

Chapter 6

Underpinning Economic Growth

6.1 In considering the economic problems of small states the issue of viability inevitably arises. Now that independent small states are a reality in the international system, the question has become less prominent. Nevertheless, it remains important since many states are finding it difficult to overcome the constraints smallness places in their way and reach reasonable levels of prosperity.

6.2 A few small states have achieved high levels of industrialisation despite the narrowness of their economic base and other handicaps. However, for most small states, especially those with populations of less than one million, even though good living standards and high levels of administration have been achieved in some cases, problems of vulnerability and economic insecurity persist. We believe, however, that there is good scope for better performance from improved development strategies. The experience of those small states which have been able to provide their people with a good living standard could be particularly useful in this connection.

6.3 Although the constraints are many, there are also relatively significant external opportunities to be exploited. For most small states even a minute penetration of the markets of one or more major countries could generate much economic activity. Exports of manufactured goods and trade in services have been key factors in the success of those small states which have made great economic strides and remain the major hope for others. An open and thriving world economic environment is essential for small states to achieve economic viability. What could be detrimental to the whole future of these states is a retreat in the world towards inwardness and an increase in barriers to economic intercourse.

6.4 But however propitious the external environment, for one group of small states—mini-states with little natural resources—viability is likely to remain a problem. Even where reasonable per capita incomes have been achieved, budgetary and other forms of assistance are likely to be a continuing necessity and weakness and vulnerability a continuing problem. Nevertheless, these states will continue to exist and for them also the objective must be, to the extent possible, to promote stable economic development.

NATIONAL POLICIES

6.5 While smallness provides a continuing limitation on the extent to which the economic capacity of a state can increase, economic progress could help substantially in reducing economic weakness and insecurity especially to the extent that it produces economic resilience. Development efforts must therefore be concerned not only with promoting growth but also with overcoming the constraints of size and promoting self-reliance.

6.6 Diversified economic development must continue to be an important objective of small states however difficult its achievement and however limited its scope in mini-states. Despite the difficulties in achieving such development, small states should not be too quick to resort to 'softer' options. Too much can be made of the benefits of such activities as tax-haven facilities and casinos. The need to improve living standards and create job opportunities is often so urgent that many small states feel they cannot be too restrictive about the kind of activities they wish to attract or are ready to permit. In some cases, non-traditional activities like tourism and financial services, may well be appropriate choices in relation to the opportunities available. There are, however, risks that several undesirable activities may spring up in association with legitimate 'service' activities—for example, money laundering, drug trafficking, fraud, prostitution, corruption, and gangsterism. Weak states in particular are being increasingly subjected to blandishments from foreign operators wishing to establish businesses which are a cover for criminal activities, or have adverse security, cultural and social consequences for them.

6.7 High standards of administration and economic management are required to prevent or minimise such adverse consequences and to ensure that even where the economic benefits are large, these 'soft' options do not impede more sturdy development, and distract attention and resources away from investment opportunities in such fields as export manufacturing, domestic food production, fisheries and aquaculture development. Part of the problem of economic management is

inadequate information and lack of the necessary negotiating skills to deal with foreign business concerns, including transnational corporations, which operate not only in these 'new' industries but also in traditional sectors such as primary products.

6.8 One of the main problems confronting the very small states, especially those not richly endowed with natural resources, is the difficulty in attracting the interest of transnational corporations. Even when this objective is achieved, small states can experience new difficulties, first in negotiating terms satisfactory to themselves and second in controlling the companies' activities once they have become operational. During our discussions a case was cited of one small island state which incurred serious budgetary and employment problems when a transnational corporation pulled out of the country without notice.

6.9 While relations with transnational corporations pose special difficulties for weak states, this is not a sufficient reason for rejecting them and foregoing the contribution they can make in providing much needed capital, technology and market outlets. In general Third World states tend to be in a disadvantageous position in their relations with transnational corporations through inadequacies in negotiating skills and access to information, and with their slender human resources, small states are in an even weaker position than other developing countries. In many cases the agreements transnational corporations draw up may be said to resemble those 'unequal treaties' that imperialist powers used to impose in earlier centuries upon weaker nations. The crucial issue for small states is to avoid inequitable contractual arrangements and political interference. We take up later the question of regional action and international assistance to avoid these pitfalls.

