

# Introduction

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## **The purpose of this publication**

This publication forms part of a project between the Commonwealth Secretariat and the Islands and Small States Institute of the University of Malta, involving a series of workshops and accompanying publications on the economic vulnerability and resilience of small states. One of the outcomes of the project was the development of an economic resilience index. The project has also led to the development of conceptual and practical approaches for profiling countries in terms of economic vulnerability and resilience.

## **Economic vulnerability**

Economic vulnerability may simply be defined as the proneness of an economy to be harmed by external shocks. The approach adopted in this publication to conceptualise and measure economic vulnerability builds on Briguglio (1995) which associated such vulnerability with inherent, and therefore permanent or quasi-permanent, features of an economy, including economic openness, dependence on a narrow range of exports and dependence on strategic imports, such as food, fuel and industrial supplies. It is assumed that the higher the degree of incidence of these features, the more exposed is a country to forces outside its control, and therefore the more economically vulnerable it is.

Chapter 2 of this publication elaborates on these notions, and presents a vulnerability index, covering 117 countries. The index is a composite one, with components relating to the inherent features just referred to. Like most studies on economic vulnerability, the study presented in Chapter 2 concludes that small states, as a group of countries, are more economically vulnerable than other group of countries.

## **Economic resilience**

Economic resilience can also be simply defined as the ability of an economy to withstand or bounce back from harmful external economic shocks. It can, therefore, be considered as the obverse of economic vulnerability. The approach adopted in this publication to conceptualise and measure economic resilience is based on Briguglio et al. (2006), which associated economic resilience with a policy framework conducive to macro-economic stability, market efficiency, good political governance and social development. Such a policy framework is also conducive to good economic governance.

Chapter 3 of this publication discusses these facets of economic resilience and presents a resilience index, covering 86 countries. Again, the index is a composite one, with components relating to the four aspects of economic resilience mentioned. Many of the small states included in the index had a relatively high resilience score, which, as we shall argue in the next section, could explain why small states may perform relatively well economically in spite of their economic vulnerability.

## **Juxtaposing vulnerability and resilience**

The risk of a country being harmed by external shocks therefore is likely to be higher for vulnerable economies and lower for resilient economies. In other words, an economy can be highly exposed to harmful external shocks, but it may be able to withstand or bounce back from such shocks due to a policy framework which builds economic resilience.

Chapter 4 of this volume juxtaposes economic vulnerability and economic resilience, using the two indices described in Chapter 2 and Chapter 3, to classify countries into four categories, in terms of their vulnerability and resilience scores, and to propose a methodological approach for assessing the risk of being harmed by shocks.

One of the country categories is the 'self-made' category referring to small states that are very economically vulnerable but at the same time are well-governed economically. On the other hand, the 'worst case' category refers to small vulnerable economies that are badly governed economically. The other two categories are the 'best case' category referring to countries that are not very economically vulnerable and at the same time are well-governed economically, and the 'prodigal son' category, referring to countries that are not very economically vulnerable and but are badly-governed economically.

On the basis of this country categorisation, Briguglio (2003) proposed the term 'Singapore Paradox' referring to the reality that although Singapore is highly exposed to exogenous shocks, this small island state has managed to register high rates of economic growth and to attain high GDP per capita. This reality can be explained in terms of the ability of Singapore to build resilience in the face of external shocks.

## **Profiling countries for vulnerability and resilience**

Part 2 of this volume relates to a country profiling exercise that can be conducted to assess the extent of economic vulnerability and the extent of economic resilience of a national economy.

Chapter 5 proposes a conceptual profiling approach based on the findings of chapters 2 and 3 of this volume, and extends these concepts as may be appropriate for an individual country setting. The derivation of the economic vulnerability/resilience profile proposed is based on three facets, namely:

- *An assessment of the symptoms of economic vulnerability.* This facet relates to the manifestations of vulnerability and attempts to determine whether a country appears to be suffering from any one or more of the symptoms of vulnerability or

otherwise. This gives a first indication within the country profile as to which areas of economic activity or policy may be conducive to economic vulnerability.

- *An assessment of the causes of economic vulnerability.* This facet of the profile relates to the underlying causes of vulnerability and is aimed at assessing the inherent fundamental conditions which may be rendering a country vulnerable to exogenous shocks.
- *An assessment of the sources of economic resilience.* This facet of the profile aims to highlight the strengths and weaknesses within the policy formulation milieu of a country towards the objective of economic resilience building.

A practical guide as to how the vulnerability/profiling exercise can be carried out is proposed in Chapter 6. The guide is aimed at enabling governments to conduct profiles for their own countries, and should also be useful.

## **Profiles of three small island developing states**

Part 3 of this publication presents three profiles of small island developing states that were undertaken by the Commonwealth Secretariat and the University of Malta in collaboration with the respective governments of these states. The three countries profiled are St Lucia, Seychelles and Vanuatu. In all three profiling exercises, public officials and civil society representatives were consulted and participated actively in the process.

The profiles produced interesting results, and although there were differences between the three small island states, there was a common characteristic, in that they all have very open economies, and are therefore very highly exposed to economic conditions in the rest of the world. There is a awareness in these states that good economic governance is conducive for resilience building, but the profiling exercises identified a number of gaps in the policy frameworks of these states.

## **Country analysis by international organisations**

The book carries an annex to provide readers with an overview of the country analysis undertaken by international and regional organisations. It should assist readers to identify the strengths and weaknesses of the various analyses and to conduct and compare the approaches by different organisations with the vulnerability and resilience profiling being proposed by the Commonwealth Secretariat. One of the strengths of the Commonwealth Secretariat's profiling exercise is that it is a framework focused on a particular category of countries – small states, and has therefore been tailored to the special challenges faced by these countries, moving away from the 'one size fits all' assessments conducted by other organisations.

The annex presents the work being undertaken by selected international organisations and regional development banks to assess the economic and social situation in countries. The focus is on:

- the IMF's vulnerability indicators, Article IV and Financial Sector Assessment Program (FSAP);

- the World Bank's reports such as the Country Economic Memorandum (CEM); Country Assistance Strategy (CAS) and Poverty Reduction Strategy Paper (PRSP);
- the UN's Common Country Assessment (CCA), UNCTAD's vulnerability profiles and its Economic Vulnerability Index (EVI);
- the WTO's Trade Policy Review Mechanism;
- the EC's Country Strategy Paper; and
- regional development banks, including the AfDB's Country Strategy Paper, as well as the IADB's Prevalent Vulnerability Index (PVI), country strategy and Country Program Evaluation (CPE).

## **Using this book**

The title of this volume contains the word 'manual' which can be defined as a reference book with instructions. This word has been purposely chosen in the title to convey the message that the book is intended for governments who wish to conduct the country vulnerability/resilience profile themselves, basing the conceptual underpinnings of Part 1 of the book and being guided by the practical steps carried in Part 2.

It is therefore hoped that the book will serve its purpose and that governments, particularly those of small states, make use of it in order to identify the resilience gaps in their policy frameworks so as to strengthen their economies abilities to withstand or bounce back from harmful external shocks.