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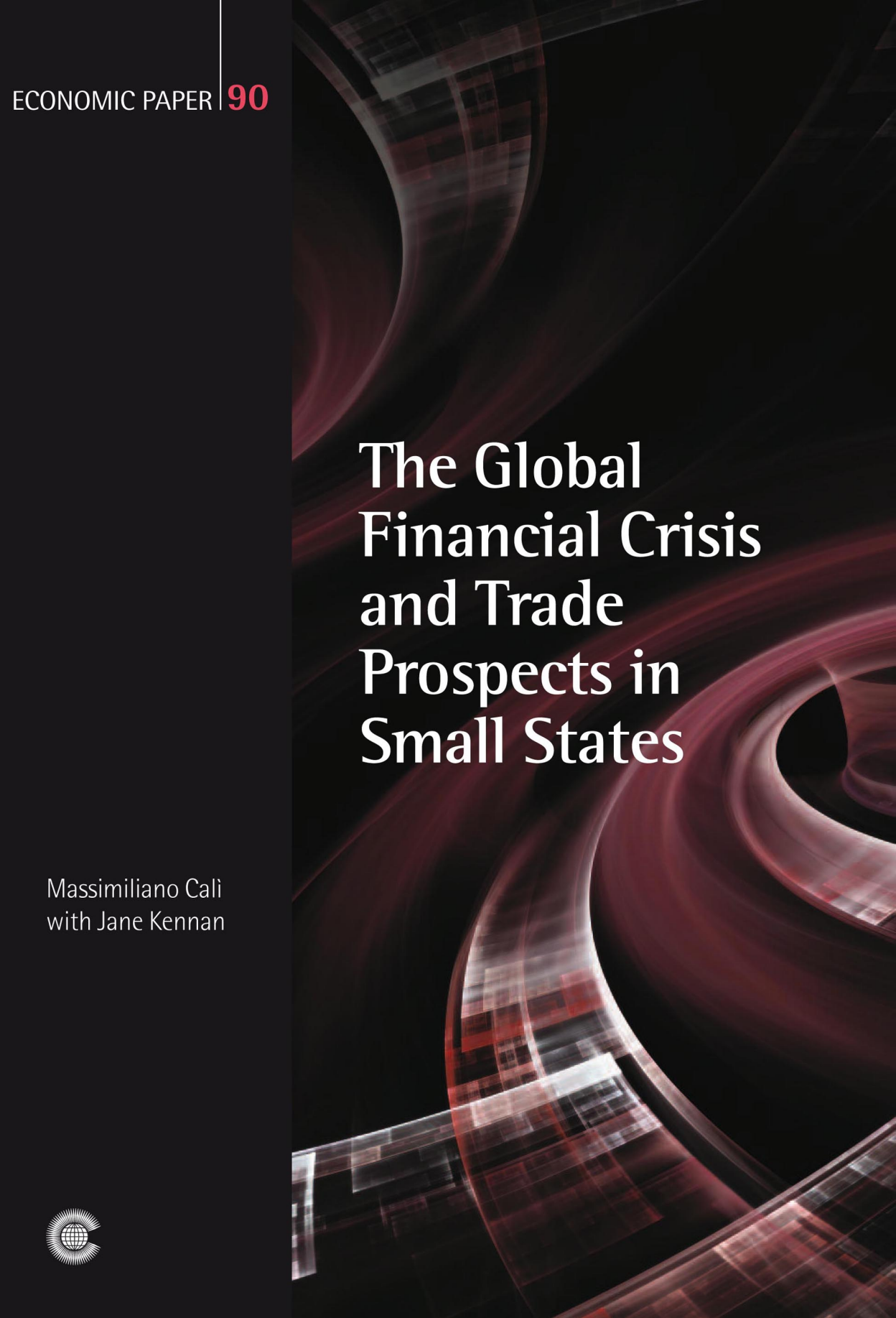
Massimiliano Calì
with Jane Kennan



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Commonwealth Secretariat
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Summary

This study is the first to look at the trade effects of the current global slowdown on small states. Small states' exports seem to be affected at least as much as other developing countries' exports. Given the reliance of small states on trade, this means that the effects on their economies may be more sizeable than for other developing countries. We find that those countries exporting minerals and fuels, and 'luxury' goods and services, such as beef and tourism, are likely to be more affected.

On the other hand, countries that export basic agricultural goods, such as sugar, rice and fruits, are likely to be more resilient. We also construct a trade resilience measure on the basis of countries' export markets. As most export markets will be negatively affected by the crisis, this measure is negative for all states except Solomon Islands, whose exports are concentrated on China, which is weathering the crisis well.

Services exports appear to be more resilient to the crisis than exports of goods, although this is less the case for tourism, the major service export of small states. Many small states which depend on tourism are experiencing considerable drops in tourism arrivals and revenues, consistent with the proposition that tourism has a high income elasticity of demand. Vanuatu is an exception to this pattern, in that its increase in tourist arrivals has continued unabated, due in part to political and weather-related problems in its main competitor, Fiji Islands.

According to our computations, the only countries which are expected to have non-negative overall trade-related effects from the crisis are Swaziland and Guyana, due to their dependence on basic agricultural exports such as sugar, rice and essential oils, and their low reliance on affected services exports. At the other end of the spectrum, countries that are heavily reliant on exports of minerals and fuels, such as Botswana and Brunei Darussalam, seem likely to be the most negatively affected. In addition, small states that are very dependent on tourism, such as Malta, Maldives and most Caribbean and Pacific countries, are likely to be particularly heavily penalised.

It is difficult for small states to respond to the trade-induced effects of the crisis, given their limited fiscal space (in the context of shrinking trade-related taxes which represent a large part of government revenues), exchange rate policy and lack of influence in the international trade arena. However, eliminating taxes on exports, ensuring timely finance for credit-constrained domestic firms and reducing the (relatively high) costs of trading may be helpful short-term responses to limit the adverse trade effects of the crisis. The crisis may also sound an alarm bell for small states to act upon certain trade-related policies. They should aim to diversify their export markets, quickly moving away from the system of trade preferences; reconsider the role of offshore

financial centres, which have come under increasing scrutiny; and upgrade and develop trade-related infrastructures to reduce the penalties of remoteness. Finally, the international community has a key role to play in adopting policies to help international trade withstand the adverse effects of the crisis by fighting protectionism, guaranteeing adequate funds to sustain trade finance and providing effective aid for trade (AfT). It is in the interests of small states, especially, to support and stimulate such initiatives.

1

Introduction

The global financial system is currently experiencing a prolonged and deepening period of crisis. This global financial crisis began as a money market phenomenon rooted in the US housing market and has now spread to the real economy, both in the USA and abroad. The global credit crunch has compounded an already slowing global economy, marked by falling commodity prices and slowing demand for oil. The crisis has not spared developing countries, as shown *inter alia* by a recent study co-ordinated by the Overseas Development Institute (te Velde *et al.*, 2009b).

For developing countries, trade is a key transmission mechanism that links them to markets that are heavily affected by the financial crisis via changed terms of trade and export demand. This is more so for small states and for small island developing states (SIDS) in particular. These countries are heavily dependent on trade and on external flows (remittances and foreign direct investment (FDI)). Moreover, their exports tend to be more concentrated than those of other developing countries. This combination of factors makes small states more exposed to the vagaries of external markets. Thus they are likely to be particularly vulnerable to a global downturn such as the current one.

This study tries to shed some light on the actual and possible effects of the global financial crisis on trade in SIDS, specifically focusing on the 32 states that comprise the Commonwealth small island community[1] (CSIC).[2] A number of small island states have shown some resilience to the crisis, and in April 2009 the International Monetary Fund was still forecasting positive growth in about half of them (IMF, 2009b). However, their estimated growth rates have all been downgraded and the extent to which the various small countries are resilient in the face of the crisis is still unclear. Given their dependence on trade, a large part of their resilience will have to do with the way trade prospects are affected. Identifying the countries and the sectors which are more likely to suffer the adverse trade-related consequences of the crisis is important in designing possible policy responses.

The crisis comes at a critical juncture for trade in a number of small states. In particular, the very recent changes to the EU's banana and sugar regimes, which have meant the loss of trade preferences in these sectors by several small states, represent additional problems to the challenges posed by the global financial crisis. For instance, the change in the sugar regime will have a negative impact on the exports of countries such as Swaziland, which we expect to be fairly resilient to the crisis.

The study is divided into seven sections. Section 2 describes how the trade-related effects of the crisis may play out. Section 3 considers specifically the possible trade implications in relation to the characteristics of small states. Section 4 analyses

the effects of the crisis on trade in these countries, based on sectoral and geographic data; it also speculates on the extent to which the trade effects may affect economic growth and poverty. Section 5 puts the trade effects into context, examining the possible effects of the crisis on small states via other direct channels. Section 6 presents some policy implications of the analysis and Section 7 presents the conclusions of the study.

2

How the Effects of the Global Financial Crisis Play Out Via Trade

In order to assess the implications of the current crisis for small countries' trade, it is important to understand in what ways developing countries' trade may be affected by the crisis. An equally important starting point is to examine the characteristics of small states and in what ways these determine the extent to which the global financial crisis displays its effects via the channel of trade. Sections 2 and 3 address these issues and derive the expected trade implications of the crisis on small states.

The major trade-related effects of any financial and economic crisis are demonstrated in countries' exports. In general, exports will be adversely affected by three sets of factors:

- First, lower demand for goods and services due to decreasing income and worsening expectations (which influence demand for capital goods);
- Second, drying up of credit availability (affecting both demand and supply);
- Third, rising protectionism that makes imports relatively more expensive than domestic production.

2.1 Lower demand for imports

Developing countries – and small states in particular – usually depend on the export of a few goods and services for the bulk of their export revenue. The income elasticity of demand for goods and services in the importing country is therefore an essential element in how an economic crisis affects export revenue.[3]

Fuel and mining products are highly responsive to changes in global gross domestic product (GDP). Lower utilisation of production capacities translates directly into reduced demand for these products. Since the production of fuel and mining products is fixed in the short run, the oversupply depresses the price further.

Agriculture products are generally fairly income inelastic, as posited in Engel's Law;[4] the more the good satisfies primary needs, the lower its income elasticity of demand. This applies to food products, and generally also includes products like tea and coffee.

Many traditional agricultural exporters have diversified into non-traditional agricultural exports, such as exotic fruits and fresh vegetables, which are generally perceived to be less affected by volatility in the terms of trade and to reap higher export revenues (AfDB, 2004). Similarly, traditional food items which have been differentiated through marketing or production processes, such as 'fair trade coffee' or 'organic cocoa', are less affected by volatile commodity prices. However, as the income elasticity for these 'luxury' agricultural items is higher than for basic crops,

they are likely to be substituted by domestic goods or canned products in times of crisis. The deeper the crisis, the more likely it is that traditional agricultural products will also be affected by decreasing demand. The Asian crisis resulted in reduced demand for coffee, palm oil, rice, sugar, rubber, cocoa and tea (Barichello, 1999).

As with fuel and mining products, developing countries' possible volume response in the case of agricultural products is slow. Because of the nature of production, countries are only able to respond to lower prices at the next harvest, and this risks depressing prices even further through supply overhangs.

Developing countries' manufactured goods, such as clothing or electronics, show an income elasticity of demand greater than 1; i.e. a decline in income in the export market will lead to a more than proportionate decline in demand for manufactured goods. Several south-east Asian countries depend on the export of simple manufactures for the bulk of their export revenue. As discussed by UNCTAD (2002), the concentration on an outward-oriented industrialisation strategy based on simple manufactured exports carries a risk of fluctuating and deteriorating terms of trade similar to that involved in the export of primary products, because developing countries with large supply capacities are able to produce labour-intensive high-quality products at lower cost than are small developing countries. Consequently, global competition for simple manufactured goods is very high, exerting a downward influence on prices and terms of trade. An economic crisis affects developing country manufactured exports not only because of the high income elasticity of demand for manufactured products, but also because of their high dependency on imported inputs. The sourcing of inputs for manufactured exports might be severely constrained by depreciated currencies and restrictive trade finance conditions, as experienced by south-east Asian exporters of computer and electronic equipment during the 1997 crisis (Ernst, 1999).

