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"Structurally weak, vulnerable and small economies": Who are they? What can UNCTAD do for them?

Background note

Context and summary

This background note was prepared by the Division for Africa, Least Developed Countries and Special Programmes as a preliminary approach to the issues faced by "structurally weak, vulnerable and small economies", in accordance with paragraph 33 of the São Paulo Consensus, in which member States decided that "UNCTAD should enhance its work on the special problems of LDCs, small island developing States, and of landlocked developing countries and the related problems and challenges faced by transit developing countries as well as structurally weak, vulnerable, and small economies".

The underlying exercise does not constitute a step toward promoting a new special category of member States. The secretariat only aims at delineating a group of countries that was never singled out in the past, and to which UNCTAD members, in 2004, decided to pay increased attention. Maximum use is made, in the methodological approach to the subject and in the policy-related discussion, of earlier relevant United Nations work, including work UNCTAD was closely associated with. Of particular relevance to the exercise is UNCTAD's experience in measuring economic vulnerability and dealing with the structural problems of least developed countries (LDCs), land-locked developing countries (LLDCs), and small island developing States (SIDS).

As a result of the conceptual, methodological and statistical choices made in this exercise, 92 countries are deemed to meet the characteristics of "structurally weak, vulnerable and small economies" (SWVSEs). Nearly four fifths of these States (72) already pertain to one or two of the three United Nations-recognized special categories of developing countries (LDCs, LLDCs, SIDS), while 20 stand out as freshly recognized SWVSEs, or disadvantaged countries that never enjoyed special international attention by way of United Nations categorization.

UNCTAD's approach to the multi-faceted issue of structural weakness and vulnerability rests on the goal of resilience-building. Alleviating the economic vulnerability of SWVSEs implies reducing their exposure to external (economic and natural) shocks. This can be achieved only through an enhanced economic base in which more resilient --less exposed-- activities will play a greater role. Resilience-building therefore requires sustained investment efforts to diversify productive capacities, notably in the sphere of trade in services and in activities with a greater "knowledge content". International cooperation will play a key role in facilitating such efforts. UNCTAD, in this context, will focus its action on : (i) continuing to support SWVSEs that are within the recognized United Nations categories (LDCs, LLDCs, SIDS); and (ii) extending assistance to other SWVSEs along the precepts of the "resilience-building" paradigm.

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1. Introduction

Members of UNCTAD, at the eleventh session of the Conference (UNCTAD XI) in June 2004, decided that "UNCTAD should enhance its work on the special problems of LDCs, small island developing States, and of landlocked developing countries and the related problems and challenges faced by transit developing countries as well as structurally weak, vulnerable, and small economies" (paragraph 33 of the São Paulo Consensus/SPC). This background note constitutes a preliminary approach by the secretariat to the implicit group of countries referred to in the last part of paragraph 33, namely, "structurally weak, vulnerable, and small economies" (SWVSEs). The following three remarks seem necessary at the outset.

Firstly, whether the implicit group of SWVSEs is a sphere of economies that are *either* structurally weak *or* vulnerable *or* small, or an intersecting range of countries that are structurally weak *and* vulnerable *and* small economies is not abundantly clear from a semantic viewpoint. However, the latter interpretation (implying countries with the three characteristics simultaneously) will be preferred, as it draws attention to a smaller group of countries, thereby making the relevant advocacy more realistic.

Secondly, the language of the SPC implies that SWVSEs are faced with "problems and challenges" that "relate" to the disadvantages UNCTAD has already observed among the United Nations-recognized categories, namely, the least developed countries (LDCs), land-locked developing countries (LLDCs), and small island developing States (SIDS). While the existence of "related" problems and challenges can easily be understood for "transit developing countries" in their cooperative relationship with land-locked developing countries, the interface is less straightforward when it comes to SWVSEs in relation to United Nations-recognized categories, considering the mere overlap between SWVSEs on the one hand, and LDCs or LLDCs or SIDS on the other. What seems to be implied here is that there are SWVSEs outside the recognized categories that also face some of the disadvantages justifying international attention to the problems of LDCs, LLDCs and SIDS.

Thirdly, as UNCTAD is mandated to "enhance its work" on the "related problems and challenges faced by…" SWVSEs, the secretariat appears to be expected to intensify or improve its efforts in a stream of ongoing work, not to engage in a new sphere of work. As many LDCs, LLDCs and SIDS may objectively be regarded as structurally weak and/or vulnerable and/or small economies, paragraph 33 urges UNCTAD to pay more attention than before, in its work on LDCs, LLDCs and SIDS, to the implications of structural economic weakness, economic vulnerability, and economic smallness.

Throughout its history of support to LDCs, LLDCs and SIDS, UNCTAD has done considerable work on the implications of structural economic weakness, economic vulnerability to external shocks, and smallness as an economic constraint.

In fact, these three notions have been dealt with as intertwined more often than individual characteristics, as illustrated by the following historical reminders.

In the early 1990s, UNCTAD played a central role in the debate that brought the United Nations to re-conceptualize its long-standing support to “island developing countries” into a new thrust of advocacy in favour of “small island developing States” (SIDS). The close relationship between smallness and vulnerability to external shocks was a predominant feature of the programme of action that resulted from the 1994 Global Conference on the Sustainable Development of Small Island Developing States[1].

Shortly after the first SIDS conference, UNCTAD was instrumental in promoting a consensus toward adoption by the Committee for Development Planning, ECOSOC and the General Assembly of an economic vulnerability criterion --among other criteria-- for identifying LDCs. The (successor) Committee for Development Policy, in anticipation of the 2000 review of the list of LDCs, constructed a composite Economic Vulnerability Index (EVI)[2]. Smallness and structural weakness were captured by some of the individual components of the EVI from the inception, and this was reinforced in 2005 with the introduction of “remoteness” as an additional aspect of structural weakness.

UNCTAD, since 2002, has actively supported SIDS members of the World Trade Organization (WTO) in their efforts to draw attention, under the WTO's Work Programme on Small Economies (WPSE), on the particular problems of “small, vulnerable economies”[3]. Although no progress toward a definition of either smallness or vulnerability was achieved in the WTO, these two dimensions were jointly analyzed under the WPSE (partly in the light of UNCTAD's work) and looked at in conjunction with the related notion of structural economic weakness.

Overall, it is generally recognized that the three dimensions highlighted in the last segment of paragraph 33 of the SPC are closely intertwined. Indeed, the notion of SWVSE is somewhat tautological insofar as most of the countries that are highly exposed to external shocks are precisely small economies, often with remote territories. Many SIDS, in particular, are vulnerable to the threat of external shocks not only because they are geographically prone to natural disasters, but also because their smallness and remoteness hinder them from improving their economic specialization and lowering their exposure to shocks.

UNCTAD's preliminary approach, through this note, to the concept of SWVSE is guided by the following three objectives.

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[1] United Nations, Programme of Action for the Sustainable Development of Small Island Developing States, A/CONF. 167/9, Part I, Annex II (1994).

[2] cf. United Nations, *Vulnerability and Poverty in a Global Economy*, Report of the Committee for Development Policy on the first session (26-30 April 1999), para. 122.

[3] This notion was given prominence in the ministerial declaration of WTO members at their Doha Ministerial Conference on 20 November 2001: paragraph 35 on "Small economies", WT/MIN(01)/DEC/1. The Hong Kong Ministerial Declaration, in December 2005, echoed this language in its paragraph 41 on "Small economies".

(a) The note attempts to offer some conceptual and methodological elements for identifying SWVSEs. It does not constitute a step toward defining a new special category of UNCTAD member States. However, it aims at delineating a group of countries that was never singled out in the past, and to which UNCTAD decided to pay increased attention.

(b) There is an effort to cast light on a range of issues that can be regarded as reflecting the "related special problems and challenges" SWVSEs are faced with, and to discuss possible responses to these issues within and outside the scope of UNCTAD's work. This offers UNCTAD an opportunity to contribute to enriching the international debate on a better differentiated treatment of disadvantaged countries.

(c) Maximum use is made, in the methodological approach to the subject as well as in the policy-related discussion, of earlier relevant United Nations work, including work UNCTAD was closely associated with. Of particular relevance to the exercise is UNCTAD's history of work on issues of economic vulnerability and the related structural problems of LDCs, land-locked developing countries and small island developing States.

Section 2 focuses on the conceptual issues relevant to the identification of "structurally weak, vulnerable and small economies", and highlights, among these countries, those already pertaining to United Nations-recognized categories. Section 3 discusses advisable policy responses to the issues underscoring the notion of structural weakness and vulnerability, with particular reference to the objective of alleviating vulnerability by building economic resilience. Section 4 concludes the note by highlighting the convergence between the needs of SWVSEs and UNCTAD's culture of advocacy and technical cooperation.

2. SWVSEs: identification issues

By underlining the need to "enhance" the work on the "related special problems and challenges faced by" a number of developing countries without identifying the relevant problems and challenges or the countries at stake, UNCTAD members implied that these issues and countries were already known, or easily recognizable. Admittedly, "enhancing" the work of UNCTAD on a range of issues implies appropriate empirical knowledge of these issues, and at least for some of the relevant countries, a capacity to bring responses to the issues, notably through technical assistance. Casting light on the relevant problems would be difficult unless one knew more or less precisely which countries are affected by these issues. An effort to delineate the underlying range of countries is therefore necessary. This section offers some methodological elements to that end.