6.10 However successful a small state might be in attracting foreign investment, a major role in economic development must be played by domestic entrepreneurs. Much attention must therefore be paid to improving the management of private and public enterprises and to securing the emergence of a vigorous indigenous private sector which is not only crucial for self-reliant development but could also through its dominant role in economic activity and through opportunities for joint ventures reduce dangers that may be posed by transnational corporations.

6.11 A particular problem of small states is the development of an indigenous technological capability. It is not only a case of retaining high level research personnel but also of affording research facilities and securing adequate returns from research and development expenditure, gains from which could only be spread over a small population. While regional co-operation could assist in some areas of research and development, e.g. agriculture and energy, great reliance has to be placed

on technology transfer and adaptation. But even these aspects require local expertise for assessment and for negotiations with transnational corporations in relation to licensing arrangements, joint ventures and other transfer arrangements.

6.12 As we indicated earlier, smallness need not imply poor endowment of resources. Early modernisation has led to high educational standards in many small states which help to compensate for limited human resources; in the case of island states, 'sand and sea' can be a substantial natural resource. Even where population density is high and land is scarce, intensive agriculture could increase production potential, while land reform and technical support for farmers could assist agricultural development. Making the best use of available resources could help small states to accelerate growth and transformation, avoid the adverse features of soft options, and discourage the loss of skilled and professional people.

6.13 Small states' economies must perforce remain outward-looking even though this exposes them to external vicissitudes. Subsistence production is no alternative and even regional economic co-operation often offers only limited room for import substitution. Too much emphasis on import substitution in the past has led to cost structures which restrict the scope for making use of external opportunities. The fact that food production for the domestic market has in many cases been neglected offers scope both for import substitution in this sector and economic diversification. However, transformation towards more resilient development must be based largely on external opportunities for developing manufacturing and fisheries industries in addition to tourism, financial services and traditional exports, and must be based on more skilful exploitation of opportunities in both external and internal markets.

THE POTENTIAL OF REGIONAL CO-OPERATION

6.14 We have already stressed the special significance for small states of regional economic co-operation. Many small states have tried regional co-operation as a means of overcoming problems arising from smallness. On the whole regionalism has not lived up to expectations, especially as a means of widening markets, and this has resulted in a tendency to underestimate its achievements and potential on the basis of wider considerations—economic, administrative and political—and taking into account the limited options available to these states. In this situation it is not surprising that small states are persisting with regional co-operation and its objectives. Besides helping to overcome size constraints, it helps to promote stable development through the widening of economic opportunities.

6.15 Because of our belief in its value, we strongly recommend increased support by international and bilateral agencies for regional economic co-operation involving small states. Particular areas where regional co-operation requires added emphasis both by small states themselves and by the aid agencies are: the surveillance and development of marine resources, sea and air transport arrangements, disaster preparedness and relief, higher education, research and development, development banking, and pooling arrangements for the sharing of special skills and expertise. In some regions, such as the Caribbean and the Pacific, arrangements covering many of these areas are well established and their experience could be useful to other regions.

6.16 Regional pooling of skills and the services of experts is of particular importance in any drive by small states to make greater efforts to help themselves at the economic and technical level. Such arrangements could have the benefit of retaining within the region well-qualified local people who would otherwise be tempted to emigrate because national posts do not offer them sufficient financial rewards or opportunities to utilise their skills to the full. Regional arrangements of this nature to improve technical self-reliance are especially deserving of international support.

6.17 Generally speaking we feel that the overall value of regionalism has been inadequately recognised by the international financial agencies, which tend to be not only unenthusiastic about regional projects but even critical of the regional approach itself. However, the Lome Convention does make some special provision for regional projects. The international financial agencies perhaps fail to realise the extremely limited options available to small states in trying to promote self-reliant development; we would urge them to re-examine their policies, especially where regional efforts involve small states.

MARITIME ASPECTS

6.18 The 1982 United Nations Convention on the law of the Sea could contribute significantly to all aspects of the security of small states.