Income elasticities of developing country exports depend not only on the composition of their exports, but also on their destination. Virtually all fuel and mining exports go to unspecified world markets and are heavily dependent on changes in world GDP. For agricultural exports, however, the situation is more complex. Least developed countries (LDCs) and the African, Caribbean and Pacific (ACP) group enjoy duty- and quota-free access to the European Union (EU), where the agricultural market is regulated by the Common Agricultural Policy. Most EU agricultural products have price levels that are considerably above those on the world market and are stabilised by interventionist policies, which makes the EU an attractive export destination for LDC and ACP agro-exports. Preferential market access (albeit less good than for LDCs and ACP countries) is also granted to a range of countries from Latin America and eastern Europe under the special incentive arrangement for sustainable development and good governance in the EU's Generalised System of Preferences (GSP+), as well as to developing countries with which the EU has entered into free trade agreements (e.g. South Africa, Chile, Mexico, and some North African and Middle East countries).

UNCTAD (2009) estimated that world merchandise trade would fall by 6–8 per cent in 2009. It was estimated that in the same year exports from developing countries and countries with economies in transition could potentially decline by 7–9 per cent in volume.

Services exports are usually income elastic, particularly in the case of tourism, which is the major export of several developing countries. However, according to US import data, trade in services appears to be more resilient than merchandise trade in the current crisis, i.e. services imports have fallen by less than merchandise imports (Borchert and Mattoo, 2009). While imports of tourism and transport services (which are linked to trade in goods) have dropped by a proportion similar to merchandise imports, other services imports, and in particular business services, saw little change in the first quarter of 2009. This is probably due to a number of factors, including the cost effectiveness of outsourcing these types of service (e.g. information technology enabled services) in times of crisis and the relative independence of these types of services from trade finance, which is more of a constraint for trade in goods.

2.2 Worsening access to credit

The second obstacle to trade is the increasing shortage of credit. This operates directly, through drying up of trade finance (which effectively reduces import demand), and indirectly, through difficult access to credit for producers of exportables, who thus need to reduce the supply of exports.

As already mentioned, the trade finance problem is especially worrying for manufacturing industries, while it is less serious for services. The extent to which companies are exposed to the problem of availability and cost of credit for export finance will depend on the nature of the value chains within which they operate (Meyn and Kennan, 2009). Trade finance, for instance, has been cut back in several countries, such as Argentina, Brazil, Thailand and Hong Kong (TPU, 2009). The same situation has not yet been reported in Bangladesh and Indonesia, possibly because of the greater influence of their governments on the banking system (te Velde *et al.*, 2009a).

The trade finance problem appears to reflect a more general problem of credit availability, which constrains the supply of products of a large number of firms, especially in developing countries. The collapse of credit associated with the recession has hit particularly hard those industries requiring large amounts of credit, such as the capital goods and vehicle sectors. Francois and Woerz (2009) calculate that almost two-thirds of the real drop in US exports is explained by motor vehicles and capital goods alone. The fall in exports is consistent with the decline in production of the industry as a whole. Between February 2008 and February 2009, US production of cars dropped by 60 per cent, while real exports fell by 'only' 45 per cent.

This problem is compounded in developing countries by the possible diversion of funds to developed countries, which are in increasing need of finance and represent a safer destination for investors than developing markets in times of crisis (flight to

quality). Moreover, the subtle pressure of developed country governments on their banks to lend in the domestic market may further divert finance away from developing countries.

2.3 Incipient and murky protectionism

The final potential cause of trade decline is protectionism. There have been only a few signs of outright protectionism (Chauffour and Malouche, 2009), mainly in developing and transition countries (e.g. Ecuador, Colombia and Russia). This pattern may signal the effectiveness of the multilateral system of trade rules. However, governments, especially in high-income countries, have implemented trade-distorting stimulus packages targeted at troubled export industries or competing import industries. Such subsidies have little direct impact on small states' exports as they operate mainly in capital-intensive manufacturing and services industries (e.g. airlines, construction, steel, semi-conductors and automobiles), where small states' exports tend not to compete. A number of countries have passed non-tariff measures, such as Argentina's imposition of non-automatic licensing requirements on a number of manufactured goods and Indonesia's requirement that imports of five categories of goods be permitted through only five ports and airports (Newfarmer and Gamberoni, 2009). Incipient signs of protectionist tendencies are also confirmed by an increase in the number of anti-dumping cases in 2008, especially in the second semester after a period of slowdown.

While these forms of protectionism mainly apply to manufactured goods, and thus do not involve most small state exports, other forms (such as those on services) do apply to the exports of small states. These are more subtle forms of protectionism, likely to erode the access of service exporters to industrialised countries' markets. For example, the increasing hostility of governments towards financial offshore centres has put the providers of these services, the majority of which are small states, under considerable pressure. More importantly, the mounting social and political aversion to the immigration of service providers that is emerging in crisis-hit countries is generating increasingly strong implicit political pressure to retain jobs domestically (Borchert and Mattoo, 2009). This may constrain Mode 4 types of exports by developing countries, which are an important source of external revenues for small states.

3

Possible Trade Implications for Small States

In order to see how these trade channels may affect small states, let us briefly describe the characteristics of their international trade. Their small market size and remote location tend to put small states, and small island states in particular, at a disadvantage in international trade. Due to the small domestic market, most of the firms are small and medium-sized enterprises (SMEs) with limited opportunities for economies of scale and investment in research and development.[5] Most small states lack skilled labour or adequate human capital, which limits access to external capital and constrains industrial development. In several cases, limited market size and collusion between business and government imply a lack of competition. This leads to misallocation of resources, production inefficiencies and lack of incentives for innovation. All these factors contribute to high unit production costs. These are compounded by high transportation costs due to the remoteness and insularity of many small states (and of all of those included in the sample used in the data analysis). Small states therefore need to charge higher prices or to accept lower returns on some part of their costs, as compared to larger economies. Winters and Martins (2004) calculate the income penalties suffered by micro states (up to 12,000 inhabitants) and very small states (up to 200,000 inhabitants) to be so large that exports in a free trade regime are virtually impossible for them in a large variety of sectors.

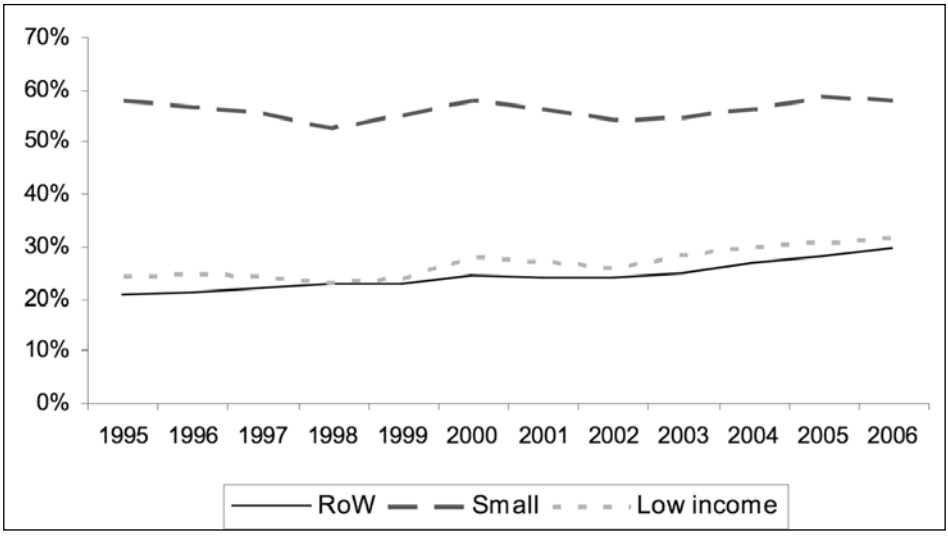
Such high (average) penalties have two important implications. First, small states tend to have a lowly diversified production structure, with most exports concentrated in a few sectors, and a large number of products and services acquired from abroad. For most economies in the Pacific and Caribbean regions, the combined share of the first and second commodity or service exported is over 50 per cent of total exports of goods and services. Second, they rely more than other countries on external assistance, including trade preferences, aid and remittances.

As far as the lack of diversification is concerned, the reliance on imports for a large part of the tradable sector makes small states particularly open to trade. While openness facilitates specialisation and increases the productivity of domestic industry, it also makes these countries more vulnerable to sudden shifts in international demand. Figure 1 shows the higher dependence of small states on foreign markets relative to the rest of the world. Although such dependence (measured as share of GDP) has been declining relative to that of other countries, it is still twice as great as that of the rest of the world and that of low-income countries.

3.1 Trade in goods

The majority (around two-thirds) of small states' trade is in goods, of which small states are net importers (Figure 2). This is consistent with the fact that small size is

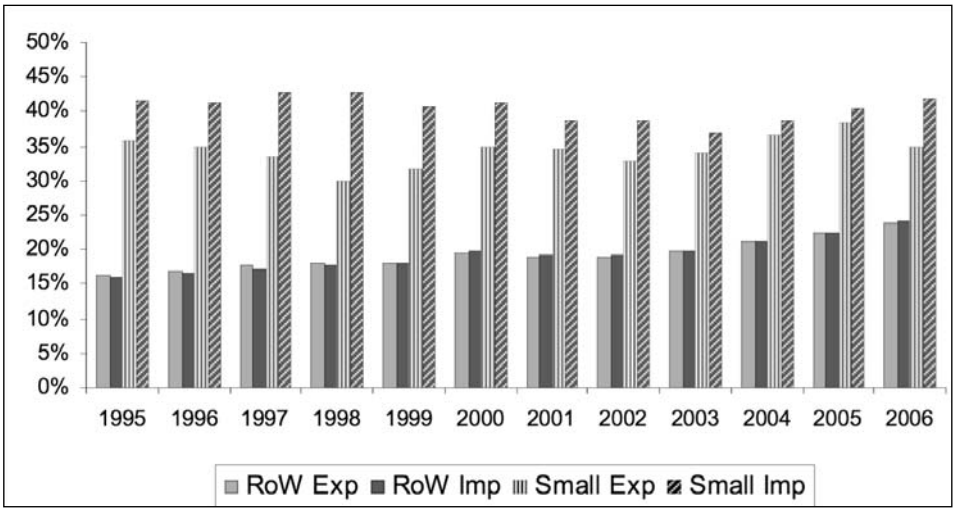
Figure 1. Exports of goods and services (percentage of GDP)



Source: *World Development Indicators* (2008)

associated both with scarce economies of scale (important for capital-intensive manufactures production) and often with a lack of significant natural resource endowment. Trade in goods in small states has remained stable over the past decade relative to the size of their economies, while it has increased in the rest of the world.