2.1 *Structural weakness, vulnerability, smallness: identifying countries through individual characteristics*

The SWVSE group of countries, though not to be defined as a new category, intrinsically leans on three implicit criteria: it involves small economies only, and only economies that are deemed vulnerable and structurally weak. The latter two characteristics --structural weakness and vulnerability-- are generally viewed as converging features: to a large extent, structural weakness explains vulnerability. This stands out in the literature on economic resilience, which commonly argues that a structurally stronger economy --an economy based on a more viable range of activities-- will be more resilient to the risk of external shocks. As observed earlier, many of the economies that are structurally weak and vulnerable are also economically small. This tends to make the notion of "structurally weak, vulnerable and small economy" partly redundant, if not tautological. This problem, however, will be disregarded in the present exercise, and the three explicit dimensions underlying the SWVSE denomination will be examined distinctly.

2.1.1 *Structural weakness*

A structurally weak economy can be recognized from various angles, and this multi-faceted nature influences the extent to which the degree of structural weakness can be measured. Broadly speaking, three conceptual approaches to structural weakness can be envisaged.

First, some take the view that any developing economy that fails to converge with what is commonly referred to as "emerging economies" is structurally weak. Essentially, all lower-income countries will tend to be described as structurally weak, although the nature or magnitude of structural weakness may vary considerably, among such countries, in explaining poverty. Other aspects of economic performance through which structural weakness can also be recognized include economic instability, in particular, income volatility. This approach, which is based on *economic performance* and does not necessarily pay attention to the determining factors of structural weakness, is not predominant in the United Nations culture of country classification.

A **second** approach to structural weakness rests on the idea that, what makes an economy structurally weak is its exposure to the risk of destabilization through external shocks beyond domestic control. This approach nearly equates structural weakness with vulnerability: the economy is vulnerable --or little resilient-- to adverse external influences because its weak productive structure or specialization exposes it to these influences. High exposure to shocks as a result of economic concentration in fragile sectors points to the need for diversification into less exposed activities. This structural angle has been at the heart of the United Nations' approach to economic vulnerability since the late 1990s. The Committee for Development Policy (CDP), in conceptualizing the Economic Vulnerability Index (EVI) in 1999, postulated that economic vulnerability could be recognized through evidence of fragility. There is fragility when the economic specialization of a country exposes it seriously to the risk of frequent and/or dramatic external shocks beyond domestic control (natural disasters as well as trade-related shocks). The central notion of *economic exposure* here implied, which connotes structural weakness in sectoral terms, is methodologically embodied by the structural indicators entering the formulation of the EVI[4].

[4] The "structural" indicators entering the formulation of the EVI are the share of agriculture, forestry and fisheries in GDP (the greater this share, and therefore, the smaller the share of manufacturing and services, the higher the degree of economic vulnerability); and UNCTAD's merchandise export concentration index (the higher the degree of concentration, the greater the risk that the export structure will be concentrated in products that are exposed to external shocks, and therefore, the higher the degree of economic vulnerability).

In what can be described as a **third** approach to structural weakness, the United Nations pays attention to the "upstream" components of such weakness. The fragility revealed by poor economic results and/or excessive exposure to external shocks is the consequence of a range of *structural disadvantages* that are either of a geographical nature, or resulting from a mix of natural and policy-related factors. The main geographical handicaps that often explain the acute exposure of an economy are its smallness and/or remoteness, which are intrinsic (and often concomitant) disadvantages against which little can be done. Other handicaps can be partly remedied over time: these include the economic handicaps generally resulting from infrastructural and technological gaps, as well as weaknesses in human assets, notably shortages of skilled human resources.

The second and third approaches described above point to the convergence between structural economic weakness, economic vulnerability and economic smallness, thereby fuelling the impression of conceptual redundancy.

Though little can be done to remedy the permanent handicaps of smallness and remoteness, efforts can be pursued, through appropriate policies, to reduce structural weakness by enhancing development factors (infrastructure, human resources, etc.) and improving economic specialization (lesser exposure to external shocks). Therefore, there are broadly speaking two types of structural weaknesses: irremediable weaknesses on the one hand, essentially caused by geographical factors, and on the other hand, remediable weaknesses which resilience-building policy may be able to answer.

Remedying structural weaknesses will be best achieved through enhanced specialization. In countries that are constantly exposed to risks of external shocks, structural weakness will be considered to have been reduced if the specialization of the economy has evolved in a way that implies lesser exposure to the shocks the country used to be faced with. Economic diversification will translate into structural strengthening only if it involves new economic activities that are less exposed to external shocks. A typical concern, in this connection, will be whether diversification into a manufacturing industry that has been enjoying preferential market access amounts to genuine strengthening although the relevant preferences are gradually eroded. Another legitimate question is whether diversification into international tourism will mean structural improvement if the hospitality industry remains exposed to the risk of violent natural disasters[5].

[5] In the economic history of Mauritius, for example, diversification from the sugar monoculture materialized with the rapid development of the textile industry, continued with a significant acceleration of the tourism industry, and culminated more recently with the emergence of a successful offshore financial sector. This pattern of diversification has been described as a unique success story, and a rare case of structural strengthening among small island developing States. Yet, none of the areas of Mauritius' cumulative specialization can be considered exempt from risks of external shocks: the sugar and garment sectors are already severely affected by the growing forces of trade liberalization; the tourism industry, presently the strongest pillar of the economy, is prone to the potentially dramatic risk of inclement weather; finally, the offshore sector, though sheltered from physical damage and soundly managed, remains exposed, like all tax havens, to the risk of perpetration of unlawful international transactions.

2.1.2 *Vulnerability*

As underlined above, the concomitance of structural weakness and economic vulnerability is conceptually logical and already embodied in the United Nations' methodological and statistical approach to economic vulnerability, which was adopted in 1999 and fine-tuned in 2005[6]. The current formulation of the EVI summarizes this approach. The composite index incorporates (in parentheses, the weight of each indicator within the EVI):

Three indicators of external shocks:

A-1: Index of instability of agricultural production *(12.5%)*
A-2: Ratio of homelessness caused by natural disasters *(12.5%)*
A-3: Index of instability of exports of goods and services *(25%)*;

Four indicators of exposure to shocks:

B-1: Share of agriculture, forestry and fisheries *(6.25%)*
B-2: Index of merchandise export concentration *(6.25%)*
B-3: Population in logarithm (indicator of smallness) *(25%)*
B-4: Index of remoteness *(12.5%)*[7].

The three explicit dimensions of the SWVSE concept are obviously present among the seven components of the EVI:

(a) The three shock indicators (A-1, A-2, A-3) relate to susceptibility to adverse external factors, or economic *vulnerability*;

(b) The two “structural” indicators of exposure (B-1, B-2) and the index of remoteness (B-4) can be regarded as fair quantitative approaches to *structural weakness* insofar as the latter implies exposure to adverse impacts and a permanent competitive disadvantage;

(c) The indicator of smallness (B-3) directly echoes the concern about *smallness* as one of the characteristics that, if combined with the other two dimensions, can be regarded as sources of economic difficulties.

Given the consubstantiality of structural weakness and vulnerability in economic terms (the former being an important dimension of the latter), a single indicator can be used to capture the dual, somewhat tautological notion of "structural weakness and vulnerability". The United Nations Secretariat calculated, as a subset of

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[6] The UN's approach to economic vulnerability focuses on external shocks beyond domestic control and with a measurable impact on the economy. This includes natural disasters (cyclones, drought, etc.) but not long-term environmental shocks such as those resulting from the global warming phenomenon (sea-level rise, coastal erosion, …). Also excluded are the possible disturbances associated with poor governance ("political shocks"), as these will be regarded as internally generated difficulties, not external shocks.

[7] An alternative to this classification could have identified B-1 and B-2 only as exposure indicators, and B-3 and B-4 as handicap indicators, since smallness and remoteness are more easily understood as permanent handicaps explaining a disadvantageous economic exposure than criteria of the exposure itself.

the EVI, an index of exposure to shocks that aggregates the four individual indicators referred to above as B-1 to B-4[8]. This index, like the EVI, runs through a range of 132 countries.

The CDP, in its use of composite indices for periodically reviewing the list of LDCs, has customarily applied the *quartile's rule* to determine relevant thresholds: the 75% countries scoring most unfavourably under a given index would be accounted for as countries that meet the relevant criterion --for example, as economically vulnerable countries under the EVI-- while the remaining quartile (25% of all countries covered by the same given index) would be left out as not meeting the criterion. In order to delineate the range of developing economies that will be deemed "structurally weak and vulnerable", the quartile's rule is applied here to the exposure index, which runs from the "least exposed" country (China, scoring 18.49) to the "most exposed" country (Tuvalu, scoring 84.44). Elimination of the quartile of "least exposed" countries under the rule brings out a range of 99 "structurally weak and vulnerable" economies, from the Dominican Republic (40.43) to Tuvalu (84.44).

The following adjustments are brought to this range of 99 countries: (a) one of them, Malta, is taken out as it is no longer regarded as a developing economy, although it is among the 132 States through which the United Nations runs the EVI and the exposure index; (b) four Pacific island countries for which exposure data are not available (Marshall Islands, Federated States of Micronesia, Nauru, Palau) are recognized as suffering from handicaps that are similar to those observed in other structurally weak and vulnerable economies of the Pacific; these four States can safely be regarded as also situated within the threshold of structural weakness and vulnerability in the absence of relevant data.

This brings to 102 the estimated number of "structurally weak and vulnerable" developing economies.

2.1.3 *Smallness*

The international debate on the implications of economic smallness has been pursued in all major multilateral circles.

