Small States In A Changing World

Text of a speech given by the
Right Honorable Owen Arthur, Prime Minister of Barbados,
at the "Small States in a Changing World" conference, held at
Tufts University, March 31-April 2, 2000.

I am very greatly honored by your invitation to deliver the opening keynote address at this conference on "Small States in a Changing World," and through this conference, to be associated with one of the most important initiatives of the early 21st century to point humanity in a more enlightened direction.

Tufts University was founded long ago in 1852, and was conceived and intended to be a light on a hill. In the intervening years, this school has formidably left its mark on international affairs, principally through its Fletcher School of Law and Diplomacy, among whose graduating class I am pleased to note the presence of one of my country's young citizens and future diplomats.

More recently, the Fletcher School has given the small states of the world the genius of your Professor Alan K. Henrikson. The Caribbean still remembers the invaluable insights of which he delivered himself in the 12th Eric Williams Memorial Lecture in Trinidad and Tobago in 1998, entitled "Diplomacy and Small States in Today's World." We equally recall his presentation at the Joint Commonwealth Secretariat/World Bank Task Force Conference on Small States in St. Lucia in 1999.

The fact that the international community will soon be in a position to consider a report setting out a development agenda for small states owes much to the work of Professor Henrikson and others, who, through the Fletcher School, have done so much to create international understanding of this most sensitive issue.

Professor Henrikson will however have to forgive me if I look to the words of a somewhat more eminent product of Massachusetts to perhaps best set the very positive tone in which the proceedings of this international conference should be conducted.

I refer here to the speech delivered in Dublin on June 28, 1963 to the Irish Parliament by President John Fitzgerald Kennedy. In it, he suggested that it may be asked, "How can a nation as small as Ireland play such a role on the world stage?" His response was typically eloquent, and intended for the ages:

> All the world owes much to the little 'five feet high' nations. The greatest art of the world was the work of little nations. The most enduring literature of the world came from little nations. The heroic deeds that thrill humanity through generations were the deeds of little nations fighting for their freedom. And oh, yes, the salvation of mankind came through a little nation.

It matters not how small a nation is that seeks world peace and freedom for, to paraphrase a citizen of my country, "the humblest nation of all the world, when clad in the armor of a righteous cause is stronger than all the hosts of error."

This conference could not have been convened at a more opportune moment, nor intended to address matters that can have a more profound and positive bearing on the lives of countless millions who live in hope and in expectation.

For it has come after the "Global Conference on a Development Agenda for Small States," held in London in February of this year, co-sponsored by the World Bank and the Commonwealth Secretariat, whose proceedings were subscribed to by all of the international financial and trade institutions, the European Union, UNCTAD, the OECD and representatives drawn from the small states of the world.

It preceded the presentation of the "Report on Small States" at the spring meeting of the Development Committee of the World Bank. This report sets out a contextual framework within which the circumstances of small states can best be explained and understood, and more ambitiously, outlines what hopefully can come to be internationally accepted as the framework within which a development agenda for small states can be implemented.

This conference also comes at a time when the international community, engrossed and fascinated as it now is with the powerful images of mega-mergers at the corporate level, the formation of larger and larger trading blocs at the regional level and the explosive growth of global production, financial and capital flows and technological virtuosity, needs to have held up before it the example of successful small businesses, small communities and small states.

To be sure, the contemporary globalization of man's production, financial and capital transactions, the extraordinary progress in the development of new information and communications technology and the pervasive influence worldwide of the legitimizing ideology of liberalization which underpins this phase of globalization, are all inexorable and irreversible forces which, in general, hold the promise of working for the betterment of all mankind.

It is however too much to envision that the effects and impact of globalization will be the same or neutral in all places and under all circumstances.

Indeed, it is very true, as has been so forcefully pointed out by Kofi Annan, that small developing states are and will be the front line zones where, in a concentrated form many of the problems of environment and development of our age are emerging and will work themselves out.