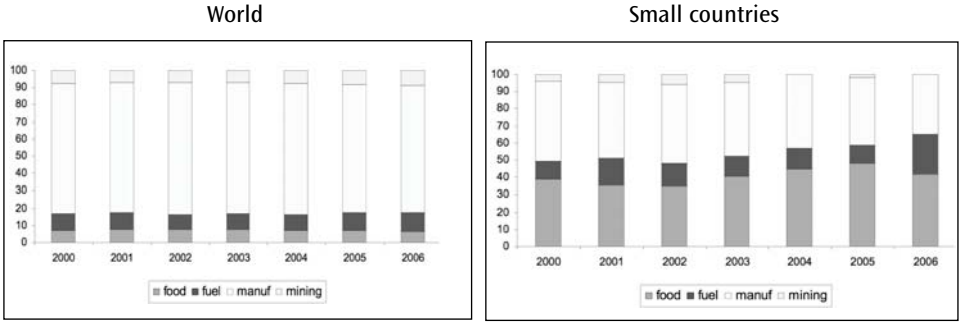
Figure 2. Exports and imports of goods (percentage of GDP)



Source: *World Development Indicators* (2008)

Unlike for the world as a whole, manufactures are not the major goods exports from small states (Figure 3).[6] This is probably due to the lack of meaningful economies of scale in small states, as well as to the trade preferences received by these countries. These mainly cover agricultural products, e.g. tropical products, beef and rice, which have become their largest export category. For certain small countries (e.g. Swaziland and the Caribbean basin countries), these represent important niches of specialisation, accounting for a large part of their merchandise exports.

Figure 3. Distribution of exports of goods across major categories



Note: the figures are averages weighted by countries' export values.
Source: *World Development Indicators* (2008)

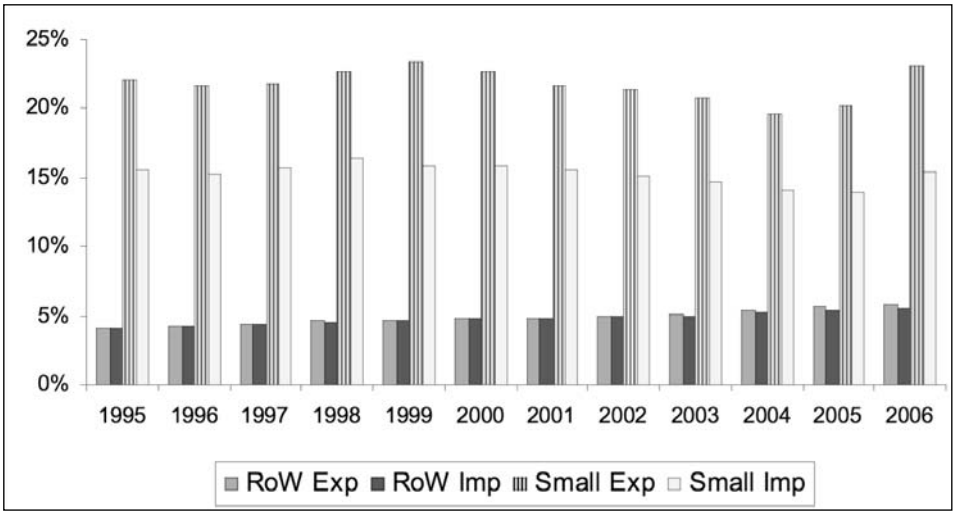
While these preferences have been instrumental in developing important export industries in some of these countries, questions remain concerning the extent to which these industries will be able to compete once preferences start to be eroded. In the face of the global financial crisis, such preferences, especially when they are in the form of quotas, should provide an insurance for their recipients against slumps in demand. However, a substantial part of the preferences is supposedly in the process of expiring (e.g. preferences for bananas and rice). Whether the crisis will influence the modalities of the phasing-out process remains to be seen. In any case, to the extent that demand for agricultural products is less income elastic than that for manufactured and intermediate goods, this pattern of specialisation may help trade in small states to weather the crisis.

3.2 Trade in services

The sector where small states have been most successful in finding niche export markets has been services. This is not surprising given the high transport costs incurred by small states, and SIDS in particular, in trading goods internationally and the lower level of economies of scale of most services industries.[7] Small states are net exporters of services and the surplus roughly offsets the deficit in the balance of trade in goods (Figure 4). Although trade in services forms a smaller proportion of total trade than

trade in goods in small states, the degree of services specialisation in trade – and in exports in particular – is more pronounced. The ratio of services exports to GDP in the Caribbean small island community is five time larger than in the rest of the world (as compared with a factor of two for goods).

Figure 4. Imports and exports of services (percentage of GDP)



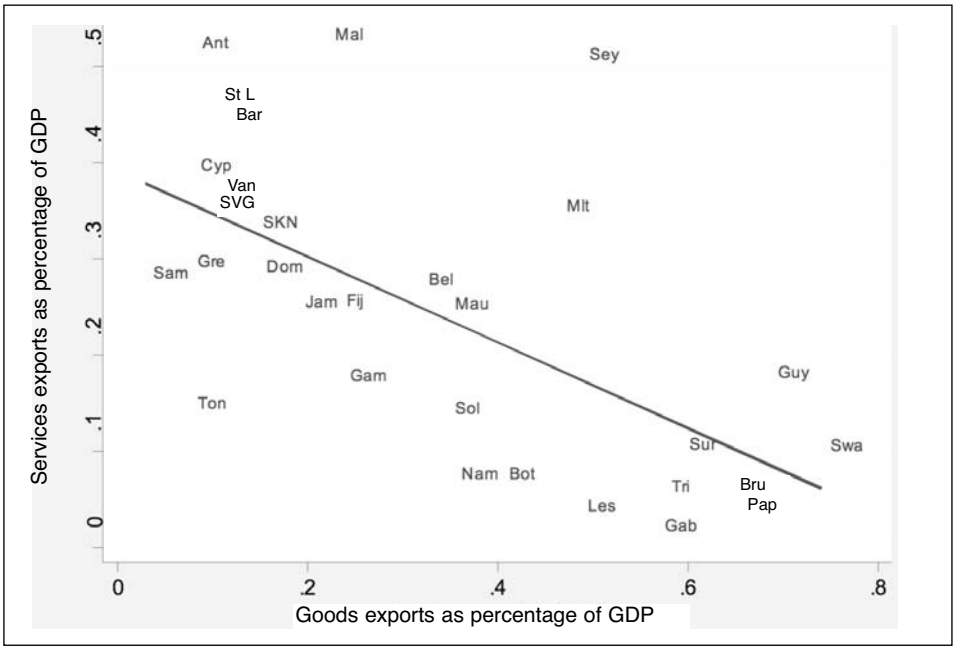
Source: *World Development Indicators* (2008)

Interestingly, there seems to be a trade-off between dependence on exports of services and on exports of goods. Figure 5 elucidates this: the share of exports of services in GDP is negatively correlated to that of exports of goods, except in three countries, Malta, Seychelles and Tonga. This suggests that small states tend to specialise in one macro tradable sector, and the specialisation probably diverts scarce resources away from the other sector. For example, economies such as those of Swaziland and Brunei Darussalam have developed large commodities exports (sugar and oil), which dominate the allocation of resources in the tradable sectors. This need not be the case in a large economy, which can be internationally competitive in both goods and services. This pattern of relative specialisation does not seem to be explained to any significant extent by geographical region: islands in the same area can have a very different specialisation pattern. For example, Guyana and Trinidad and Tobago mainly export goods, while Grenada and Antigua and Barbuda mainly export services.

Tourism represents the most important constituent of trade in services in the majority of small states. The share of tourism in total exports in small states is well above that in the rest of the world (Figure 6). If the latter is computed using the average of shares weighted by the export values of countries, then the difference is magnified. This is because large countries tend to have a highly diversified export portfolio and tourism therefore represents a relatively small share of total exports (as does any other

sector). Small states' dependence on tourism has remained stable over the last decade, while it has declined somewhat for the world as a whole, thus widening the gap further. However, there is a large variation among small states in the degree of their export dependence on tourism. As shown in Table 1, tourism represents significantly more than half of total exports for several small states (with St Lucia and The Bahamas being the most dependent), while for others the tourism industry is negligible, representing less than 5 per cent of total exports.

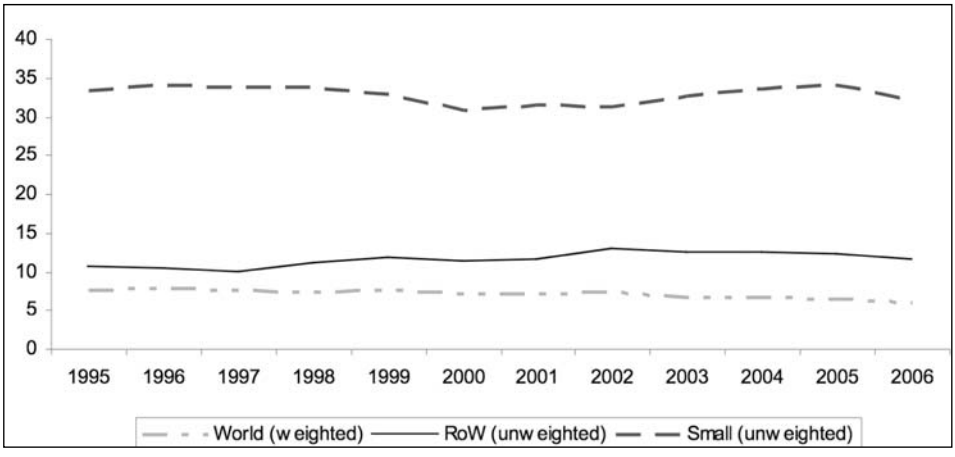
Figure 5. A trade-off between exports of services and exports of goods?



Source: Authors' elaboration on *World Development Indicators* (2008)

The importance of tourism for small states' exports is confirmed by Figure 7. Countries with a high share of services in their exports tend to have a relatively large tourism sector, except for a few exceptions, mainly concentrated in sub-Saharan Africa. These exceptions are essentially small landlocked economies, such as Namibia, Botswana and Swaziland, which are exporters of goods and have tourism as a major service export. Trinidad and Tobago is different in that its energy-related exports dwarf its tourism activity, but the latter is still important in absolute terms. The strength of the tourism sector has helped sustain economic growth in a number of small states which are among the richest in their respective regions (e.g. Barbados, The Bahamas, Seychelles and Maldives). On the other hand, this dependence may be a concern in the light of the current crisis, given the potentially high income elasticity of tourism demand.

Figure 6. Tourism receipts as a percentage of total exports



Source: Authors' elaboration on *World Development Indicators* (2008)

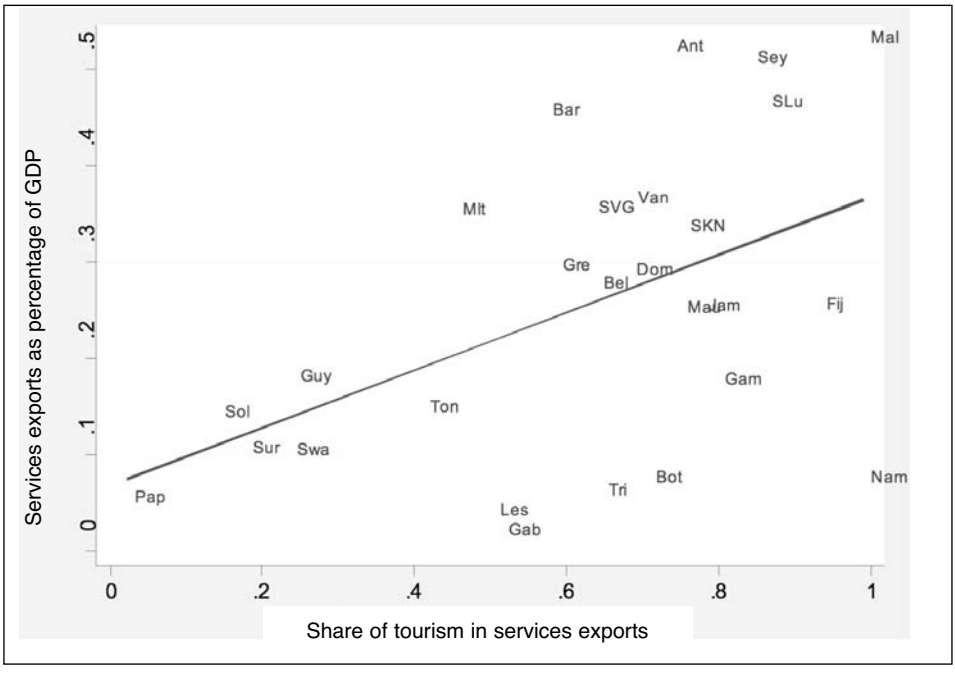
Table 1. Most and least tourism-dependent small states

Country	Tourism (as % of exports)
St Lucia	71.3
Bahamas, The	68.2
Maldives	64.1
Samoa	63.9
Antigua and Barbuda	62.6
Vanuatu	55.4
Solomon Islands	4.2
Lesotho	4.1
Swaziland	3.5
Gabon	1.8
Papua New Guinea	0.2

Source: *World Development Indicators*

The discussion suggests that small states are potentially vulnerable to trade shocks, as their dependence on trade is high relative to that of other countries and their economic base, and hence their exports, are undiversified. Let us turn to the evidence on the actual and likely effects of the crisis in more detail.