In the United Nations, the notion of economic size has been focused upon principally in relation to small island developing States (SIDS), with two global conferences, a wealth of literature, numerous reports by the United Nations

[8] The Committee for Development Policy uses the EVI, not the exposure index, to periodically review the list of least developed countries. However, the exposure index was graphically represented by the Committee, in its 2005 report, to illustrate the structure of the "modified" EVI (see: United Nations, *Development challenges in sub-Saharan Africa and post-conflict countries,* Report of the Committee for Development Policy on the seventh session: 14-18 March 2005, p. 29). The modifications that were brought in that year involved: (a) the addition of a remoteness indicator and a homelessness indicator to the individual components of the EVI; (b) an amendment to the indicator of sectoral structure (substituting the share of agriculture, forestry and fisheries for the share of manufacturing and modern services in GDP); and (c) the introduction of an overall weighting structure spelling out the weight of each individual indicator in the composite EVI. Though not specifically used by the CDP, the exposure index was calculated by DESA (secretariat to the CDP) and is frequently used by UNCTAD for analytical purposes. UNCTAD was closely associated with the conceptual, methodological and statistical work that underpinned the 2005 reform of the EVI.

Secretariat and UNCTAD, and several General Assembly resolutions. Moreover, economic size has been, since the 2000 review of the list of LDCs, considered by the Committee for Development Policy and ECOSOC as an important facet of the United Nations' approach to economic vulnerability. This has justified the insertion of a population indicator among the components of the Economic Vulnerability Index.

In the World Bank, some attention has been paid to “small States” –notably in the context of the yearly “Small States Forum”— in an effort to follow up on the work that had been carried out by an international task force, in the late 1990s, at the initiative of the Commonwealth Secretariat and the World Bank[9].

In the World Trade Organization, the particular problems of “small and vulnerable economies” have been discussed by member States, since 2002, under a “Work Programme on Small Economies”. This programme has been faced with the challenging dilemma of having to answer the need for special consideration of small and vulnerable countries as an implicit special group of members without being allowed to consider any categorization, or arrive at any formal definition, of small and vulnerable economies.

Arguably, the most contentious aspect of the debate on smallness has been the question of the extent to which small size can be regarded as a handicap. The stability and relative prosperity of several small economies in the sphere of international services (notably tourism) has revealed the merits of smallness as often synonymous with environmental beauty and attractiveness. As the importance of manufacturing activities tends to diminish in many small economies, the concern about smallness as a barrier to economies of scale and competitiveness has been scaled down. In February 1999, a landmark paper (somewhat provocatively) titled “Small States, Small Problems?” was presented to an inter-regional meeting on small economies in St. Lucia, under the auspices of the Commonwealth Secretariat and the World Bank[10]. It generated acute concerns within the SIDS community. SIDS leaders, several of whom were present at the meeting, took the view that the argument underlying the paper underestimated the structural difficulties SIDS were facing, and weakened their plea for a special treatment of small economies.

UNCTAD never focused its analytical work on the notion of smallness, although it was supportive of the CDP's decision, in 1999, to introduce a size element among the components of the EVI. UNCTAD, nevertheless, has consistently argued that the credibility of United Nations advocacy in favour of SIDS would be considerably enhanced if a set of official criteria was adopted by the United Nations to identify small island developing States, notably with reference to the question of smallness.

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[9] "Small States: meeting challenges in the global economy", Report of the Commonwealth Secretariat/ World Bank Joint Task Force on Small States, April 2000, 126 p. UNCTAD was a member of the Advisory Board of this task force.

[10] The paper was subsequently published by the World Bank with the following summary in epigraph: "Small states, no different from large states in income and growth, should receive the same policy advice large states do. Because of their greater openness, they may be more vulnerable to volatility in terms-of-trade shocks, but their openness pays off in growth": Easterly (William) and Kraay (Aart), "Small States, Small Problems?", Policy Research Working Paper No. 2139, The World Bank, June 1999, 36 p.

There are generally three ways of capturing economic size: through the gross domestic product, or the population, or the share of world trade[11].

The gross domestic product (GDP) naturally encapsulates the economy in its entirety (tradeable and non-tradeable goods and services) and for this reason, tends to be regarded as an orthodox indicator of economic size. Comparatively, the share of world trade, which tends to be favoured by WTO members in the context of their ongoing debate on small and vulnerable economies, presents the disadvantage of leaving aside the “non-tradeable” economy, while significant segments of that economy often have “tradeable” potential. Capturing economic size through the population is conceptually reasonable insofar as it considers the people not only as consumers but also as producers. Favouring the population angle also involves an interesting vision of development, namely, the perspective of knowledge and innovation as engines of the capacity of a country to converge with more advanced economies.

In the present exercise, GDP is considered the most suitable indicator of economic size, and a fair response to what the São Paulo Consensus contemplates as economically “small” without endeavouring to define this notion. In keeping with the quartile's rule used under the "structural weakness and vulnerability" criterion, the selected threshold of small economic size is situated between the highest and second highest quartiles within the GDP series for the 132 countries for which the EVI was calculated. This determines the relevant cut-off line as a gross domestic product of $32 billion in 2005 (GDP data from UNCTAD's 2006 Handbook of Statistics). This chosen threshold brings out a list of 99 economically small countries.

The following adjustments are brought to this range of 99 countries: (i) two of them, Cyprus and Malta, are taken out as they are no longer regarded as developing economies, although they both appear among the 132 States through which the United Nations runs the EVI; (ii) four obviously small economies are added here, as they were under the previous criterion: Marshall Islands, Federated States of Micronesia, Nauru and Palau.

The delineated range of "small economies" therefore amounts to a list of 101 countries.

2.2 *Three in one: SWVSEs as an intersecting group*

Intersecting the above-described two groups of countries ("structurally weak and vulnerable economies" on the one hand, "small economies" on the other) brings about an aggregation of 92 developing countries that meet the three characteristics inherent in the SWVSE concept as spelt out in the São Paulo Consensus (structural weakness, vulnerability, smallness). Nearly four fifths of these countries (72) already

[11] It should be noted that land size is rarely favoured as a meaningful criterion of economic size. Two opposite but equally convincing examples of countries that illustrate the limitations of land size as a criterion are Singapore (a minuscule State with a gross domestic product greater than, for example, that of New Zealand) and Mongolia, a country nearly three times the size of France, but with a GDP smaller than that of Lesotho. The capacity of many developing countries to expand or further expand economically is unlikely to be correlated with their land mass.

pertain to one or two of the three United Nations-recognized special categories of countries:

21 are *land-locked developing countries*:

15 LDCs:	Afghanistan	Malawi
	Bhutan	Mali
	Burkina Faso	Nepal
	Burundi	Niger
	Central African Republic	Rwanda
	Chad	Uganda
	Lao People's Dem. Rep.	Zambia
	Lesotho	
6 non-LDCs:	Bolivia	Paraguay
	Botswana	Swaziland
	Mongolia	Zimbabwe

29 are *small island developing States*:

10 LDCs:	Cape Verde	Sao Tome and Principe
	Comoros	Solomon Islands
	Kiribati	Timor-Leste
	Maldives	Tuvalu
	Samoa	Vanuatu
19 non-LDCs[12]:	Antigua and Barbuda	Nauru
	Bahamas	Palau
	Barbados	Papua New Guinea
	Dominica	St. Kitts and Nevis
	Fiji	St. Lucia
	Grenada	St. Vincent and the Gren.
	Jamaica	Seychelles
	Marshall Islands	Tonga
	Mauritius	Trinidad and Tobago
	Micronesia (Fed. St. of)	

22 are *least developed countries* that are neither land-locked nor small island States[13]:

Angola*	Liberia
Benin*	Madagascar
Cambodia*	Mauritania*
Congo (Dem. Rep. of the)*	Mozambique*
Djibouti*	Myanmar*
Equatorial Guinea	Sierra Leone
Eritrea*	Somalia
Gambia	Sudan*

[12] 15 for which data exist under the exposure index, and four for which such data do not exist.
[13] It may be noted that 13 countries (those with an asterisk) among these 22 least developed SWVSEs are also transit developing countries.

Guinea*	Tanzania (Un. Rep. of)*
Guinea-Bissau	Togo*
Haiti	Yemen

Accordingly, over a fifth of all SWVSEs (20 out of 92 States) stand out as "freshly recognized SWVSEs", or developing countries that never previously enjoyed United Nations attention by way of special categorization. These countries are[14]:

Bahrain	Ghana*
Belize	Guatemala
Brunei Darussalam	Guyana
Cameroon*	Honduras
Congo*	Namibia*
Costa Rica	Nicaragua
Côte d'Ivoire*	Oman
Dominican Republic	Panama
El Salvador	Suriname
Gabon	Uruguay

2.3 *SWVSEs within United Nations-recognized categories*

As noted earlier, a large majority (nearly four fifths) of the identified SWVSEs pertain to one or two of the three United Nations-recognized special categories of countries. The "overlaps" this global configuration involves are depicted in the colour chart annexed to this background note. Following is a concise focus on the States that are deemed to have "structurally weak, vulnerable and small economies" while falling either in the category of least developed countries (LDCs) and/or in the group of land-locked developing countries or that of small island developing States.

2.3.1 *Least developed SWVSEs*

Only three of the 50 countries currently making up the least developed countries category are not among "structurally weak, vulnerable and small economies" as identified above: Bangladesh, Ethiopia and Senegal.