We therefore have an unprecedented opportunity to create a new global society which, for the first time, embraces the concerns of the very powerful and the very poor within the same paradigm of development, and which by respecting diversity and special circumstance can establish that a high quality of human development can take place within the context of social justice.

It is in such a broad context that issues pertaining to the development of small states have their real meaning and relevance. It is always the exception that proves the rule. Small states are the exceptions in the global community. The resource odds are, and have been, loaded against them. They have more often than not been made the victims of "one cap fits all" policy prescriptions by international trade and financial institutions. Throughout their existence, they have been perched precariously on an intellectual fault line dividing opposing views. On the one hand there has been the view that aid and other forms of concessional resources should be paternalistically dispensed to them without regard to result; and on the other, the notion that a form of social Darwinism should apply only the fittest should survive, and these states, like all other vulnerable species, should be left to their own devices.

The successful development of small states can now be the exception that proves the rule that all states, irrespective of their resource endowment, their previous growth patterns, their special circumstances and idiosyncrasies, can find and hold appropriate niches in the new and emerging global society, in which no one need be, nor is left behind.

It will however require a New Deal for small states, involving support for a new development agenda for this species of society that draws from their special circumstances, and which is based on a precept long ago espoused by Aristotle "that as between equals, equality; as between unequals proportionality."

This quest to create a feasible development agenda for small states, in the context of a globalizing world that is intuitively hostile to exceptions, must first of all lay to rest many false issues which have stood in the way of concerted, pragmatic and enlightened international action being mobilized to treat this matter with the urgency that it merits.

The first such false issue is the claim that there is no one universally accepted nor agreed definition as to what constitutes a small state, such that international action can be focused only on the real and genuine small state rather than impostors seeking gratuitous international assistance. The second is that since some small states, notably Singapore, have attained levels of material development equivalent to that of larger states, and others have exhibited indices of human development which put them ahead of larger, better endowed societies, the concern with small states is just a case of special pleading that cannot be supported by reference to the empirical evidence. One swallow doth not a summer make.

Another similar false issue is that in a new global society, where precepts of non-discrimination and reciprocity are intended to be the guide to the structuring of relationships between nations, the designation of small states as a separate and unique species of society will create a monstrous precedent that will engender equivalent demand by others for similar discriminatory recognition, which can undermine the orderly development of the global society.

A related claim is that the response to the needs of small states will have a distorting and negative effect on the allocation of resources by the international community since it may give rise to a distraction from the welfare of the poorest of the poor, among whom is not necessarily to be found the majority of small states of the world.

These issues inform and influence such a large part of international public opinion that they merit a response. On the first matter—definitional issues—it is true that an amalgam of criteria, involving land space, per capita income, size of population and other such quantitative measures have historically been adduced, without success, to define a small state. Depending on the threshold of per capita income, land size and population chosen, we are led into an interesting, inconclusive and bizarre controversy that serves to strip the intellectual exercise of defining small states of such worth as it might otherwise possess.

However, in the midst of this, the management of mankind's affairs has been made more complicated by a sheer proliferation of states that can be classed as small states, as decolonization, de-federalization and devolution have redefined the contours of the global society.

Intuitively, I would reject the notion that a sheep and an elephant can be classed as equals merely because they happen fortuitously to be herbivorous mammals. By the same token, although there might not be international concurrence on the limits of the quantitative criteria pertaining to land area, population and per capita income that would serve incontrovertibly to define small states, it has nonetheless to be agreed that a small country is not just a country like any other, but with fewer people and lesser land mass. It refers intrinsically to a certain kind of society in which limited demographic and spatial features are pronounced, but which also exhibits certain equally pronounced systemic and qualitative features.

In this regard, the work of the World Bank/Commonwealth Task Force on Small States is of especial value as it calls attention to the special attributes of vulnerability and volatility that are the structural and behavioral features of small states that set them apart from other species of societies. Of especial and immediate significance for our purpose here is that most small economies exhibit the following shared and distinct characteristics, which have important implications for their capacity to attain the basic conditions for sustained and sustainable growth and development.