Figure 7. Are exporters of services also exporters of tourism?



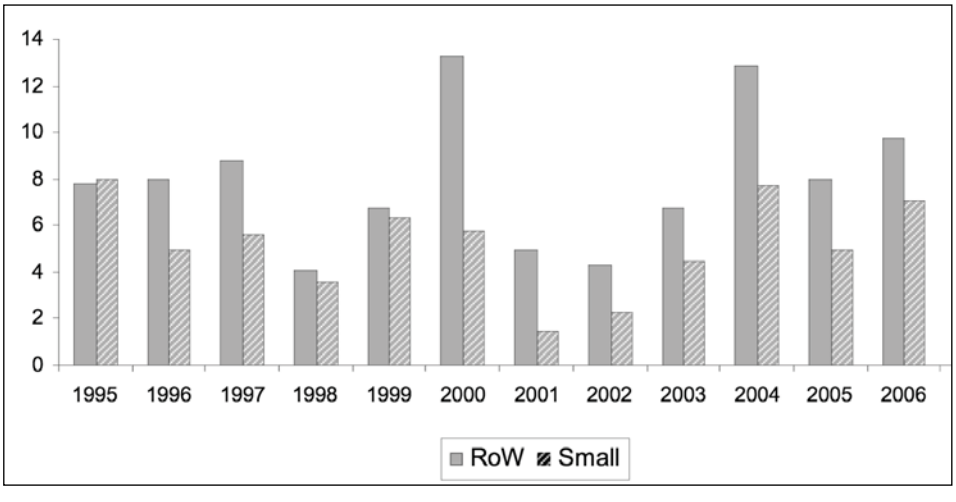
Source: Authors' elaboration on *World Development Indicators* (2008)

4

An Empirical Analysis of Trade Effects in Small States

The global financial crisis is developing in the context of a challenging international trading environment for small states. The review of the 2000 *Commonwealth/World Bank Joint Task Force Report* produced in 2006 suggests that over the past few years the prospects for small states have deteriorated further due to (future) preference erosion and the emergence of large developing country competitors (Briguglio *et al.*, 2006). Difficulties in competing in this international environment are confirmed by the sluggish rates of small states' export growth relative to the rest of the world (Figure 8). This is more so for goods than for services, which in fact is the sector where the review suggests small states should reposition themselves in the international trading system (Qureshi and te Velde, 2008).

Figure 8. Exports of goods and services (year-by-year percentage growth)



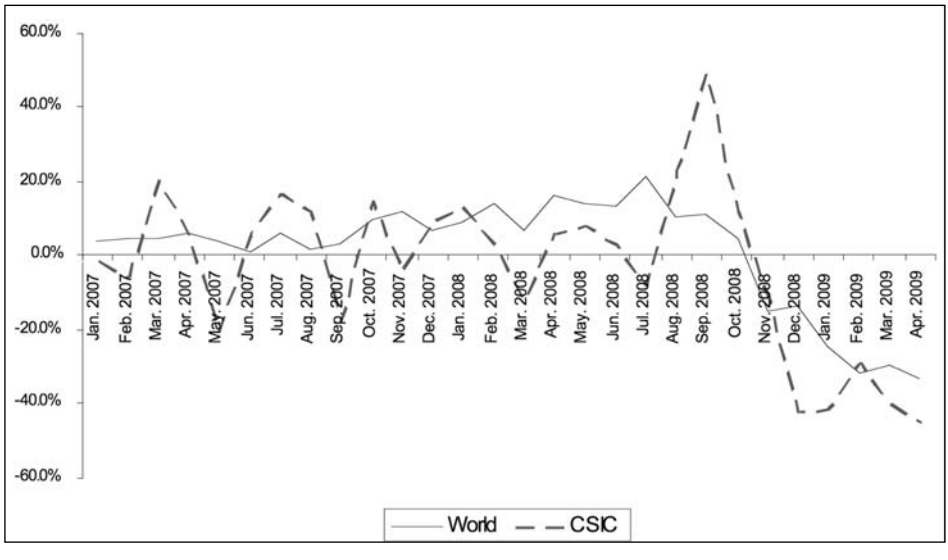
Source: Based on *World Development Indicators* (2008)

Despite their similarities, the countries considered here have different characteristics with respect to their trading patterns, as noted above. These characteristics play a crucial role in determining the magnitude of the trade effects of the crisis. In particular, the types of goods and services that countries export and their destination markets are important factors in gauging the impact that the crisis may have on their exports. An analysis of these factors makes it possible to infer the probable effects of the crisis, notwithstanding the unavailability of recent data on small states' trade. In the next two sub-sections this analysis is made separately for goods and services.

4.1 Trade in goods

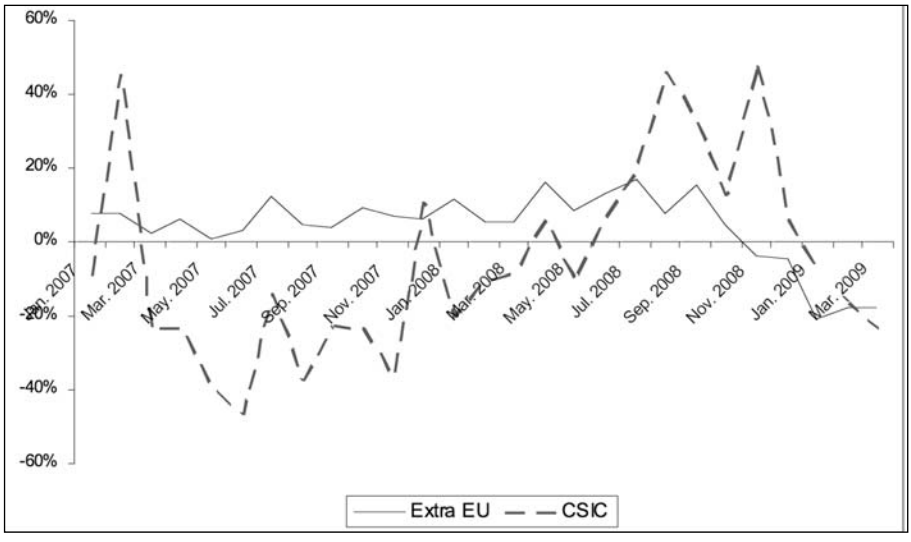
Goods represent more than half of the exports of small states (although a smaller share of the total than for other countries). The combined effects of the channels presented above appear to have already caused a substantial drop in exports of goods. Figure 9 shows the fall in year-on-year monthly imports into the USA from small states and from the world as a whole. The drop in imports from small states (starting in October 2008) appears to be larger than that for total US imports, although it came after a spike in September 2008. Similar, albeit slightly more moderate, drops in imports have occurred also in the EU (Figure 10). Small states' exports show a pattern of decline comparable to the overall decline in EU imports, although it appeared to be worsening in March 2009. It is worth noting, though, that the drop in small states' exports to the EU is still lower than that in the second half of 2007. Overall, small states' merchandise exports seem to be affected by the global financial crisis at least as much as those of other states. In order to identify the possible effects at a more disaggregated level, it is useful to analyse what small states are exporting and to which countries.

Figure 9. Average monthly year-on-year change of US imports from different sources (percentage change)



Note: Based on average daily imports in each month to correct for the discrepancy in the number of days in February 2009 compared with February 2008.
Source: Derived from data obtained from USITC Interactive Tariff and Trade DataWeb

Figure 10. Average monthly year-on-year change of 25 EU imports from different sources (percentage change)



Note: Based on average daily imports in each month to correct for the discrepancy in the number of days in February 2009 compared with February 2008.
Source: Derived from data obtained from Eurostat COMEXT database.

We again base the identification of the major export sectors for small countries on the list of CSIC as defined above. These states tend to export a limited variety of goods relative to what they import. However, in order to draw up a list of sectors that ensures extensive coverage of their exports, it is necessary to include a large number of sectors (using the 3-digit Standard International Trade Classification (SITC) classification). For example, taking the minimum number of sectors accounting for at least 90 per cent of each country's exports produces a list of 191 3-digit sectors. This number is too large to be used as a basis for the analysis, although some general considerations can be made on the basis of this list. Dividing these export categories according to their respective 2-digit sectors highlights the relative importance of three types of exports: agricultural products, manufactured articles and machinery (see Annex Table A1). These are the 2-digit export categories containing the largest number of different 3-digit sectors with positive values. Such a list appears surprising, as the last two of the three categories are not supposed to fit the small states' characteristics. In fact this paradox is more apparent than real. The bulk of manufactured articles is accounted for by sectors which are labour-intensive rather than capital-intensive, such as textiles (and thus less reliant on economies of scale). Most machinery exports are from Malta and their value is fairly low relative to the other categories. In particular, the value of minerals exports is much larger, although these represent significant exports only for a handful of countries (Brunei Darussalam, Trinidad, Botswana, Barbados, Belize, Papua New Guinea (PNG), Guyana, Lesotho and Namibia).

Table 2. Most important small states' exports by sector and country

SITC Rev. 3	3-digit description	Countries for which the goods are important	Value of main exports (US$000)
333	Petroleum/bitum. oil,crude	Barbados, Belize, Brunei Darussalam, PNG, Trinidad	7,506,348
343	Natural gas	Brunei Darussalam, Trinidad	6,347,012
667	Pearls/precious stones	Botswana, Lesotho, Namibia	3,999,148
334	Heavy petrol/bitum. oils	Jamaica, Trinidad	2,486,629
285	Aluminium ores/concs/etc.	Guyana, Jamaica	1,401,964
776	Valves/transistors/etc	Malta	1,370,955
971	Gold non-monetary ex ore	Guyana, PNG	1,039,154
284	Nickel ores/concs/etc.	Botswana	799,915
061	Sugar/molasses/honey	Belize, Fiji Islands, Guyana, Mauritius, Swaziland	796,528
845	Articles of apparel n.e.s.	Lesotho, Mauritius	746,282
686	Zinc	Namibia	624,206
034	Fish,live/frsh/chld/froz.	Fiji Islands, The Gambia, Grenada, Maldives, Namibia	572,221
841	Men's/boys' wear, woven	Lesotho, Mauritius	562,886
283	Copper ores/concentrates	PNG	479,789
551	Essent. oil/perfume/flavr	Swaziland	318,014
598	Misc chemical prods n.e.s.	Swaziland	215,314
037	Fish/shellfish,prep/pres	Maldives, Seychelles	195,481
542	Medicaments include vet	Cyprus	142,702
572	Styrene primary polymers	The Bahamas	141,322
054	Vegetables,frsh/chld/frz	Cyprus, St Vincent, Tonga, Vanuatu	105,108
247	Wood in rough/squared	Solomons	100,278
515	Organo-inorganic compnds	The Bahamas	84,533
036	Crustaceans molluscs, etc.	The Bahamas	82,698
773	Electrical distrib equip.	Samoa	76,217
057	Fruit/nuts, fresh/dried	Belize, Dominica, St Lucia, St Vincent	74,668
111	Beverage non-alcohol n.e.s.	Antigua, Fiji Islands	73,371
059	Fruit/veg juices	Belize	59,248
112	Alcoholic beverages	Barbados, St Lucia	50,398
764	Telecomms equipment n.e.s.	Grenada, St Kitts	18,710
272	Fertilizers crude	Nauru (*mirror*)	12,948
772	Electric circuit equipmt	St Kitts	12,634
554	Soaps/cleansers/polishes	Dominica	10,495
046	Flour/meal wheat/meslin	Grenada, St Vincent	10,408
422	Fixed veg oils not soft	Kiribati, Vanuatu	5,740
223	Oil seeds-not soft oil	Kiribati, Vanuatu	5,720
658	Made-up textile articles	Grenada	4,002
273	Stone/sand/gravel	Dominica	3,805
421	Fixed veg oil/fat, soft	The Gambia, Kiribati	3,451
081	Animal feed ex unml cer.	The Gambia	1,400
674	Rolled plated m-steel	Antigua	1,308
533	Pigments/paints/varnish	Antigua	704
892	Printed matter	Tuvalu	8

Note: Small states are defined as the CSIC (32 countries, see above for definition).
Source: Authors' elaboration based on export data reported to the UN's Comtrade database (other than for Nauru, which is not a reporter and for which mirror data have been used); figures are based on the latest year for which exports have been reported.