Bangladesh meets none of the two criteria to be regarded as a SWVSE. With a GDP estimated at $64 billion in 2005 (twice the $32 billion threshold), it cannot, by any definition, be regarded as economically small. Meanwhile, its score under the exposure index stands 25% below the threshold above which countries are considered "structurally weak and vulnerable" (40.3).

With a GDP accounting for only 29% of the threshold of smallness ($9.3 billion in 2005, as opposed to $32 billion), *Ethiopia* can be regarded as economically small. However, it falls below the threshold of "structural weakness and vulnerability" (albeit by a narrow margin: 3%) and therefore does not meet the two criteria that are jointly required, in the above-described methodology, for SWVSE recognition.

[14] Five of these 19 countries (Cameroon, Congo, Côte d'Ivoire, Ghana, Namibia) are also transit developing countries.

Senegal's situation is similar to that of Ethiopia in the light of the criteria. Its GDP accounts for only 26% of the threshold of smallness ($8.3 billion in 2005), which makes the country economically small. However, Senegal stands marginally below the threshold of structural weakness and vulnerability (by 2%) and therefore does not meet the adopted set of criteria to be recognized as a SWVSE.

As expected, the scores of these three countries under the United Nations' Economic Vulnerability Index (EVI) are not the poorest among LDCs: Bangladesh, in the 2006 review of the list of LDCs, stood well above the graduation threshold relevant to this criterion (147.5% of the threshold), while Ethiopia and Senegal came close to that threshold (96.6% and 90.9%, respectively).

As indicated in Table 1, the 47 LDCs that can be regarded as "structurally weak, vulnerable and small economies" are 53% more exposed to external shocks --according to the exposure index-- than non-SWVSEs, and their export earnings have been 80% more unstable than those of non-SWVSEs. Of notable interest is the fact that among SWVSEs, LDCs (group No. 1) are not more exposed than non-LDCs (group No. 10). In particular, as will be seen later, non-LDC island SWVSEs are more disadvantaged (by 7%) than least developed SWVSEs. This means that a geographical handicap such as "islandness" is a more significant factor of exposure to external shocks than poverty or other structural disadvantages as captured through LDC status.

Of the 47 least developed SWVSEs, 44 are regarded by the United Nations as economically highly vulnerable insofar as their score under the EVI is under the threshold of graduation from LDC status[15]. The three LDCs that meet the graduation threshold relevant to the EVI in the light of the 2006 review of the list of LDCs (and accordingly can be regarded as less vulnerable to external shocks) are Tanzania (111% of the threshold), Guinea (110%), and Nepal (101.5%). The 44 highly vulnerable, least developed SWVSEs are distributed as follows (in increasing order of economic vulnerability):

13 least developed SWVSES with an EVI score between 80% and 100% of the graduation threshold:

Mauritania	(93.5%)	Mozambique	(87.1%)
Madagascar	(91.3%)	Togo	(82.9%)
Yemen	(90.5%)	Zambia	(82.1%)
Myanmar	(90.1%)	Bhutan	(81.7%)
Congo	(89.4%)	Burkina Faso	(81.4%)
Mali	(89.4%)	Uganda	(80.2%)
Angola	(87.5%)		

19 least developed SWVSES with an EVI score between 60% and 80% of the graduation threshold:

[15] By virtue of the graduation rule established by the United Nations' Committee for Development Policy and used triennially for reviewing the list of least developed countries, an LDC must exceed graduation thresholds under at least two of the three LDC identification criteria (low income; weakness in the development of human capital; economic vulnerability) to be regarded as qualifying for graduation (see Annex 1).

Malawi	(77.9%)	Solomon Islands	(66.9%)
Niger	(76.0%)	Cape Verde	(65.8%)
Sudan	(76.0%)	Lao People's Dem. Rep.	(65.8%)
Lesotho	(75.3%)	Sao Tome and Principe	(65.4%)
Maldives	(75.3%)	Rwanda	(64.3%)
Central Afr. Rep.	(74.9%)	Burundi	(63.5%)
Benin	(73.0%)	Afghanistan	(63.1%)
Cambodia	(72.6%)	Djibouti	(63.1%)
Gambia	(68.4%)	Chad	(60.5%)
Haiti	(66.9%)		

12 least developed SWVSES with an EVI score between 40% and 60% of the graduation threshold:

Comoros	(59.7%)	Guinea-Bissau	(57.4%)
Sierra Leone	(59.7%)	Liberia	(55.9%)
Eritrea	(59.3%)	Somalia	(55.5%)
Vanuatu	(59.3%)	Equatorial Guinea	(53.6%)
Samoa	(58.9%)	Kiribati	(45.2%)
Timor-Leste	(58.2%)	Tuvalu	(41.4%)

Of the 47 least developed SWVSEs, 15 are land-locked countries, 10 are small island States, and 22 are coastal, continental economies. Only the latter sub-group, referred to as "other least developed SWVSEs" (group No. 4) in Table 1, is considered here. The 22 coastal and continental, least developed SWVSES are 42% more exposed to external shocks than non-SWVSEs, and their exports of goods and services are 69% more unstable than those of non-SWVSEs. Among these 22 LDCs, five countries stand out as highly disadvantaged in the light of both the exposure index and the export instability index: Equatorial Guinea, Guinea-Bissau, Liberia, Sierra Leone, Somalia.

All LDCs are economically vulnerable, by virtue of the established criteria. A conceptually related question is whether LDC status as a source of special support is a fair basis for remedying economic vulnerability and the specific disadvantage of structural weakness in the context of economic smallness. Answering this question implies a look at the benefits associated with LDC status.

Trade preferences

Preferential market access is often regarded as the most significant area of concessions to LDCs. Significant efforts have been made by major trading partners, since the beginning of the 2000 decade, toward improved preferential access to important markets for LDC products[16]. Since they were accepted as an exception to the most favoured nation's (MFN) principle in the multilateral trading system,

[16] An overview of relevant initiatives can be found in: UNCTAD, "Main recent initiatives in favour of Least Developed Countries in the area of preferential market access: preliminary impact assessment", Note by the secretariat, TD/B/50/5, 7 August 2003, 17 p. The related issue of preference erosion in the context of MFN tariff decreases was subsequently analyzed in: UNCTAD, "Erosion of preferences for the least developed countries: assessment of effects and mitigating options", Note by the secretariat, TD/B/52/4, 4 August 2005, 21 p.

preferential margins (in most cases, the difference between zero tariff and MFN or other preferential tariff levels) have served as a compensatory mechanism. They provide LDC exporters with a competitive advantage on relevant export markets with a view to alleviating, through a lower cost for the importer, the competitive disadvantage the exporters face for structural economic reasons.

The competitive disadvantages of LDC exporters on international markets vary according to the exporting country and nature of exported products. There are, however, common characteristics of such disadvantages across a range of products. LDC exporters are notably disadvantaged by the main consequence of economic smallness, namely, the inability to enjoy economies of scale in the production process and/or at the transport stage. For example, in the area of textiles, a small LDC exporter facing Asian competition on a large export market will find it difficult to achieve or maintain profitability, even if relevant production costs in the LDC (notably labour costs) are not higher than the costs faced by the larger competitors. The latter may gain productivity and translate profit into quality increases, thereby fuelling a virtuous circle of competitiveness.

LDC exporters generally operate in a relatively difficult economic environment, with limited access to appropriate technology, financing, insurance, local maintenance and repair services. These difficulties tend to be greater, the smaller the exporting country. As a result, these exporters will be disadvantaged at the production level in comparison with other countries. If besides the production cost disadvantage, the transport cost disadvantage is also significant (small quantities involving high unit costs of transport, notably if the country is land-locked), the preferential market access granted by virtue of LDC status will be of paramount importance to the LDC exporter. The inevitable erosion of preferences in market access is therefore a major challenge to exporters in structurally weak, vulnerable and small LDCs, whether these exporters try to maintain existing economic activities or strive to seize new trading opportunities.

Development financing

Preferential market access can hardly be regarded as having induced structural economic progress in least developed SWVSEs. Arguably, the impact of trade preferences has been compensatory more than structural[17]. To achieve structural strengthening (or answer structural weakness), multi-faceted investment is necessary and a density of economic linkages ought to be created. UNCTAD has stressed the importance of developing productive capacities as a priority avenue for durably reducing poverty in LDCs. This goal is equally relevant to the aim of building resilience to external shocks in the context of economic smallness in LDCs. Resilience-building generally implies widening the specialization of the economy through viable diversification, and therefore, a range of efforts to create an enabling environment for investors.

Aid, trade-related public investment and foreign direct investment (FDI) in productive sectors stand out as three vital factors of structural transformation in the

[17] This issue was discussed in: UNCTAD, "Least Developed Country status: effective benefits and the perspective of graduation", Note by the secretariat, TD/B/49/7, 1 August 2002, 17 p.

many least developed SWVSEs that demonstrate little prospect for diversification. More specifically, the importance of "aid for trade" and well targeted public investment as catalysts for FDI is increasingly recognized in the sphere of international cooperation[18]. "Aid for trade" is very relevant to the needs of many least developed SWVSEs: it allows capacity-building in highly disadvantaged or handicapped countries (particularly land-locked developing States), and it facilitates resilience-building in small and vulnerable continental or island economies that are most exposed to external shocks.

It is advisable that the objectives of structural strengthening and resilience-building in the context of economic smallness be given some prominence in the international debate on "aid for trade". This implies, not only international support measures to enhance the competitiveness of traditional export sectors, but also capitalizing on assets or comparative advantages that are conducive to other economic activities. In particular, environmental beauty and cultural wealth, two areas that offer economic prospects in several least developed SWVSEs, could be capitalized upon through relevant capacity-building activities. This points to the important role of technical assistance to SWVSEs in any framework of international support to LDCs.