Chief among these is their susceptibility to the adverse impact of natural and climatic disasters, which typically affect the entire population, economy and society unlike the incidence of similar phenomenon in larger societies. Many are exposed also to exogenous shock through their extreme openness to trade and their extraordinary dependence on access to external capital. Most face severe structural and functional difficulties arising from the limited options presented by the limited diversification of their economic systems. All are confronted with the phenomenon of the high transaction costs of doing business and managing their affairs because of the impact of factors such as remoteness, insularity and limited institutional capacity.

Vulnerability and volatility engendered by such systemic features in small societies matter greatly in such societies, insofar as they predispose them towards poverty and social instability despite their best policy efforts. As a consequence small states are forced to pursue a knife edge path towards their development, in which their options for success are few but the scope for disaster and failure are multiple.

The bottom line is that under constant favorable conditions, small states may not only survive, but also grow and prosper. However, it is also true that under unfavorable circumstances, they find themselves perpetually in trouble, because, unlike larger states, they have little ability to determine the conditions which affect the context in which they evolve and set the objective conditions within which their success or failure is determined.

Happily, we no longer have to guess about the scientific validity of their assertions. Considerable intellectual effort by scholars has succeeded in developing vulnerability and volatility indices that can complement per capita income criteria and indices of human development as objective criteria of social and economic progress and as the basis for the classification of respective societies.

These new indices yield important and insightful results, which simply must not be ignored by the international community. The first is that a vulnerability index, which measures the exposure to external risk and shock over which societies have no control, confirms that small states are considerably more vulnerable that both other developing countries and large countries, despite their GDP and per capita income attainments. To be precise, the vulnerability index developed by the Commonwealth Secretariat shows that of the 28 most vulnerable societies, 26 are small states, and of the 28 countries with low vulnerability, all are large.

Another dimension of vulnerability relates to threats to the environment and damage to fragile eco-systems. The work on a composite environmental index takes account of deforestation, population pressure, water scarcity, marine inundation, threats to biodiversity and the incidence of natural disasters, based on the experience of 106 countries. The results suggest that with the exception of Bangladesh, the ten most environmentally fragile and vulnerable countries are small states.

These indices are compounded by a scientifically derived measure of the income volatility of small states that substantiates that small states experience greater volatility in their process of income generation than large states. The standard deviation of annual real per capita growth is about 25 percent higher than large states, pointing to a more variable and unstable growth pattern in small societies.

While it may take some time before the international community accepts that such indices are enough to warrant small societies being classified as a special species of society, they are enough to point to the substantive conclusion that the circumstances facing small states are drastically different from those of other societies. They especially give clear indications that the challenges they face in improving their development prospects cannot feasibly be met unless the special conditions of vulnerability and volatility are understood and taken deliberately into account.

The very grim reality is, therefore, that in addition to the normal pitfalls that face most societies, arising from policy or market failures, small societies have to cope with other profound disabilities arising from their inherent volatility and vulnerability. Indeed, despite best efforts at the policy level, it is the special circumstances of vulnerability and volatility that predispose small societies to replicate the essential dynamics of lesser-developed countries, if not exactly mirroring the worst aspects of their poverty.

As such, with a few notable exceptions, the economic experience of small countries has conformed to a particular syndrome. Most are poor. Most have lurched from economic crisis to economic crisis, characterized by high levels of unemployment, fiscal instability and acute difficulties in meeting their international payments. For them, the recent financial and economic disturbances that threatened to overwhelm the emerging giants of Asia and Latin America were simply part of their normal and familiar circumstances.

There can be no doubt that an aspect of the difficulties faced by small states can be traced to policy failures, which they have foisted upon themselves. However, a distinguishing feature of their existence, as compared to other species of society, has been the degree to which volatility has factored as a cause of their economic difficulty. It has been estimated, for example, that the loss of growth attributable to income volatility per se has been quite substantial, exceeding one percent per annum. In addition, the damage caused by the vagaries of nature in small countries has been especially severe, because of the pervasiveness of the natural calamities and the ease with which they have often devastated entire economies in a matter of hours, wiping out in a fell swoop years of sustained investment.