A more manageable list of the main export sectors is obtained by compromising on the share of total exports of the small states covered. We identify all those sectors which are the main export for any country and/or whose share of a country's total merchandise exports is greater than 10 per cent. These criteria return a list of 42 sectors (and 76 country/sector combinations), reported in Table 2. These sector/country pairs account for 67 per cent of the total value of the exports of small states. In particular, they account for over half of merchandise exports in 23 out of the 32 small states in the sample, and in all but one of the states (Tuvalu) they represent over one-third of total exports (see Annex Table A2).[8] This therefore seems to be a representative enough sample of exports to draw some inferences about the exports of small states as a whole.

In terms of value, this list suggests that the bulk of the exports are minerals, including oil, gas and precious stones. But the majority of countries are not rich in minerals and instead export agricultural goods, such as food and live animals-related products, and crude materials except oil (see Table 3). This still represents a fairly wide variety of merchandise. In order to get a sense of how these products are being affected by the global financial crisis and test whether demand for them is behaving as the discussion in Section 2 predicts, we proceed in two steps. We first check the price evolution of those products for which official data are available (from the World Bank pink sheet and International Financial Statistics). Then we consider the evolution of their import value in the USA and the EU (for which unit value data are also available).

Of the products in the list of major small states' exports for which price data are available, we select a few which are representative of different categories.[9] The data suggest that in general food products seem to be relatively little affected by the crisis. This is the case, for instance, for bananas (which are a major export for a number of Caribbean countries), as well for sugar (a major export for Caribbean and Southern African countries). The price of bananas in the EU market fell abruptly in the second half of 2008, since when it has almost returned to the peak levels of April 2008 (Figure 11). A similar pattern is also visible in the US market, although the fall and recovery have been less dramatic. A lot of the future development in this market will depend on the EU banana regime reform.

After a substantial increase in the period 2006–2008, the free market sugar price remained fairly stable and even increased slightly in the last couple of months up to April 2009 (see Figure 12). This reflects declining production in the EU as well as the rising oil prices which encouraged Brazil (the world's largest sugar producer) to shift some production from cane sugar to ethanol. With the falling oil price, it is expected that the demand for ethanol will fall, which may result in increased sugar production by Brazil, which will depress the sugar price (Meyn and Kennan, 2009). However, the World Bank (2008a) expects sugar prices to stabilise at the current level in the medium term, though future policy processes (such as the reform of the EU Common Sugar Market) may distort these forecasts. Prices in the EU and US

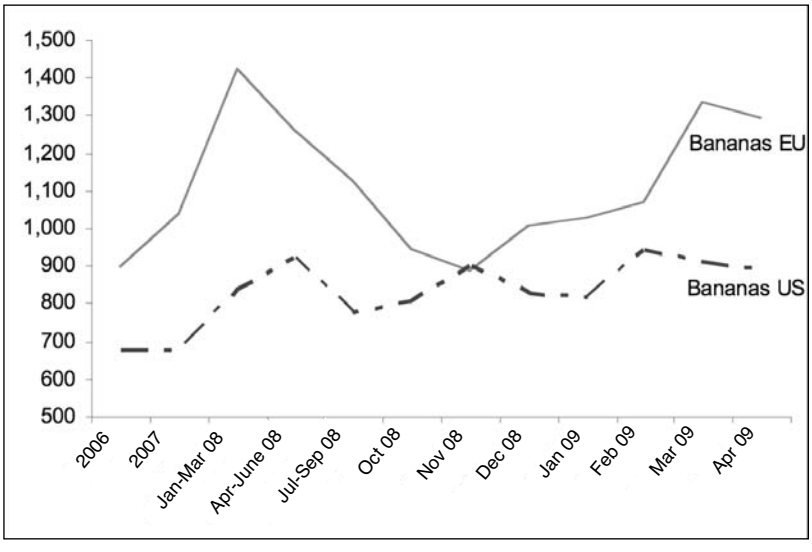
Table 3. Summary of most important small states' exports, 2-digit code

SITC Rev. 3 2-digit code	SITC 2-digit description	No. of different 3-digit codes identified	Value (US$ m)
Total		**42**	**30,544**
0 – Food and live animals		**9**	**1,898**
03	Fish (not marine mammals), crustaceans, molluscs and aquatic invertebrates, and preparations thereof	3	850
04	Cereals and cereal preparations	1	10
05	Vegetables and fruit	3	239
06	Sugars, sugar preparations and honey	1	797
08	Feeding stuff for animals (not including unmilled cereals)	1	1
1 – Beverages and tobacco		**2**	**124**
11	Beverages	2	124
2 – Crude materials, inedible, except fuels		7	2,804
22	Oil-seeds and oleaginous fruits	1	6
24	Cork and wood	1	100
27	Crude fertilisers, other than those of division 56, and crude minerals (excluding coal, petroleum and precious stones)	2	17
28	Metalliferous ores and metal scrap	3	2,682
3 – Mineral fuels, lubricants and related materials		**3**	**16,340**
33	Petroleum, petroleum products and related materials	2	9,993
34	Gas, natural and manufactured	1	6,347
4 – Animal and vegetable oils, fats and waxes		2	9
42	Fixed vegetable fats and oils, crude, refined or fractionated	2	9
5 – Chemicals and related products, n.e.s.		7	913
51	Organic chemicals	1	85
53	Dyeing, tanning and colouring materials	1	1
54	Medicinal and pharmaceutical products	1	143
55	Essential oils and resinoids and perfume materials; toilet, polishing and cleansing preparations	2	329
57	Plastics in primary forms	1	141
59	Chemical materials and products, n.e.s.	1	215
6 – Manufactured goods classified chiefly by material		**4**	**4,629**
65	Textile yarn, fabrics, made-up articles, n.e.s., and related products	1	4
66	Non-metallic mineral manufactures, n.e.s.	1	3,999
67	Iron and steel	1	1
68	Non-ferrous metals	1	624
7 – Machinery and transport equipment		**4**	**1,479**
76	Telecommunications and sound-recording and reproducing apparatus and equipment	1	19
77	Electrical machinery, apparatus and appliances, n.e.s., and electrical parts thereof	3	1,460
8 – Miscellaneous manufactured articles		**3**	**1,309**
84	Articles of apparel and clothing accessories	2	1,309
89	Miscellaneous manufactured articles, n.e.s.	1	0.01
9 – Commodities and transactions not classified elsewhere in the SITC		**1**	**1,039**
97	Gold, non-monetary (excluding gold ores and concentrates)	1	1,039

Source: See Table 2

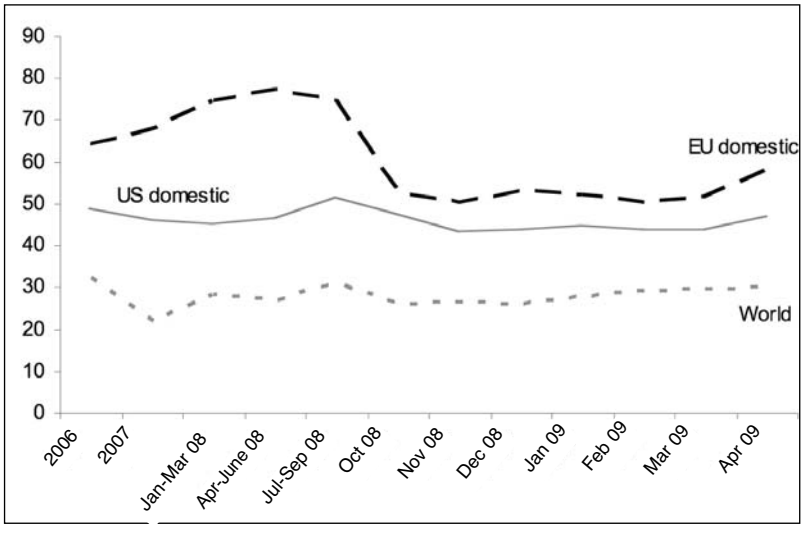
markets followed a similar evolution (although at higher levels given the distorted markets), with small price rises since November 2008.

Figure 11. Price developments in the banana market (US$/mt)



Source: World Bank pink sheet

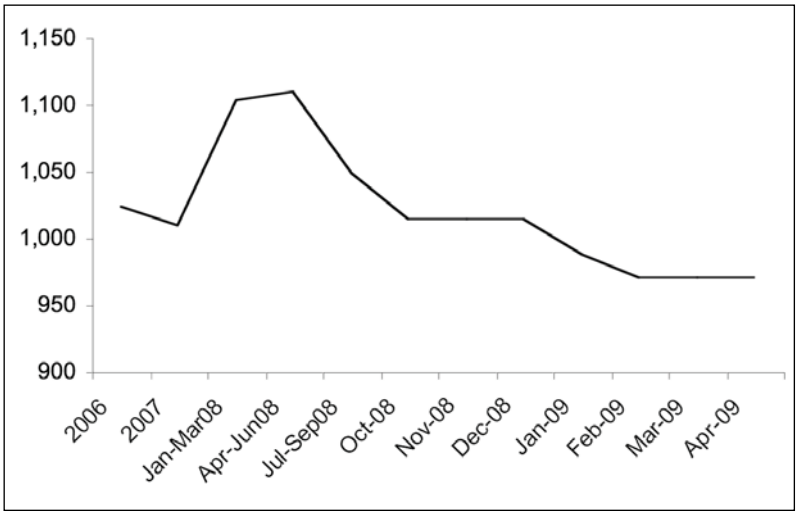
Figure 12. Price developments in the sugar market (US¢/kg)



Source: World Bank pink sheet

On the other hand, prices of fish and crustaceans (which are particularly important for The Bahamas, Maldives and Seychelles) have fallen abruptly since the peak of April–June 2008 (Figure 13). This is consistent with these products being luxury goods, the consumption of which is highly dependent on income.