Technical assistance

Technical assistance, the third pillar of LDC treatment, is not less important to least developed SWVSEs than aid and market access. Through advisory services as well as sensitization or training activities, technical assistance can contribute to capacity-building with a significant potential impact on the scope for economic diversification, therefore on structural strengthening and resilience-building. For example, a technical assistance programme to encourage the development of small or medium-sized enterprises in the area of international tourism can enhance the role of this sector in a least developed SWVSE and contribute to lessening its dependence on commodity exports while alleviating its economic vulnerability to relevant shocks.

UNCTAD's implementation of the recently enhanced Integrated framework of trade-related technical assistance to LDCs could involve special action in support of those countries, among LDCs, that are economically smaller and structurally more exposed to external economic shocks.

2.3.2 *Land-locked SWVSEs*

Of the 21 land-locked SWVSEs (see colour chart in annex), 15 are LDCs, and six are non-LDCs (Bolivia, Botswana, Mongolia, Paraguay, Swaziland, Zimbabwe). As revealed by Table 1, exposure to shocks does not appear to be correlated with poverty among land-locked SWVSEs: non-LDC, land-locked SWVSEs are more "exposed" than least developed, land-locked SWVSEs (by 4%). More specifically, the latter sub-group experiences lesser average geographical remoteness than the former sub-group (by 13%). Though summary, these figures confirm that among land-locked

[18] This was heard, for example, during the international conference "Afrique-France-Europe: les sentiers de l'avenir" organized by the *Fondation pour l'Innovation Politique* and the *Institut Afrique Moderne*, in Ouagadougou (Burkina Faso), on 6-7 February 2007. UNCTAD, in the Least Developed Countries Report 2006 (pages 207 to 216), emphasized the benefits ODA and public investment in the physical infrastructure of interest to traders can induce in LDCs.

SWVSEs, land-lockedness is as much of a structural handicap for less poor countries as it is for the poorest countries. However, a quick look at the magnitude of external shocks reveals that least developed, land-locked SWVSEs are more severely affected, on average, than non-LDC, land-locked SWVSEs: by 8% in terms of agricultural production instability, and by 24% in terms of export earnings instability.

Land-locked developing countries (LLDCs), two thirds of which are structurally weak, vulnerable and small economies, enjoy significant special recognition in the framework of international cooperation. They do not receive special treatment by virtue of land-lockedness, but LDC treatment is granted to 16 LDCs among them, all of which (except Ethiopia) are regarded as SWVSEs. The international support LLDCs are provided with, within the New Global Framework for Transit Transport Cooperation for Land-locked and Transit Developing Countries, is particularly important for the 21 LLDCs that are SWVSEs. Most of these countries acutely need assistance in their efforts to meet the formidable competitive challenge they are faced with. UNCTAD's focus on trade facilitation and electronic commerce is of particular importance in this context.

2.3.3 *Small island SWVSEs*

Not surprisingly, all 29 small island developing States (SIDS) as unofficially identified by UNCTAD fall in the implicit category of SWVSEs. The 10 LDCs among the 29 SIDS are more exposed to external shocks, and more remote geographically, than the 19 non-LDC SIDS (by 13% and 6%, respectively). Particularly notable is the magnitude by which least developed SIDS have suffered more export instability than non-LDC SIDS over the past two decades: by 144%.

The most striking aspect of the international status of SIDS is the contrast between the substantial international attention that was given to these countries over the past three decades, and the near-total absence of international support measures by virtue of "small islandness" (except in the World Bank[19]).

In the World Trade Organization, the plea for a special treatment of small and vulnerable economies was discussed at length after the Doha ministerial conference (2001) had triggered the establishment of a work programme on small economies. As anticipated in the absence of any definition of the implicit category that had been singled out in Doha, no special treatment was decided upon on grounds of smallness and vulnerability, let alone for the specific benefit of SIDS, a United Nations denomination the WTO does not refer to.

In the United Nations, the long-standing call for special measures in favour of SIDS could have been answered in the context of the periodic review of the list of LDCs, as nearly all graduation cases turned out to be least developed SIDS. Upon losing LDC status, a (formerly least developed) SIDS will naturally remain a SIDS, as this denomination is based on permanent characteristics. Economic vulnerability is officially recognized as one of the criteria for identifying cases of addition to, or graduation from, the list of LDCs. However, this criterion has not yet been given the

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[19] Through its "small island exception", the Word Bank, for over 20 years, has been granting maximum concessionary (IDA) treatment to small island developing countries that had risen above the low-income threshold.

Table 1

Performance of various groups of "structurally weak, vulnerable and small economies" (SWVSEs) under the United Nations' main indices of exposure and external shocks

(Base 100 = non-SWVSE developing countries)

Group No.	Country groups	Exposure index	Agricultural production instability index	Homelessness index	Export instability index	Remoteness index
1	**Least developed SWVSEs**[20]	153.3	101.2	175.2	180.1	123.3
2	**Least developed, land-locked SWVSEs**[21]	149.0	104.9	138.0	152.5	142.7
3	**Least developed, island SWVSEs**[22]	185.6	121.3	368.2	245.9	126.8
4	**Other least devel. SWVSEs**[23]	141.6	89.3	105.4	168.9	108.4
5	**All land-locked SWVSEs**[24]	150.8	102.7	111.6	143.9	148.8
6	**Non-LDC, land -locked SWVSEs**[25]	155.2	97.3	46.5	122.5	164.0
7	**All island SWVSEs**[26]	172.9	113.9	215.5	158.8	122.3
8	**Non-LDC, island SWVSEs**[27]	164.4	108.9	113.2	100.8	119.3
9	**SWVSEs within UN-recognized categories**[28]	155.9	102.4	150.4	157.5	126.0
10	**Non-LDC SWVSEs**[29]	151.2	94.6	65.9	104.5	124.5
11	**SWVSEs outside UN-recognized categories**[30]	139.3	83.2	36.4	102.0	116.6
12	**Other developing countries**[31]	100	100	100	100	100

Source: All calculations by the UNCTAD secretariat, based on economic vulnerability data from the Committee for Development Policy (2006)

[20] All LDCs in 2007, except Bangladesh, Ethiopia and Senegal **(47 countries)**

[21] Afghanistan, Bhutan, Burkina Faso, Burundi, Central African Republic, Chad, Lao People's Democratic Republic, Lesotho, Malawi, Mali, Nepal, Niger, Rwanda, Uganda, Zambia **(15 countries)**

[22] Cape Verde, Comoros, Kiribati, Maldives, Samoa, Sao Tome and Principe, Solomon Islands, Timor-Leste, Tuvalu, Vanuatu **(10 countries)**

[23] Angola, Benin, Cambodia, Congo (Dem. Rep. of the), Djibouti, Equatorial Guinea, Eritrea, Gambia, Guinea, Guinea-Bissau, Haiti, Liberia, Madagascar, Mauritania, Mozambique, Myanmar, Sierra Leone, Somalia, Sudan, Tanzania (United Republic of), Togo, Yemen **(22 countries)**

[24] Countries mentioned in footnotes 21 and 25 **(21 countries)**

[25] Bolivia, Botswana, Mongolia, Paraguay, Swaziland, Zimbabwe **(6 countries)**

[26] Countries mentioned in footnotes 22 and 27 **(29 countries)**

[27] Antigua and Barbuda, Bahamas, Barbados, Dominica, Fiji, Grenada, Jamaica, Marshall Islands, Mauritius, Micronesia (Fed. States of), Nauru, Palau, Papua New Guinea, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Seychelles, Tonga, Trinidad and Tobago **(19 countries)**

NB: The Marshall Islands, the Federated States of Micronesia, Nauru and Palau, though falling in this group, are not included in the calculations because relevant data are missing.

[28] Countries mentioned in footnotes 20, 25 and 27 **(72 countries)**

[29] Countries mentioned in footnotes 25, 27 and 30 **(45 countries)**

[30] Bahrain, Belize, Brunei Darussalam, Cameroon, Congo, Costa Rica, Côte d'Ivoire, Dominican Republic, El Salvador, Gabon, Ghana, Guatemala, Guyana, Honduras, Namibia, Nicaragua, Oman, Panama, Suriname, Uruguay **(20 countries)**

[31] *Non-SWVSE developing countries*: Algeria, Argentina, Bangladesh, Brazil, Chile, China, Colombia, Cuba, Ecuador, Egypt, Ethiopia, India, Indonesia, Islamic Republic of Iran, Iraq, Israel, Jordan, Kenya, Korea (Democratic People's Republic of), Korea (Republic of), Lebanon, Libyan Arab Jamahiriya, Malaysia, Mexico, Morocco, Nigeria, Pakistan, Peru, Philippines, Qatar, Saudi Arabia, Senegal, Singapore, South Africa, Sri Lanka, Syrian Arab Republic, Thailand, Tunisia, Turkey, United Arab Emirates, Venezuela (Bolivarian Republic of), Viet Nam **(42 countries, including 3 LDCs)**

degree of prominence that has been consistently called for by several member States and UNCTAD. Three least developed SIDS (Cape Verde, Maldives, Samoa) have already been earmarked for graduation from LDC status although they are recognized by the United Nations as economically highly vulnerable. The issue of structural weakness and economic vulnerability has been central to the ongoing debate, within and outside the United Nations, on a possible reform of the graduation rule.