The normal circumstances of most small countries have also been that their production has generally been undertaken by medium and small units, with the result that economies of scale have been difficult to attain. There has therefore been a natural tendency for enterprises in small states to be relatively high cost producers and hence uncompetitive, if left to face the vagaries of international markets without special aids.

The international community has, however, hitherto shielded most small states from having to face the full dire effects of that situation by extending to them non-reciprocal preferential access to markets of the developed world. These preferential trade arrangements have historically been complimented by the provision of aid and finance on concessional terms, intended to create the infrastructural, institutional and productive capacity to support economic diversification.

I temper the estimation of the generosity of the concessions extended to small and developing countries through preferential trade arrangements by the recognition that the margin of preference intended to be conveyed by such arrangements has systematically been eroded over time by multilateral negotiations and free trade arrangements between developed societies and emerging market economies. Be that as it may, it cannot be gainsaid that small countries weaned on long dependence on access to preferential market arrangements and concessional financial flows face special difficulties in effecting an easy integration into the emerging global economy.

I will not, of course, convey the perception that globalization confronts small states with a situation of unmitigated gloom and distress. Quite to the contrary. The revolution in information and communication technology has in many respects neutralized much of the economic difficulty that has been associated with distance and remoteness, which historically were factors that worked against the development of small states. Equally, vast new areas of potentially lucrative economic activity have been spawned in the sphere of service activity, which can be carried out just about anywhere in what is fast becoming a truly global village. In addition, information rather than natural resources and energy is increasingly becoming the key factor in the production process, neutralizing much of the long-standing disability that small, natural resource deficient states faced in the pre-information age.

Small states that are prepared to undertake the strategic repositioning that is warranted to cope with the changing configuration of international demand, and the pace and direction of technological change, stand to benefit by occupying lucrative niches, especially as exporters of high quality services. Some, in fact, have already made a substantial investment in the development of their human resources and the modernization of their infrastructure and institutional capacity to have more than an even chance of successfully making the transition from the industrial to the new information age.

It is, however, beyond dispute that globalization confronts small states in general with daunting challenges, arising principally from its new international trade and financial arrangements. Small states, in principle, can have no sustainable objection to the initiative to establish a rules-based regime for the regulation of international trade. However, a rules-based regime will benefit small states only if it takes their special characteristics, circumstances and interests into account. The evidence thus far does not inspire confidence that this will be the case.

To the contrary, there seems to be the perception that a so-called level playing field for free trade can be created by removing all vestiges of special and differential treatment, except in favor of countries classed by the U.N. as the Least Developed Countries (LDCs), and replacing them by new practices, based on the principle of reciprocity and non-discrimination, to be applied everywhere in equal measure.

Obviously, small countries that are not classed among the LDCs of the world cannot possibly expect to be accorded special and differential treatment of the order afforded to the LDCs. But it is nonetheless feasible to devise a rules-based international trade regime in which an element of differential treatment is provided for small states in proportion to their circumstances, which is different from that made available to the LDCs.

In the absence of such proportionality among unequals, small states, in general, will experience massive dislocation during the process of their integration into the new trade regime. This difficulty is of course magnified by the great disadvantage small states have already begun to experience in having ready and affordable access to the dispute settlement mechanisms of the World Trade Organization (WTO), and in participating meaningfully in international trade negotiations, which directly affect their most vital economic interest. Perhaps the most outstanding characteristic of globalization has been the intensity and sheer scale of the financial liberalization that has been at its core. Barriers to the movement of capital have been dismantled, and capital and financial flows now take place at the speed of light and in an order of magnitude that is staggering.

There can be no doubt that financial mechanisms, like trade liberalization, can be a powerful force for good. But whether this potential will be realized depends, especially in the case of financial liberalization, on the institutional and regulatory context within which the liberalization itself takes place. In this respect, it must be a source of great concern that large powerful states have been reluctant to differentiate between the shallow, narrow and hence imperfect markets of small states, and their own deep, broad and well developed financial markets. Since these powerful states dominate the international financial institutions, small states are now frequently subjected to financial liberalization policies developed for the markets of large states with devastating consequences for the population of small states.