Figure 13. Price developments of fish and crustaceans (US¢/kg)

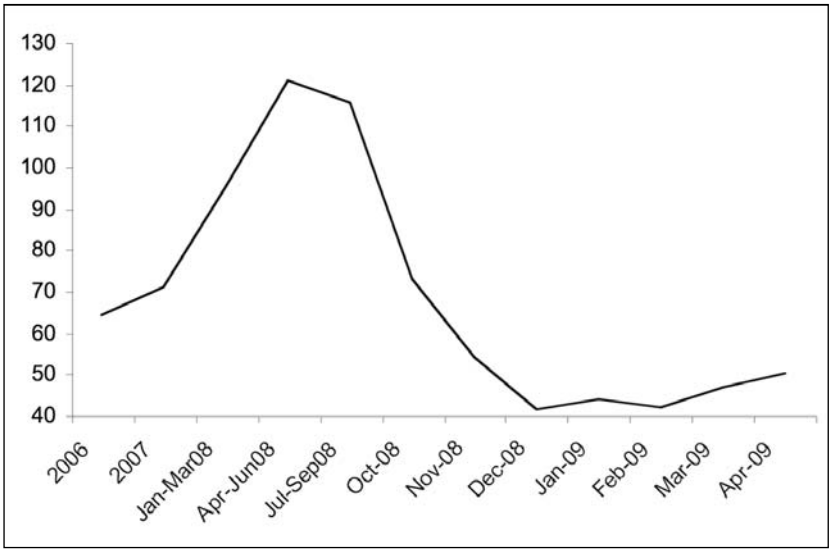


Source: World Bank pink sheet

Prices of metals and minerals follow a general declining pattern, consistent with their use as inputs for other industries. As global production slows, so does the demand for metals and minerals. After a continuous increase since 2005, the crude oil price fell dramatically after October 2008, due mainly to declining production, especially in the USA (Figure 14). It reached a trough at the end of 2008, since when it has bounced back, although to only half the level of the peak of October 2008. The World Bank (2008b) expects this to be temporary, and oil prices are projected to recover and stabilise at about US$80–85/barrel by 2015/20. While oil is a major export for a handful of small countries (Brunei Darussalam, Papua New Guinea, Barbados, Belize and Trinidad), it is a key import for the majority of them. Therefore a return to high oil prices is not good news for small states as a whole.

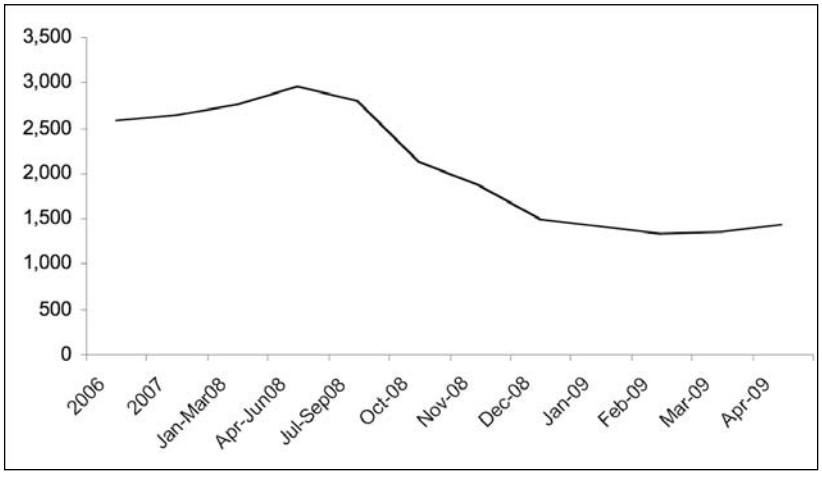
As with oil, the price of aluminium (an important export for Guyana and Jamaica) dropped substantially after the peak in April–June 2008. Its price more than halved before stabilising at around US$1,300–1,400/metric ton (Figure 15).

Figure 14. Price developments of crude oil (US$/bbl)



Source: World Bank pink sheet

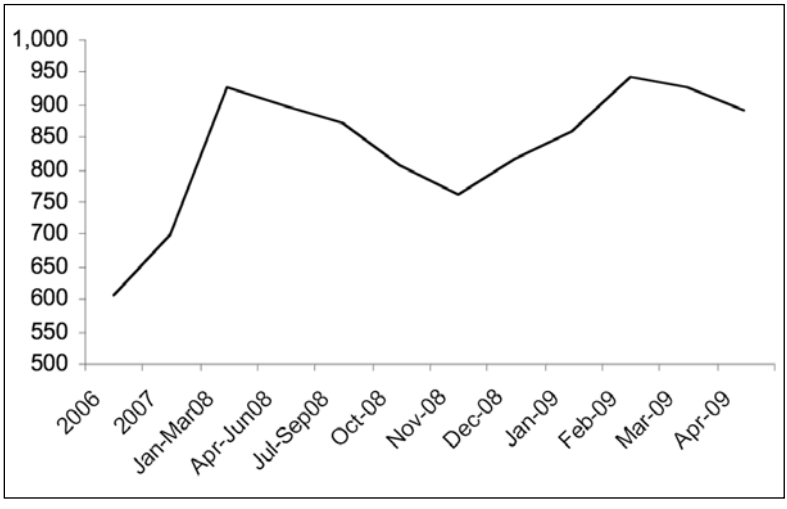
Figure 15. Price developments of aluminium (US$/mt)



Source: World Bank pink sheet

Finally, the price of gold (among the main exports of Guyana and Papua New Guinea) had an opposite pattern to that of most other minerals and metals in that it fell in the second half of 2008 and has bounced back since November 2008, reaching record levels of around US$950/troy ounce in February 2009 – double its level in 2005 (Figure 16). This reverse evolution of price relative to other minerals is mainly due to gold's function as a store of value in a period of currency volatility.

Figure 16. Price developments of gold (US$/troy oz)



Source: World Bank pink sheet

As international price data are not available for a large number of goods exported by small states, we use EU and US import data to provide a rough estimate of the effects of the global financial crisis on these exports. We calculate year-on-year variations in import values for the periods September 2008–February 2009 (March for the USA) and December 2008–February 2009 (March for the USA). These are reported in Annex Table A3. The variation is generally more negative for the last trimester than for the semester, confirming the intensification of the crisis in recent months. The changes in import values are similar in the USA and EU, although some differences, sometimes substantial, do emerge. As these two markets represent a substantial share of total demand in all sectors, an average of the variations across them is a good approximation of export behaviour in the individual sectors. For each sector *s* we take the average of the import value variation over three and six months:

$$\hat{g}_s = [\Delta m_s^{EU}(Dec–Feb) + \Delta m_s^{US}(Dec–Feb) + \Delta m_s^{EU}(Sep–Feb) + \Delta m_s^{US}(Sep–Feb)] \quad (1)$$

where Δ is the year-on-year percentage change and *m* are imports. We take this value as a first approximation of the extent to which each of the major small states' export sectors is affected by the global financial crisis. The results of this calculation (reported in Table A3) confirm the price developments reported above. Minerals and fuels are the most affected categories (except for gold), followed by manufactured goods, especially agro-industry, and then agriculture. Matching these sectoral results with the sectoral composition of countries' exports we are able to compute an indicator of merchandise trade resilience for each country. This is calculated as follows for each country *j*:

$$TR_s = \frac{\sum_{s \varepsilon S_j} \hat{g}_s \, x \, X_s}{\sum_{s \varepsilon S_j} X_s} \qquad (2)$$

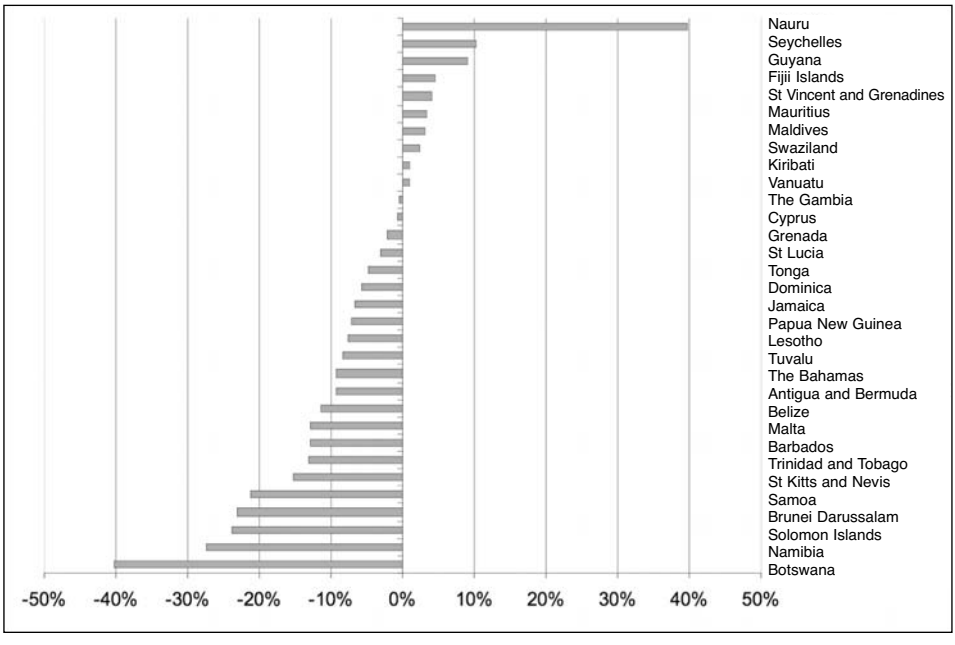
where $\hat{g}$ is computed as in (1), X_s is total export of product s by the country and S_j are all the sectors which country j exports. According to this computation, the merchandise exports of most small countries should drop, although the variation is significant (see Figure 17). Mineral and fuel exporters such as Botswana, Namibia, Brunei Darussalam and Trinidad should be particularly badly affected. On the other hand, Nauru's exports are projected to be very resilient, as its main export is fertiliser, which has achieved a sustained growth over the past few months. Note, however, that export data for Nauru are not available in the UN's Comtrade database and thus we base our calculations on import data from the rest of the world, which are likely to be less precise. Another more important note of caution about these results is that they are based on the assumption that countries' export behaviour in a 3-digit sector mimics that of US and EU imports in the same sector. Although the 3-digit classification is already quite detailed, each sector still includes a number of sub-sectors whose export dynamics are not necessarily the same. Moreover, large countries' imports in a sector may be driven by large countries' exports in those sectors, the pattern of which could be different from those of smaller exporters. These limitations are more likely to affect the absolute than the relative values of the projected changes; as long as they are kept in mind, we believe the results are a good indication of how small countries' exports may be affected.

In much the same way, we also compute an indicator of trade resilience (TR) based on small countries' export markets and their expected performance. This is based on the idea that potential demand for a country's exports is driven by its trading partners' income as well as by its types of exports. Similarly to the index developed in (2), we compute the following export markets-based merchandise trade resilience index for each country j:

$$TR_s = \frac{\sum_{i \varepsilon I_j} \hat{g}_i \, x \, X_i}{\sum_{i \varepsilon I_j} X_s} \qquad (3)$$

where i is the export market and I_j is the vector of all export markets (for which projected growth data are available) of country j; $\hat{g}_i$ is the forecast growth rate of country i according to the IMF's latest projections IMF (2009b) and X_i is the total value of merchandise exports of country j to country I (based on the latest year for which data are available in Comtrade).