3. UNCTAD's ongoing and prospective work in favour of SWVSEs

As highlighted above, one of the paramount development goals of SWVSEs is to build economic resilience in order to reduce their exposure to the external disturbances they are vulnerable to. This goal implies the realization of two intermediate objectives directly related to the issues of structural weakness and economic vulnerability: (a) reducing structural disadvantages, with particular reference to the handicaps resulting from smallness and remoteness, which often have serious implications in terms of institutional capacity and economic efficiency; and (b) enhancing economic specialization, an important avenue along which the economic structure of a country can be improved over time, notably through diversification from a situation of economic concentration in vulnerable activities. These two intermediate objectives, as depicted in the flow chart below, point to a number of areas of action in which UNCTAD has the capacity to help SWVSEs build resilience.

This section offers an overview of the implied areas of UNCTAD action, summarizes the scope of UNCTAD's technical cooperation with SWVSEs along these lines, and envisages an informal agenda for further UNCTAD support to SWVSEs.

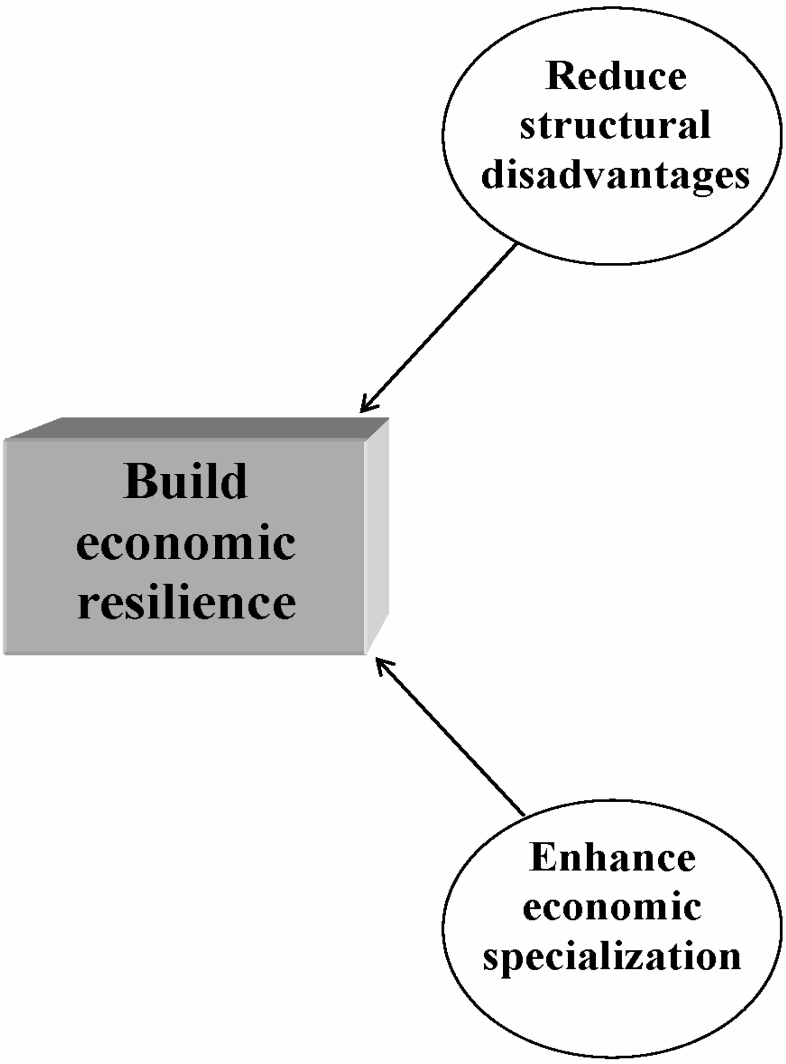
3.1 *Building economic resilience: a goal within UNCTAD's ambit*

Helping developing countries *reduce the structural disadvantages* they are faced with and enhance their economic specialization is an important dual facet of UNCTAD's mandate. This is notably true with regard to countries within special categories UNCTAD itself brought to the baptismal font (least developed countries; land-locked developing countries; island developing countries, which were subsequently reconsidered as "small island developing States"). Supporting SWVSEs along these lines is therefore naturally within UNCTAD's ambit.

The structural handicaps or disadvantages UNCTAD can help SWVSEs overcome are twofold: weaknesses in institutional capacities, and obstacles to economic efficiency. Though common to many developing countries, these disadvantages are generally more acute in countries that are economically small and geographically remote. UNCTAD responds to institutional weaknesses through multi-faceted action toward:

UNCTAD's response to the needs of "structurally weak, vulnerable and small economies" (SWVSEs)

Paramount development goal of SWVSEs	Tangible (intermediate) objectives of SWVSEs	Areas of relevant UNCTAD action



Reduce structural disadvantages:

- Development of investment policy-related capacities
- Support on technology transfers and intellectual property
- Removing supply capacity constraints
- Development of trade policy-related capacities
- Special support to LDCs on productive capacity issues
- Integrated framework of trade-related technical assistance to LDCs
- Customs modernization
- Trade facilitation
- Special support to land-locked developing countries on transit-related issues
- Special support to small island developing States on economic vulnerability issues
- Human resource development (Trainfortrade, Virtual Institute)
- Information and communication technology and e-business

Enhance economic specialization:

- Supporting farmers' supply
- Commodity-related information, knowledge management, and risk management
- Organic agriculture, environmental goods and services
- Sanitary and phytosanitary compliance
- BioTrade initiative
- Biofuels initiative
- Mineral resources
- Enhancing enterprise competitiveness and promoting entrepreneurship
- Trade in services (negotiating capacities)
- E-tourism initiative
- Support to creative industries
- Strengthening participation in dynamic and new sectors of world trade

(a) developing investment policy-related capacities;
(b) facilitating technology transfers and making intellectual property rights a development tool instead of an obstacle;
(c) developing trade policy-related capacities;
(d) supporting the least developed countries (LDCs) in enhancing productive capacities, notably through the Integrated framework of trade-related technical assistance to these countries;
(e) supporting small island developing States (SIDS) in managing economic vulnerability issues;
(f) generating human resource skills in the sphere of trade and development.

Consistent efforts are also pursued by UNCTAD to reduce obstacles to economic efficiency in developing countries, particularly through:

(a) customs modernization;
(b) trade facilitation, especially in the area of transit transport for the benefit of land-locked developing countries (LLDCs);
(c) promoting the use of appropriate information and communication technology, including toward e-business.

Enhancing economic specialization is an important and tangible objective in the framework of UNCTAD's technical cooperation with SWVSEs. The range of action cited above ("reducing structural disadvantages") is conducive to enhanced specialization inasmuch as UNCTAD's action can create a more competitive and enabling environment for producers and exporters. This action is geared toward an array of economic sectors through the following areas of research and technical cooperation.

Primary sector:

(a) supporting farmer's supply;
(b) facilitating commodity-related information, knowledge management, and risk management;
(c) supporting organic agriculture and promoting environmental goods and services;
(d) supporting compliance with sanitary and phyto-sanitary standards;
(e) Biotrade and biofuels initiatives.

Secondary sector:

(a) enhancing enterprise competitiveness and promoting entrepreneurship;
(b) strengthening the participation of developing countries in dynamic and new sectors of world trade.

Tertiary sector:

(a) developing negotiating capacities in the field of trade in services;
(b) supporting small and medium-sized enterprises in the tourism economy (E-tourism initiative);
(c) supporting the development of creative industries.

These areas of action have been successfully focused upon in several developing countries, and constitute a basis for further UNCTAD cooperation with SWVSEs. Following are some details about the extent to which such cooperation has already taken place.

3.2 *UNCTAD's technical cooperation with SWVSEs*

UNCTAD, over the 2003-2006 period, implemented a wide range of technical cooperation activities for the benefit of at least 68 developing countries through country-specific projects[32]. Over two thirds (47) of these beneficiaries were countries that can be regarded as "structurally weak, vulnerable and small economies" (SWVSEs), and over half (52%) of the relevant total expenditure among developing countries benefited these 47 SWVSEs, which themselves account for half (51%) of the entire range of SWVSEs as highlighted in the annex to this note. A majority of these SWVSE beneficiaries (27) were LDCs (half of which were either land-locked or small island States)[33], while four recipient SWVSEs were non-LDC land-locked developing countries[34], and six were non-LDC small island developing States[35]. Of the 20 SWVSEs that are not within the United Nations-recognized special categories, 10 countries benefited from UNCTAD's technical cooperation between 2003 and 2006: Cameroon, Congo, Costa Rica, Côte d'Ivoire, the Dominican Republic, Gabon, Ghana, Honduras, Namibia, and Nicaragua.

In addition to the country-specific projects underlying the above statistics, some 31 regional projects and over 110 inter-regional projects were implemented during the same 2003-2006 period. It is estimated that at least half of this overall range of plurilateral projects have directly or indirectly benefited SWVSEs. However, the significance of such benefits is generally debatable when technical assistance implemented at regional or interregional level involves an interface with small numbers of national institutions or persons. UNCTAD's impact on SWVSEs through technical cooperation therefore largely rests on the implementation of country-specific projects. Some 66 national projects were implemented between 2003 and 2006 in the 47 SWVSEs referred to above. Over 60% of these 66 projects benefited least developed SWVSEs.

