to the increasing erosion of preferences, the countries of the subregion have substantially liberalised their trade regimes and have put in place programmes to develop production capacities, which are efficient enough to compete on international markets. The

development of services has been a major focus of the development strategies of Caribbean countries. In addition to tourism, which has been a major contributor to foreign exchange earnings, employment and growth, some of the countries have been developing other services, such as offshore finance and informatics. In the context of the new strategies the area of human resource development has also been receiving increasing attention together with support to small and medium sized enterprises.

Social development strategies

Strategies to address the social vulnerability of SIDS include the following:

- Review and reform of the National Insurance systems in the region to ensure adequate coverage of the most vulnerable groups (aged, disabled, unemployed, widowed);
- Dynamic employment creation strategies to reduce the high levels of unemployment and disguised employment;
- Crime and Violence Prevention programmes targeting high risk youth;
- Policies aimed at increasing access to and quality of the present educational system;
- Increased public spending for enhanced and innovative public health programmes which address the spread of the HIV/AIDS epidemic.

In the implementation of this strategy, emphasis must be placed on systems for the collection and analysis of social data to inform social policy in a consistent and cohesive manner,

PART V CONCLUSION: OVERCOMING VULNERABILITY?

In this paper, the “vulnerabilities” of small island developing States have been approached from three major perspectives, namely geo-economic, social and ecological/environmental. These categories are recognized to overlap. Reflecting the situation manifest in, perhaps, all States, a considerable degree of attention is placed on the economic dimension. This is in recognition of the fact that the critical requirements of the other dimensions are seen to converge on the economic sphere, which is the generator of resources that may be redistributed to promote welfare, and also to cater to the other important element, namely effective resource and environmental management.

In any attempt at prescribing measures for overcoming an element as complex and multifaceted as “vulnerability”, there is always the very great danger that the formulation of such measures would amount to no more than a restatement of the problem being addressed. This is particularly so in the context of the process of the sustainable development of small island developing States. In this regard, “vulnerability”, as measured by means of a “vulnerability index”, as discussed above, would provide the basis for the allocation of international assistance

to the small island developing States concerned. In this sense, among others, the “vulnerability” approach builds on earlier approaches to development and seeks to provide a calibrated methodology for the application of instruments spawned by such earlier endeavours, in accordance with the needs of the respective countries. The approaches in question broadly cover the provision of financial and technical assistance in key areas, in addition to the grant of trade and other preferences, ostensibly, to, *inter alia*, stimulate exports, domestic production and employment; increase foreign exchange earnings; and, basically, finance development and other welfare initiatives.

On the other hand, the “vulnerability” approach skirts, while not ignoring, a number of the issues associated with some of its earlier counterparts, with respect to the allocation of assistance in furtherance of national development. These relate to, *inter alia*, questions implicit in the centre-periphery-dependence paradigm and others, which informed the declaration of International Development Decades in the recent past. Central to all those approaches was the economic dimension of development, with emphasis on aid flows, access to markets and the more effective insertion into the world economy by small countries. In its newest conceptualization, however, “development” refers to “sustainable development”, a process in which the social and ecological dimensions enjoy coordinate rank vis-à-vis their economic counterpart.

Against the background of the foregoing, it may be legitimate to enquire whether the allocation of international assistance on the basis of a vulnerability index, however compiled, with reference to the economic, social, ecological and any other dimensions, is what is required to guarantee the sustainable development of small island States. Or is the fundamental question, the need to revisit measures sought in earlier approaches, such as the centre-periphery and related paradigms, towards the reduction, if not the elimination, of what is being termed in the contemporary situation, “vulnerability”? The existence of an international environment that is free of the ideological and related tensions of the Cold War era, should permit a dispassionate exploration of the relevant issues. Even so, to what extent can the vulnerability of a State, or even that of a region, such as the Caribbean, to, say, natural disasters, be diminished? Or would it be sufficient to ensure the establishment and implementation of the most efficient measures feasible in the context of “prevention and mitigation”? How can the basic constraints arising from such facts as size or geographical location be either overcome or reduced? The basic question being postulated is “What are likely to be the long-term results of the application of vulnerability indices based on sectoral considerations?” Should these relate to no more than the allocation of resources to treat given problems in the sectors already identified and subsumed under “sustainable development”, then only a modest contribution would have been made towards enhancing the relative position in the international system, to refer to only one dimension of sustainable development.

With respect to the more effective insertion of SIDS into the international community, this is, arguably, the type of aspiration which, if satisfied, would promote the sustainable development of small island developing States. This is not to deny that the allocation of international assistance on the basis of criteria that transcend GNP per head would provide considerable relief to a number of small island developing States in terms of the enhanced quantum of assistance for which they will have become eligible. However, the more effective insertion of such States into the world economy would require, *inter alia*, a fundamental transformation of basic structures, broadly defined, within small island developing States and,

perhaps, more importantly, in the wider international system. It would also require the grant of significant political, as well as economic, concessions by the major international actors, in addition to a quantum of international assistance not known to be feasible.

However, apart from the more modest representations for the maintenance of certain trade preferences, combined with the grant of certain, flexible transitional arrangements for their elimination, these issues have not been advanced by SIDS for incorporation into the sustainable development framework. This, however, does not detract from the expectation harboured by Caribbean SIDS that the further implementation of the SIDS POA, as “updated” by the decisions adopted at the September, 1999 Special Session of the United Nations General Assembly (UNGA) and other international agreements, will advance their sustainable development prospects.

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