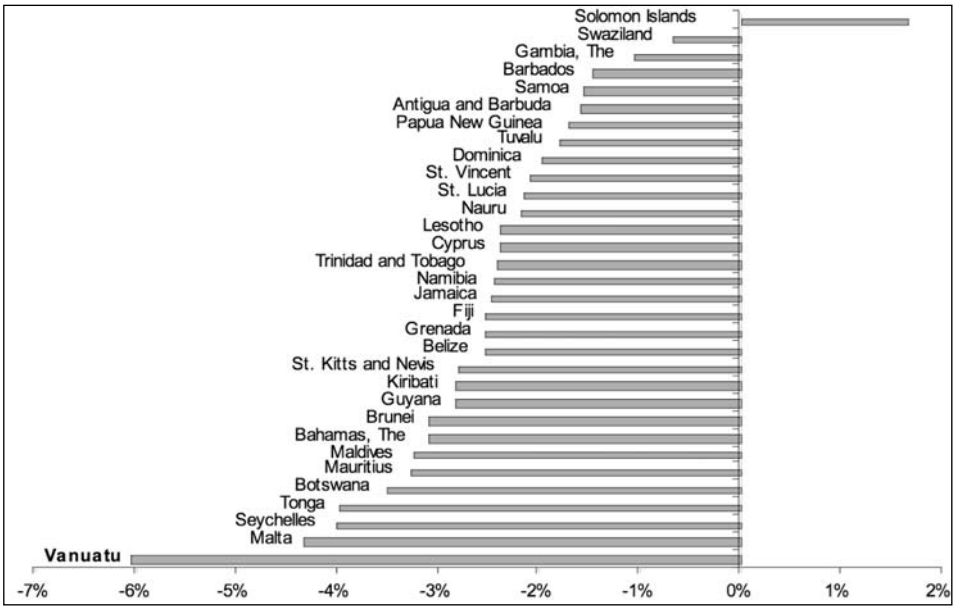
Figure 17. Projected changes in exports on the basis of sectoral composition



Source: Authors' elaboration (see main text)

The basic assumption of this index is an income elasticity of all imports for all countries of 1. This is obviously implausible as it should depend on the types of products imported, among other things. However, we believe that the index thus calculated still provides a good indication of the potential effects of dwindling incomes in the major importing countries.[10] Figure 18 presents the results of the index computation in terms of expected variation in merchandise exports. All small states except Solomon Islands are predicted to have negative export growth in 2009, according to this export market-based index. This follows the fact that their major importers all have negative projected rates of growth for 2009. The relative resilience of Solomon Islands is due to the effect of China, which accounts for around half of the country's exports and was predicted to grow substantially even in 2009.

Figure 18. Projected changes in exports on the basis of export market composition



Source: Authors' elaboration (see main text)

It is useful to plot these trade resilience indicators in a two-dimensional space in order to give a more complete picture of how exports are expected to fare in individual small states. We do this in Figures 19a and 19b. We separate the two, as the latter shows four influential observations which would shrink the differences among other countries if plotted in the same plane. The figures are divided into quadrants by two lines drawn at the median value of each index. Therefore the upper-right quadrant includes countries whose exports are expected to be most resilient, while the opposite is the case for the lower-left quadrant. Countries in the lower-right quadrant are exporting to markets which are relatively unaffected by the crisis (high TR_i index), but their exports are concentrated in sectors that are relatively highly affected (low TR_s index). The opposite situation is represented by the upper-left quadrant.

Figure 19a. Trade resilience indices of small countries

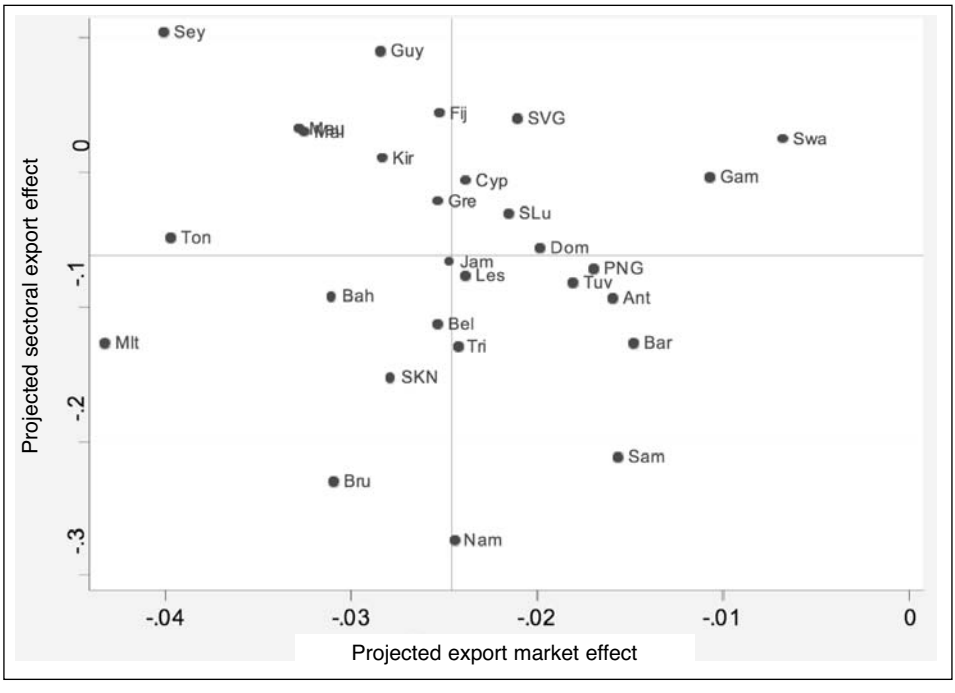
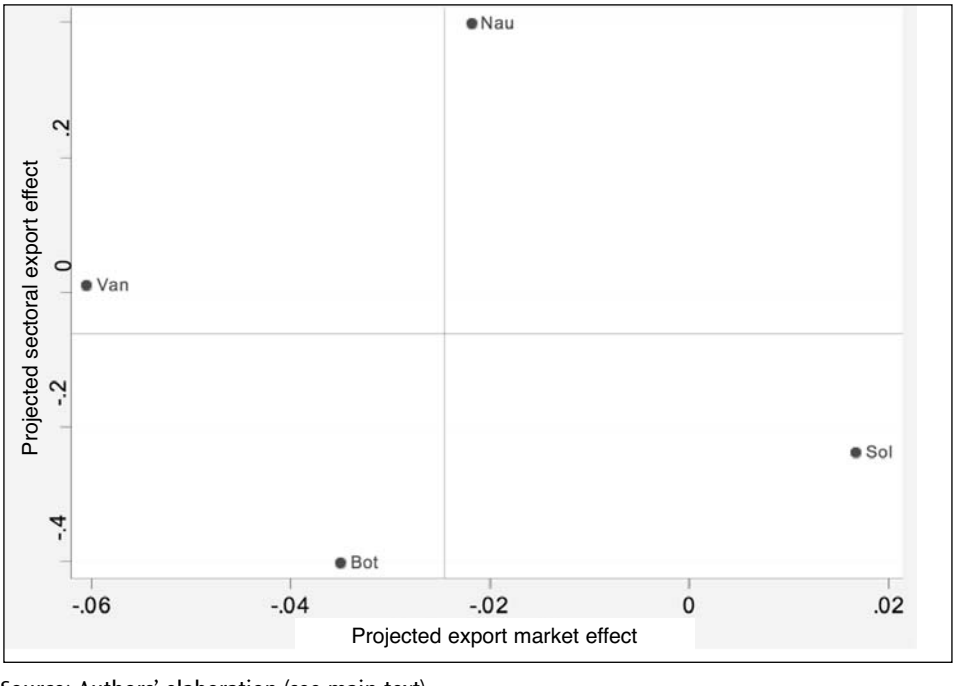


Figure 19b. Trade resilience indices of small countries, influential observations



Source: Authors' elaboration (see main text)

4.2 Trade in services

Unlike for trade in goods, there is little recent systematic data on trade in services that can be used to predict the impact of the global financial crisis on exports of services from small states. Moreover, data on trade in services tend to be less reliable and complete than those on trade in goods, given the intangible nature of the trade. For example, existing data usually cover only trade in services delivered through Mode 1 (cross-border delivery) and Mode 2 (services consumed abroad), but not through Mode 3 (services delivered via commercial presence) and Mode 4 (temporary movement of persons).[11] Given the relative importance of services exports for small states, we try to provide some sense of the possible impact of the crisis on these exports by resorting to indirect evidence.

As discussed in Section 3, Borchert and Mattoo (2009) provide some suggestive evidence of the resilience of trade in services relative to trade in goods. This is evident in Figure 20a, which shows that the drop in US services imports growth has been around four times smaller than that for imports of goods. However, there are wide variations in the services categories, at least as far as US imports are concerned. Transport and travel appear to be less resilient than other private services trade (Figure 20b), and within the latter sector, financial services are less resilient than other services (Figure 20c). In a nutshell, transport, travel and financial services exports appear to be more affected by the global downturn than other services sectors. Using this distinction between services sectors we can draw some inferences about the possible resilience to the crisis of services exports by small states.

Figure 20a. US imports of goods and services, year-on-year growth (percentage changes of monthly services imports)

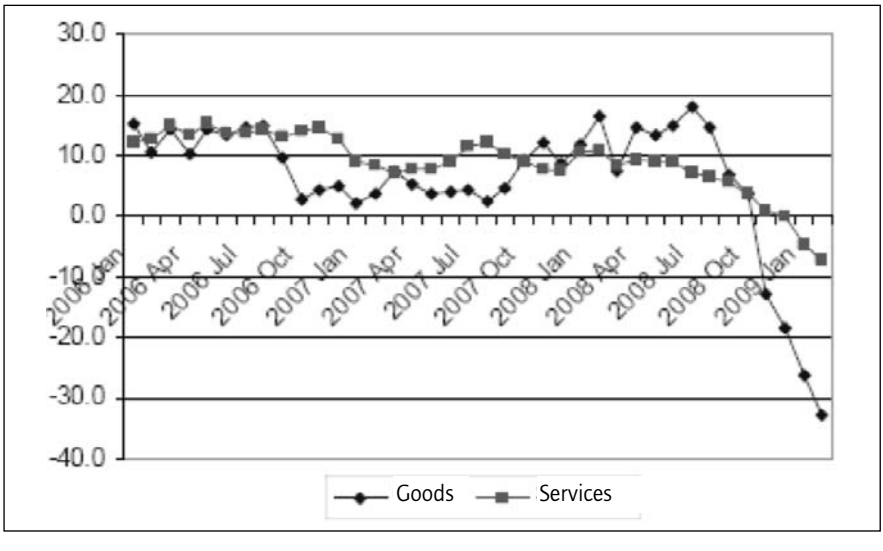


Figure 20b. Sub-categories of services (percentage changes of monthly services imports)

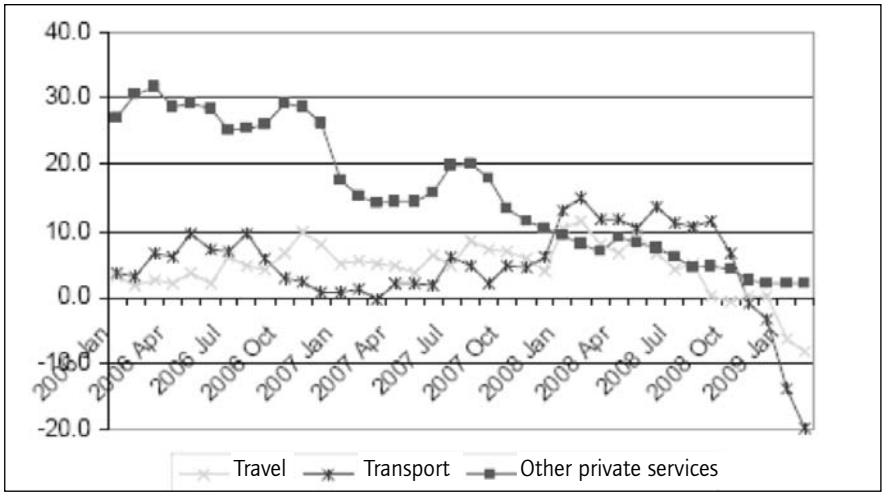
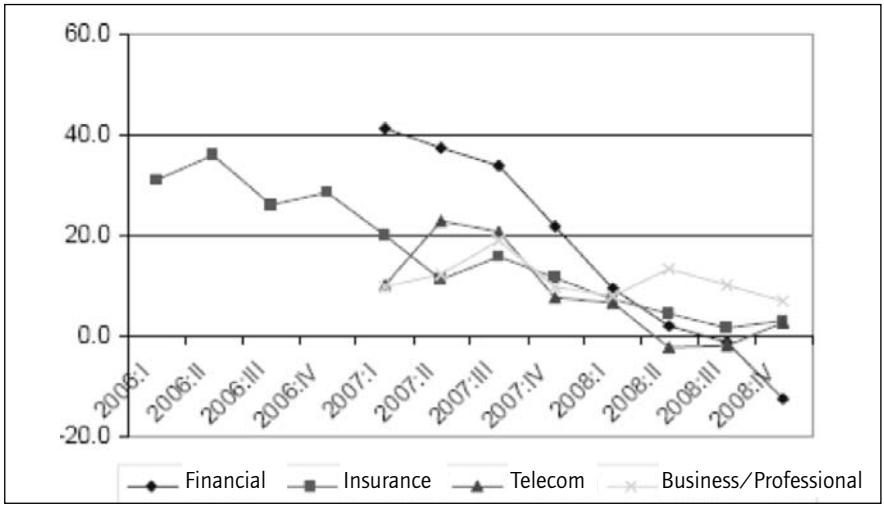


Figure 20c. Sub-categories of 'other private services' (percentage changes of monthly services imports)



Source: Borchert and Mattoo (2009)

We classify small states according to their shares of less resilient exports in total services exports (i.e. transport, tourism and financial services). This exercise is considerably more imprecise than that carried out for exports of goods for three main reasons.