A summary examination of the technical cooperation subjects in which UNCTAD extended support to 47 SWVSEs during the reference period reveals that the relevant projects crossed a small part of the range of action areas UNCTAD has the capacity to serve. SWVSEs have effectively benefited from UNCTAD's cooperation in only nine of the 24 key subjects of interest to them as highlighted in the flow chart. Moreover, the distribution of expenditure across subjects has been very

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[32] See UNCTAD, Trade and Development Board, Working Party on the Medium-term Plan and the Programme Budget, 49th session, 10-14 September 2007: Review of the technical cooperation activities of UNCTAD, *Report by the Secretary-General of UNCTAD*, Annex I: Review of activities undertaken in 2006 (TD/B/WP/195/Add.1); Annex II: Statistical tables (TD/B/WP/195/Add.2).

[33] Afghanistan, Angola, Benin, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Congo (Democratic Republic of the), Djibouti, Guinea, Haiti, Madagascar, Malawi, Mali, Mauritania, Nepal, Niger, Rwanda, Sudan, Timor-Leste, Togo, Uganda, Tanzania (United Republic of), Vanuatu, Yemen, Zambia.

[34] Bolivia, Botswana, Paraguay, Zimbabwe.

[35] Barbados, Mauritius, Papua New Guinea, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago.

uneven, as 90% of all relevant technical cooperation expenses were concentrated in one area, namely, customs modernization (Asycuda projects). Activities to build institutional capacities in the area of investment accounted for 5% of all relevant expenses in SWVSEs, and the following other subject areas, though of obvious interest to these countries, were only marginally served: support on technology transfers; development of trade policy-related capacities; trade facilitation; organic agriculture; the BioTrade initiative; entrepreneurship and enterprise competitiveness.

UNCTAD's work of research and analysis on the development issues faced by LDCs, LLDCs and SIDS has to a large extent done justice to the main concerns of SWVSEs, nearly four fifths of which pertain to these three officially recognized categories. Several of the structural weaknesses and vulnerabilities suffered by these countries have been recognized and analyzed by UNCTAD in publications and technical documents such as the annual Least Developed Countries Report, or vulnerability profiles of graduating LDCs for the triennial review of the United Nations list of LDCs. The structural problems of the 20 SWVSEs that are not found in the United Nations-recognized categories have never been systematically examined by UNCTAD. A new analytical focus on the economic vulnerability of developing countries irrespective of categories would certainly bring UNCTAD to recognize a new range of issues to which increased attention could be granted by the secretariat, be it in an ad hoc manner and without hinting at a re-classification of countries.

3.3 *An informal agenda for UNCTAD action in favour of SWVSEs*

UNCTAD will pursue its historical role of special support to the least developed countries, land-locked developing countries and small island developing States. Most of these countries demonstrate common characteristics of structural weakness and economic vulnerability. In accordance with the São Paulo Consensus, UNCTAD will at the same time pay special attention to the same issues among countries that do not fall under the United Nations-recognized special categories of countries. Twenty such countries are informally identified above (see the graphic summary in annex).

Interested member States are encouraged to conceptualize their structural weaknesses and vulnerabilities themselves, and identify the specific areas of resilience-building action in which they would like to benefit from UNCTAD's support. Subject to the availability of financial and technical resources, the secretariat can respond to this demand in the light of the above conceptual framework, which focuses on reducing structural disadvantages (institutional weakness, lack of economic efficiency) and enhancing economic specialization. The specific focus of a country's request will in principle determine the most desirable organizational arrangements within UNCTAD, notably the lead entity, whether the envisaged work is inter-divisional or not. Four Divisions within UNCTAD are able to offer direct support to SWVSEs by virtue of their intimate knowledge of either relevant categories or sub-regions (Division for Africa, Least Developed Countries and Special Programmes) or technical subjects at stake (Division for Investment, Technology and Enterprise Development; Division for International Trade in Goods and Services, and Commodities; Division for Services Infrastructure for Development and Trade Efficiency).

For the *least developed countries*, only three of which are not regarded as falling in the unofficial SWVSE category, UNCTAD's analytical work on issues of structural weakness and vulnerability could be intensified and widened beyond the mandated focus on graduation cases. In anticipation of relevant country requests, the Division for Africa, LDCs and Special Programmes is enhancing and updating its series of country profiles, toward a second edition in 2008.

Land-locked developing countries, over half of which are LDCs, will largely benefit from the relevant work on LDCs. The technical focus under which these countries have been counting on UNCTAD's support --transit-related issues-- naturally echoes the concerns of member States regarding "structural weaknesses". The latter involve structural handicaps, such as institutional bottlenecks and transaction costs, to which UNCTAD has the capacity to bring responses, essentially through technical cooperation.

For *small island developing States*, all of which are considered structurally weak and vulnerable for obvious geographical and economic reasons, UNCTAD's work has always been geared toward the paramount goal of resilience-building, with a focus on reducing structural handicaps and enhancing specialization. Of the three United Nations-recognized categories, this one is the most evidently illustrative of UNCTAD's ability to respond to the needs of SWVSEs. Intensifying the ongoing work in this area would have resource implications within the secretariat.

To receive issue-specific attention from the secretariat, *SWVSEs outside the United Nations-recognized categories* should organize their requests along either one of the following two approaches: (i) sub-regionally, if special analytical or technical insights into issues that are common to a sub-regional group are needed[36]; or (ii) nationally, if individual SWVSEs are desirous of seeking UNCTAD's direct assistance on relevant issues, either for analytical purposes or toward technical assistance. In either case, the secretariat, subject to the availability of resources, can pay due attention to the needs that will have been articulated.

4. Conclusion

The particular problems of structural weakness and vulnerability were among the issues that justified, in the early 1960s, the foundation of UNCTAD and its advocacy of policy responses to the challenges associated with these problems. In particular, UNCTAD, between 1974 and 1994, kept the concerns of "island developing countries" relatively high on the international development agenda. A sizeable part of UNCTAD's analytical work and technical assistance activities, and of the intergovernmental work under its auspices, has been devoted to development issues emanating from structural weakness and economic vulnerability, principally in relation to LDC status, or land-lockedness, or "small islandness". By supporting the efforts of several SWVSEs (without explicitly quoting this denomination), UNCTAD

[36] Two sub-groups stand out among the 20 SWVSEs outside United Nations categories: (i) the Central American and Caribbean sub-group, which alone accounts for half of the 20 SWVSEs (Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Guyana, Honduras, Nicaragua, Panama, Suriname); and (ii) the Africa sub-group (Cameroon, Congo, Côte d'Ivoire, Gabon, Ghana, Namibia).

has already developed a culture of advocacy and capacity-building that addresses the specific disadvantages of structural weakness and vulnerability.

SWVSEs indeed benefit from generic activities of UNCTAD under its three functional pillars: as an inter-governmental forum for consensus-building, as an institution focusing on data collection, research and policy analysis, and as a provider of technical assistance. Relevant work has taken place through the Commissions as well as expert group meetings and technical assistance programmes. In particular, activities in favour of SWVSEs have included advisory services to enhance participation in the Doha multilateral negotiations; assistance to trade policy formulation; numerous applications of the United Nations' Economic Vulnerability Index --to which UNCTAD contributed conceptually and statistically-- for small and vulnerable island LDCs near graduation thresholds; and training and capacity-building activities in the areas of trade negotiations, competition law and policy, and trade and the environment. Several SWVSEs have also benefited from activities aimed at improving trade facilitation and supporting multimodal transport chains and customs modernization. Table 2 lists a number of specific areas of UNCTAD action for the benefit of 37 selected SWVSEs.

Table 2
Selected examples of UNCTAD recent action toward resilience-building in 37 "structurally weak, vulnerable and small economies" (SWVSEs)

Beneficiaries *(LDCs in bold)*	**Relevant UNCTAD Division**	**Area of action**
Afghanistan	SITE	* Assistance in the area of multimodal transport and trade facilitation
Angola	DITE SITE	* Support to the development of the micro-enterprise sector * Science, technology and innovation policy review * Support to negotiations on trade facilitation in the World Trade Organization
Bhutan	DITC	* Technical assistance on the preparation, adoption, revision and implementation of national competition and consumer protection legislation and policies
Bolivia	DITC DITE SITE	* BioTrade initiative * Technical assistance on the preparation, adoption, revision and implementation of national competition and consumer protection legislation and policies * Support on competition law and policy under the Competition and Consumer Protection Policies for Latin America (COMPAL) programme * Support to investment promotion * Capacity-building in transit transport facilitation
Botswana	DITE	* Capacity-building in investment promotion
Cambodia	ALDC DITC SITE	* Assistance for development and equity * Institutional capacity-building on key issues relating to trade and the environment * Technical assistance on the preparation, adoption, revision and implementation of national competition and consumer protection legislation and policies * Capacity-building on multilateral trade negotiations
Cape Verde	ALDC DITC	* Assistance in developing a "smooth transition" strategy in anticipation of the loss of LDC status * Assistance on WTO accession
Congo	SITE	* Rail tracker upgrade
Costa Rica	DITC	* Technical assistance on the preparation, adoption, revision and implementation of national competition and consumer protection legislation and policies * Support on competition law and policy under the Competition and Consumer Protection Policies for Latin America (COMPAL) programme * BioTrade initiative
Djibouti	DITE	* Support to investment promotion
El Salvador	DITC	* Technical assistance on the preparation, adoption, revision and implementation of national competition and consumer protection legislation and policies * Support on competition law and policy under the Competition and Consumer Protection Policies for Latin America (COMPAL) programme
Fiji	DITC	* Technical assistance in developing senile coconut palm wood into high quality, value added products
Ghana	DITE	* Support to investment promotion and facilitation
Guatemala	SITE	* Support to negotiations on trade facilitation in the World Trade Organization
Guinea	DITC	* Capacity-building toward greater participation in multilateral trade negotiations