Financial liberalization has, in fact, resulted in systemic failure in some economies, where liberalization has preceded the installation of appropriate regulatory and supervisory systems. In addition, the insistence on floating exchange rates in countries with undeveloped currency markets has led to chronic currency depreciation and the catastrophic impoverishment of populations.

In all of this, one of the disturbing aspects of the reaction of the global community to the volatility that has accompanied financial liberalization has been the inequality of its response. Elaborate financial bailouts have been made available to large societies in unprecedented proportions, and in a manner that suggests that when the international community wishes to invent new rules and practices to afford other than the LDCs special and differential treatment, it knows how to find a way.

By contrast, small countries, like Jamaica, which have faced similar acute difficulties arising from financial liberalization, have not been the beneficiaries of any similar bail-out. Such countries are perceived as posing no systemic threat to the stability of the international financial system and have hence been left to bear on their own. Globalization can only be a force for good if these kinds of pernicious effects, associated with more contemporary forms of financial liberalization are not allowed to take root.

In addition, the successful, sustained integration of small societies into the global economy will require a vast sea change in the behavior of the international financial institutions. To begin with, the practice of graduating small countries from access to concessional financing largely on per capital income grounds, is a policy without merit, particularly as there are indices other than per capita measurements now available to inform such decisions.

What is more disturbing is that while very small countries, like Barbados, all 166 square miles of it, have been graduated, over 70 percent of the non-aid resources of international lending institutions flow to 11 large countries. These countries enjoy easy access to capital markets on the strength of their investment ratings. Some maintain nuclear arsenals and have active space programs. All have powerful industrial systems and highly diversified economic systems. The perpetuation of the concessional borrowing rights of these large countries at the same time that small, vulnerable economies are denied further access to loan financing is an injustice that cannot stand. It sends the signal that you have to so manage your affairs, either to be a failure, or a systemic threat to the stability of the global economy to warrant its favorable consideration. Also, small countries are especially at great risk by the indiscriminant application of the "one cap fits all" prescriptions that are routinely urged by international financial institutions in furtherance of globalization's legitimizing ideology of liberalization.

The Bahamas and Barbados are arguably among the most successful small states in the world. They have relied for their stability and progress on the use of fixed exchange rate regimes and judicious use of exchange controls on the capital account, policies that are anathema to the conventional wisdom of the international financial institutions. In all of this, we should remember that they are like those who claim that in accordance with the laws of aerodynamics, a bumble bee cannot fly. The message must be that in the global economy, as in nature, there must be a place for diversity and the unorthodox.

There is in all this, room for optimism about the future. The Commonwealth Secretariat and the World Bank Joint Task Force on Small States have just concluded their report, "Small States: Meeting the Challenges in the Global Agenda." It importantly sets out the framework of a new development agenda for small states, which, if subscribed to, can assist greatly in achieving the successful and sustained integration of small states into the evolving global society.

Necessarily, it recognizes that any agenda for the successful strategic repositioning of small states must begin with the commitment of such countries to practice sound and sustainable macro-economic policies that promote domestic stability and create an enabling environment within which other initiatives can have their most beneficial and productive effect.

An important part of this new development agenda are new policies and mechanisms to reduce vulnerability and tackle the volatility arising from market and natural disasters. Hence emphasis is placed on donor finance for disaster mitigation measures, a program of support for comprehensive disaster management, the development of incentives to involve private insurance in sharing disaster risks, the development and support for risk-pooling arrangements to provide better, more reliable and lower cost risk insurance. It is also proposed that the practicality be explored of new instruments and underwriting that would help ensure adequate financing for post-disaster rehabilitation and reconstruction.