6.19 Its provisions for monitoring and surveillance of the marine environment and for enforcement could generate activities that are likely to strengthen the military and territorial security of small states. Moreover, the Convention introduces the first comprehensive mandatory dispute settlement system on a global scale and thus has a valuable potential for the general enhancement of the maintenance of peace. The Articles stipulating that the high seas, scientific research, and the

resources of the deep sea-bed which are the common heritage of mankind, should be reserved for peaceful purposes represent a concept that can be developed to strengthen international security for all states, and which will particularly benefit the weaker and smaller ones.

Economic advantages of the Law of the Sea Convention for small states

6.20 The specific provisions of the Convention which may be expected to contribute directly to the economic and ecological security of small states are: the establishment of EEZs; the recognition of special rights for land-locked and geographically disadvantaged countries, many of which are small; the concept of the “archipelagic state”, which will strengthen the cohesion of multi-island small states; and the recommended measures for regional co-operation in the management of living resources, scientific research, the protection of the marine environment, technology transfer and training.

6.21 In addition the Convention creates a new type of operational international institution, the International Sea-Bed Authority, with responsibilities, *inter alia*, for the stabilisation of export earnings from mineral mining through production limitation, compensatory funding, and commodity agreements. It also imposes new responsibilities on ocean-related international institutions which require a strengthening of their activities and an increase of their resources. Small states have therefore much to gain from co-operation with these institutions.

6.22 The establishment of EEZs, as defined under Part V of the Law of the Sea Convention in particular presents a major opportunity for many small states. The benefits accruing from these zones could counter some of their inherent economic disadvantages. Indeed, for most of the small islands at least the acquisition of an EEZ could transform their entire development perspective. What previously was a small, poorly endowed and already overexploited terrain, could become a platform controlling a vast aquatory rich in underexploited, often even unexplored resources.

6.23 This expansion of perspective will not, of course, of itself produce instant prosperity. Wealth is the product of a combination of resources, technology, capital and manpower. If the last three elements are missing, plenitude of resources may contribute to vulnerability rather than to security, by inviting territorial incursions or occupation. But the new potential is there: in the provision not only of a rich resource base, but also of the legal right to keep out foreign exploiters and to establish a management framework. These features of the EEZ create strong incentives for the development or acquisition of appropriate technology, manpower, and capital.

6.24 No matter how small the state there would appear to be three major priorities for action at the national level: drafting of national legislation covering all uses of ocean space, to be harmonised with the Convention on the Law of the Sea as well as with its Regional Seas Programmes, Protocols and Action Plans; establishment of an appropriate administrative structure; and integration of the marine sector of the economy into the overall development strategy, with special emphasis on reducing dependence on food and energy imports and special consideration for the fragile ecology of small island states.

6.25 Regional co-operation is especially important for the management of living resources, the protection and preservation of the marine environment, marine scientific research and the development and transfer of marine technology. It is in the best interest of island states and other small states with substantial marine interests to set up regional centres to support these activities and to assist in relating them with the Regional Seas Programme advocated by the Law of the Sea Convention.

6.26 Regional centres could, for instance, develop integrated aquaculture projects and alternative energy resources which might materially reduce the import needs of the constituent states. Regional fishing enterprises are also probably the only efficient way of meeting the challenge of the distant-water fishing fleets of the industrialised countries, which at the present time are still the principal beneficiaries of the vast resources of the EEZs belonging to the small Pacific island states for example. What these states can currently collect in licence fees amounts to at most only 3-4 per cent of the value of the fish caught. A well organised regional fishing enterprise could certainly secure a higher return.

6.27 The Commonwealth Secretariat has already initiated programmes to assist maritime development and its activities in this sphere, so relevant to the economic needs of small states, should be augmented wherever possible. The major institutions within the United Nations system dealing with ocean space and resources—Food and Agriculture Organisation (FAO); Intergovernmental Oceanographic Commission/United Nations Educational, Scientific and Cultural Organisation (IOC/UNESCO); International Maritime Organisation (IMO) and the United Nations Environment Programme (UNEP)—possess an even greater technical scope and competence. It would therefore be in the interests of small states if these institutions were to expand their programmes relating to marine development.