Beneficiaries *(LDCs in bold)*	**Relevant UNCTAD Division**	**Area of action**
Haiti	ALDC	* Institutional capacity-building in the context of Haiti's accession to CARICOM
Jamaica	DITC	* Voluntary peer review of competition law and policy * Technical assistance on the preparation, adoption, revision and implementation of national competition and consumer protection legislation and policies
Lao People's Democratic Republic	SITE	* Capacity-building in transit transport facilitation * Capacity-building on multilateral trade negotiations
Madagascar	ALDC	* Support toward economic diversification, with special reference to environmentally preferable products
Maldives	ALDC	* Assistance in developing a "smooth transition" strategy in anticipation of the loss of LDC status
Mauritius	DITE	* Fiscal incentives review
Namibia	SITE	* Support to negotiations on trade facilitation in the World Trade Organization * Capacity-building in transit transport facilitation
Nepal	SITE	* Promotion of the trade and transport sectors
Nicaragua	DITC	* Technical assistance on the preparation, adoption, revision and implementation of national competition and consumer protection legislation and policies * Support on competition law and policy under the Competition and Consumer Protection Policies for Latin America (COMPAL) programme
Papua New Guinea	DITC	* Technical assistance in developing senile coconut palm wood into high quality, value added products * Assistance on trade policy formulation
Paraguay	SITE	* Support to negotiations on trade facilitation in the World Trade Organization
Rwanda	DITE	* Investment policy review
Samoa	ALDC DITC	* Assistance in developing a "smooth transition" strategy in anticipation of the loss of LDC status * Technical assistance in developing senile coconut palm wood into high quality, value added products * Technical assistance on issues relevant to the costs of compliance with agri-food and SPS requirements * Assistance on WTO accession * Assistance on trade policy formulation
Solomon Islands	DITC	* Technical assistance in developing senile coconut palm wood into high quality, value added products * Technical assistance on issues relevant to the costs of compliance with agri-food and SPS requirements
St. Lucia	ALDC	* Assistance in enhancing the competitiveness of the manufacturing sector * Human resource development in the offshore financial sector
Tanzania (United Republic of)	SITE	* Support to negotiations on trade facilitation in the World Trade Organization
Tonga	DITC	* Technical assistance in developing senile coconut palm wood into high quality, value added products
Trinidad and Tobago	SITE	* Support to negotiations on trade facilitation in the World Trade Organization
Tuvalu	DITC	* Technical assistance in developing senile coconut palm wood into high quality, value added products
Uganda	DITC	* BioTrade initiative
Vanuatu	ALDC	* Assistance in developing a government strategy in anticipation of the 2009 review of the United Nations list of

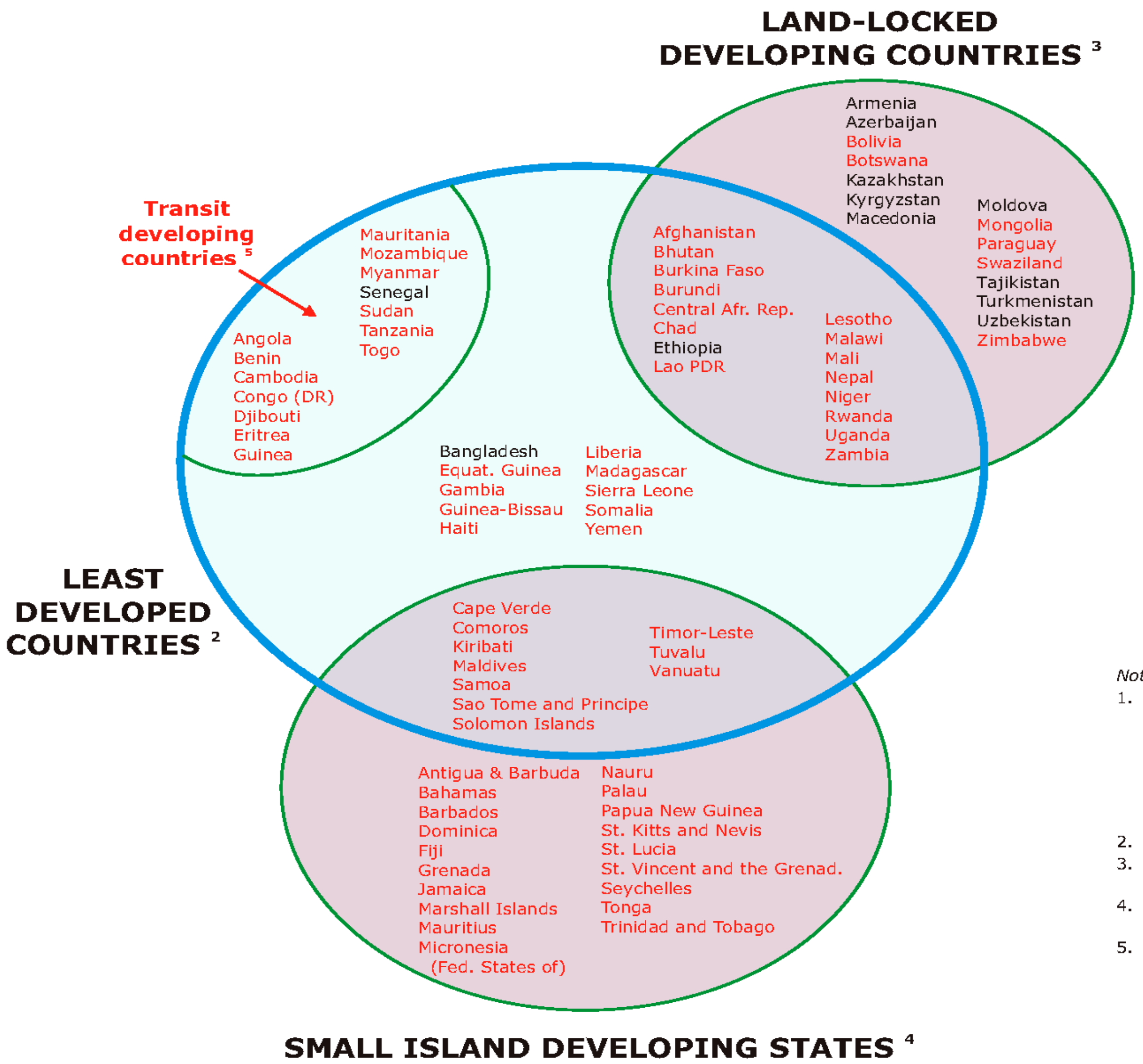
Beneficiaries *(LDCs in bold)*	Relevant UNCTAD Division	Area of action
	DITC	LDCs * Technical assistance in developing senile coconut palm wood into high quality, value added products * Technical assistance on issues relevant to the costs of compliance with agri-food and SPS requirements * Assistance on WTO accession
Zambia	SITE	* Support to negotiations on trade facilitation in the World Trade Organization * Capacity-building in transit transport facilitation

ALDC: Division for Africa, Least Developed Countries and Special Programmes
DITC: Division for International Trade in Goods and Services, and Commodities
DITE: Division for Investment, Technology and Enterprise Development
SITE: Division for Services Infrastructure for Development and Trade Efficiency

NB: The Division on Globalization and Development Strategies (GDS) has carried out debt management support activities in the following SWVSEs: Bolivia, Burundi, Congo, Congo (Democratic Republic of the), Dominican Republic, Gabon, Honduras, Nicaragua, Paraguay, Sudan, Togo, Trinidad and Tobago, Uganda, Zambia, Zimbabwe.

THE FIVE GROUPS OF COUNTRIES REFERRED TO IN PARA. 33 OF THE SÃO PAULO CONSENSUS

All countries in red are deemed to be "structurally weak, vulnerable and small economies" [1]



Paragraph 33 of the São Paulo Consensus:

"UNCTAD should enhance its work on the special problems of LDCs, small island developing States, and of landlocked developing countries and the related special problems and challenges faced by transit developing countries as well as structurally weak, vulnerable, and small economies".

"Structurally weak, vulnerable and small economies" not pertaining to any UN-recognized special category (20 countries):

Bahrain	Ghana
Belize	Guatemala
Brunei Darussalam	Guyana
Cameroon	Honduras
Congo	Namibia
Costa Rica	Nicaragua
Côte d'Ivoire	Oman
Dominican Republic	Panama
El Salvador	Suriname
Gabon	Uruguay

Notes:

1. 92 countries informally identified on the basis of the following two criteria:
   * "Smallness": a gross domestic product under US$32 billion in 2005 (UNCTAD's 2006 Handbook of Statistics).
   * "Structural weakness and vulnerability": a score outside the quartile (25%) of countries faring most favourably under the UN's index of exposure to external shocks (a subset of the CDP's Economic Vulnerability Index) running through 132 countries.
2. Official UN list of LDCs (50 countries after the 2006 review of the list).
3. UN-recognized implicit category of LLDCs on geographical grounds (31 countries).
4. UNCTAD's unofficial list of SIDS, for analytical purposes only (29 countries).
5. Implicit category on geographical grounds. This group incorporates, beside 14 LDCs, a number of States that are outside the UN-recognized special categories of countries (Albania, Argentina, Algeria, Brazil, Bulgaria, Cameroon, Chile, China, Congo, Côte d'Ivoire, Ghana, India, Iran, Lybia, Montenegro, Namibia, Nigeria, Peru, Romania, Russia, South Africa, Thailand, Turkey, Ukraine, Vietnam).