These initiatives, intended to be applied by the World Bank in the Caribbean are also to be replicated in other regions where peculiar problems exist for small states, purely on account of their extraordinary exposure to natural disasters. It is an initiative that will help greatly. The new framework of the development agenda for small states also recognizes that issues of transition to the changing global trade regime have to be faced, and that a mixture of domestic and external measures has to be employed to mitigate the dislocation and to maximize the opportunities that will occur while the transition is taking place. Among the more important domestic measures is the need for small states to make the necessary fiscal adjustments that will be required as their revenue base is eroded by trade liberalization.

On the external side, the new agenda recognizes that, while small states that are not LDCs cannot possible seek special and differential treatment equivalent to that of the Least Developed Countries, the special circumstances of their vulnerability and volatility warrant the extension to them of special consideration appropriate to their needs.

In this respect, it has been proposed that several measures can greatly assist the cause of small states: longer phase-in periods; exemption from, or lower levels of obligations; flexibility in applying some of the disciplines of multilateral trade agreements; and access to the mediation and dispute settlement arrangements of the WTO.

The Task Force report also prescribes a program of capacity building in both the public and private sectors, domestically and at the level of regional groupings, as one of the important means by which longstanding problems regarding the high cost of doing business in small states can be addressed. Very importantly, the proposed development framework envisions that small states should seek to occupy niches in the international financial services, e-commerce and other information technology related fields, and recommends that both the public and private sector gear themselves to exploit these niches aggressively and proactively.

The development agenda set out in the Task Force's report now awaits the judgment and the support of the international community. What cannot wait, however, is the effort by small states themselves to carry out the process of strategic repositioning required to give them a chance of succeeding in the new global society.

As the leader of one of the world's smallest societies, I know only too well that such strategic repositioning is not an abstract issue; it is a lived experience. A glance at some of the essential measures my country is taking to bring about that repositioning will suffice. On April 1st, we will implement the bound rates of tariffs on manufacturing and agricultural imports in accordance with our agreement on acceding to the WTO in 1995. Parliament will, in April, also consider legislation to create a Fair Trading Commission and new legislation pertaining to utility regulation and consumer protection, all meant to establish, at the domestic level, the conditions that will prepare us to cope with the pressures of functioning in a more competitive international business arena.

As Chairman of the nation's Commission on Competitiveness, I will preside over a meeting of the commission in early April to consider how Barbados should implement the obligations it has assumed in becoming part of a new Caribbean single market and economy.

By June, a new framework for the development of our tourism industry—the main motor of our economy—will be ready to be implemented. A new Agricultural Development Trust will also be put in place to provide financing to recapitalize our agricultural sector, which will give it a chance to deal with a more liberalized environment for the trading in agricultural goods. We are also reviewing our relationship with our main telecommunication provider, again taking into account our WTO obligations, the needs of our export service sectors and the interest of the investor.

Two years ago, we entirely reformed our indirect tax system to remove discriminatory and distortionary dimensions and to reduce our dependence on taxes on trade, all with a view to preparing for trade liberalization. And a team of public and private sector negotiators is now permanently in the field attempting to protect Barbados' interest in the sphere of international business and financing services against attacks by the OECD Fiscal Committee. Parliament, last week, also strengthened our money laundering legislation to better prepare Barbados to fend off one of the more ugly aspects of globalization—globalized criminal financial activity.

There is so much to be done, so little time to do it and so little resources to work with to accomplish what has to be achieved. But it must all be done. I am, however, sanguine that small countries can successfully carry out the transformations required and can contribute to the development of the human condition in the future, as so many small countries have done in the past.

Should there be any doubt, I must refer you to Plato's "Laws." Plato's new utopia was to be named Magnesia. Magnesia was to be a small state, of no more than 5,040 persons, nine or ten miles from the sea, a country that afforded a decent but not luxurious standard of living. Its relatively small size was intended to encourage intimacy and friendship among its inhabitants; its modest living standards to ensure sobriety and moderation and discourage excess and debauchery, and its relatively remote situation to deter potential sources of innovation and discord.

It sounds and feels familiar. I thank you. ■