First, services sectors represent larger categories than 3-digit sectors in goods. This means that there is greater heterogeneity in the response of this sector to the crisis. For instance, passenger transport services are very different to goods transport services.

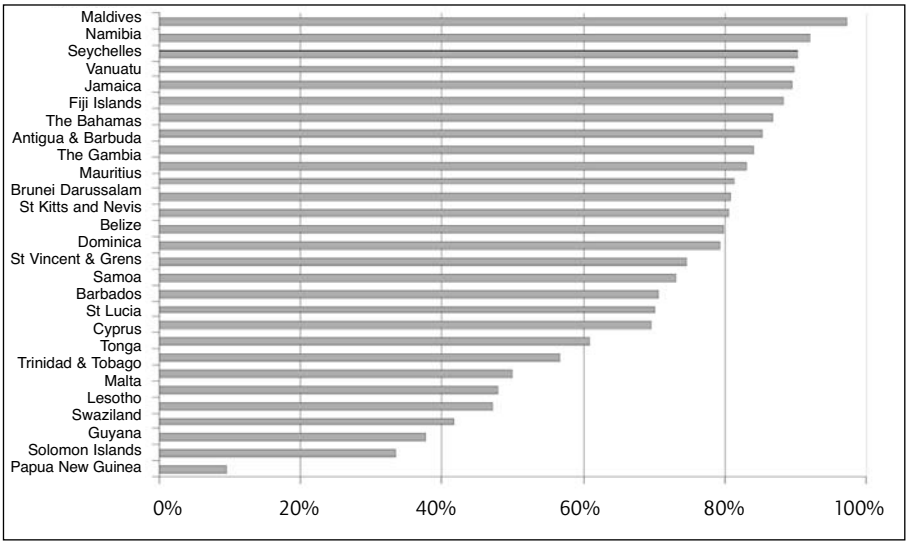
Second, the evidence of the effects of the crisis on the different services sectors is less precise than for goods, as it is based only on US data.

Third, and related to the previous point, the share of services exports captured by the data is likely to be more limited than that for goods, as only Modes 1 and 2 are recorded. In general, the recording of services trade, especially in developing countries, is subject to a large margin of error.

Notwithstanding these limitations, the share of less resilient services exports can provide a useful indication of the relative potential resilience of services exports.

Figure 21 provides the list of small countries ranked in decreasing order of this share. These sectors represent most services exports in the majority of small states, mainly because tourism is such an important export for many of them. In particular, small countries in the Caribbean and the Pacific (with important exceptions such as Papua New Guinea) are particularly vulnerable to the effects of the global downturn on their services exports. As noted above, small countries for which tourism constitutes a large proportion of their services exports are also the countries that export most services. Thus their economies may be particularly vulnerable to the decline in tourism exports associated with the global financial crisis. The main exception to this rule is Namibia, which has the second-highest share of less resilient services exports (due to tourism), but for which these exports account for only a small fraction of its economy.

Figure 21. Share of less resilient services in total services exports



Source: UNCTAD (2009)

Given the importance of tourism in small countries' exports, it is worth looking at the (scant) evidence of how the industry has been faring in those countries during recent months. In general, this evidence confirms the proposition that tourism is a

luxury good and that therefore the global downturn has had a significant impact on its growth.

The Caribbean

Tourist arrivals in the Caribbean are declining rapidly everywhere, possibly also due to the reliance of the region on the American market. In St Lucia, the tourism sector saw a reduction of 8.2 per cent in the number of stay-over visitors in the period September 2008–April 2009 compared with the same period in the previous year. The trend worsened in the period September 2008–March 2009. Arrivals from the USA were projected to decline by 20 per cent from June to October 2009 (te Velde *et al.*, 2009b).

The situation is not very different elsewhere in the region. Activity in the tourism sector slowed down markedly in the second half of 2008 in Antigua and Barbuda. As a result of this, the sector expanded by only 1.5 per cent in 2008, a much lower figure than the initial projection of 8 per cent after the first six months of 2008.[12] According to the Central Bank of the Bahamas (2009), there was already a drop of 3.2 per cent to 2.7 million in total tourist arrivals during the first seven months of 2008.

Indian Ocean region

In Mauritius, monthly tourist arrivals experienced a drop of 10 per cent between the first quarter of 2008 and the first quarter of 2009 (te Velde *et al.*, 2009b). This was the first drop of this kind in recent years. Seychelles reported a 15 per cent year-on-year drop in tourist arrivals in January 2009 and the government estimates that revenue from the tourism industry will drop by 25 per cent in 2009.[13] In Maldives, the growth forecast has also been revised downwards from previous predictions to a negative of 11 per cent based on actual tourist arrivals for the first two months of the year (Government of Maldives, 2009).

Pacific Ocean region

In Samoa, tourist arrivals were already down in 2008 compared with the year before, with a small decrease in numbers of 0.5 per cent, but a larger drop in tourism receipts, which fell by an estimated 7.6 per cent in real terms in the year. This situation continued to worsen in the first four months of 2009.[14]

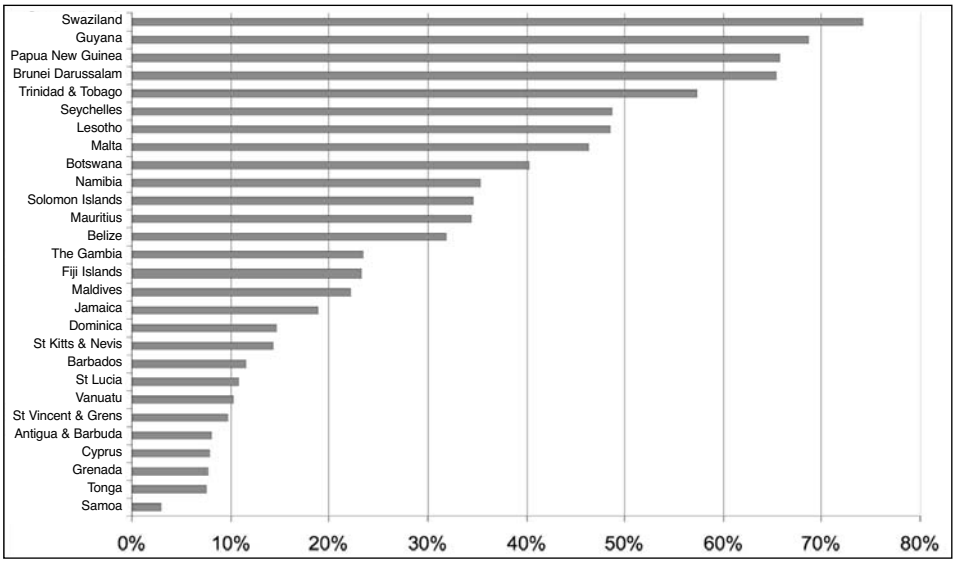
Perhaps the most notable exception to this trend is Vanuatu. Tourist arrivals to the country have held up well and cruise arrivals recorded a record increase of 200 per cent in April 2009 compared with April 2008 and an increase in arrivals by air of 21.3 per cent in the same month. Part of this resilience is probably the result of a diversion of tourists away from Fiji Islands (due to its unstable political situation and adverse weather conditions) towards other destinations in the Pacific. Another explanation is the substitution by Australian tourists of short cheaper holidays to the Pacific for long-haul holidays in Europe. In addition, the proximity of Vanuatu to the key markets of Australia and New Zealand, combined with increased international

promotion and competition in the airline industry, has made transport costs to Vanuatu from its main markets highly competitive. Finally, the reduction of fees levied by the government on cruise ships has contributed to an increase in the number of ships calling at Vanuatu. This example shows that resilience – defined as the policy-induced ability to withstand shocks (Briguglio *et al.*, 2006) – can be built to some extent even in very exposed export sectors such as tourism.

4.3 How do trade effects impact on the domestic economy?

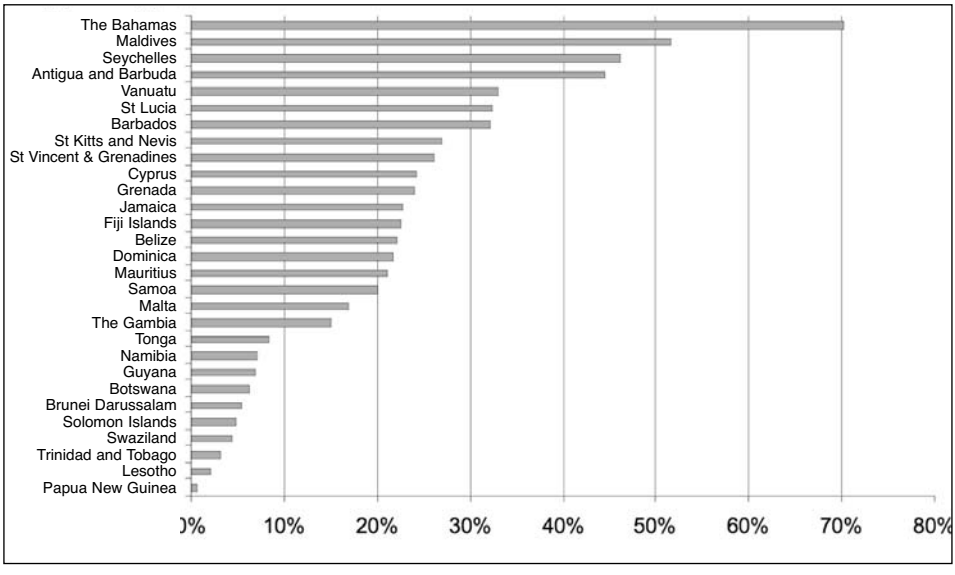
The discussion above has shown that the effects of the global financial crisis on trade prospects in small states are likely to be substantial, although there is a fairly large variability across states. The extent to which these trade effects will impact on GDP growth and development is a very different and much more complex question. In general, other things being equal, the effects on the economy will obviously be larger the higher the dependence on exports. But other characteristics matter as well, such as the share of value added in total exports (i.e. how much of the value of the export is retained in the economy), the distribution of the value across factors of production and the level of employment dependent on exports (both directly and indirectly). It is beyond the scope of this study to explore these linkages in greater detail. However, it is worth examining the potential size of the trade channel of the crisis on the economy as a whole. We do so by using the share of exports of goods in GDP and the share of less resilient services (as defined above) in GDP. Figure 22 presents the former and Figure 23 the latter.

Figure 22. Share of merchandise exports in GDP



Source: *World Development Indicators* (*2009*)

Figure 23. Share of less resilient services exports in GDP



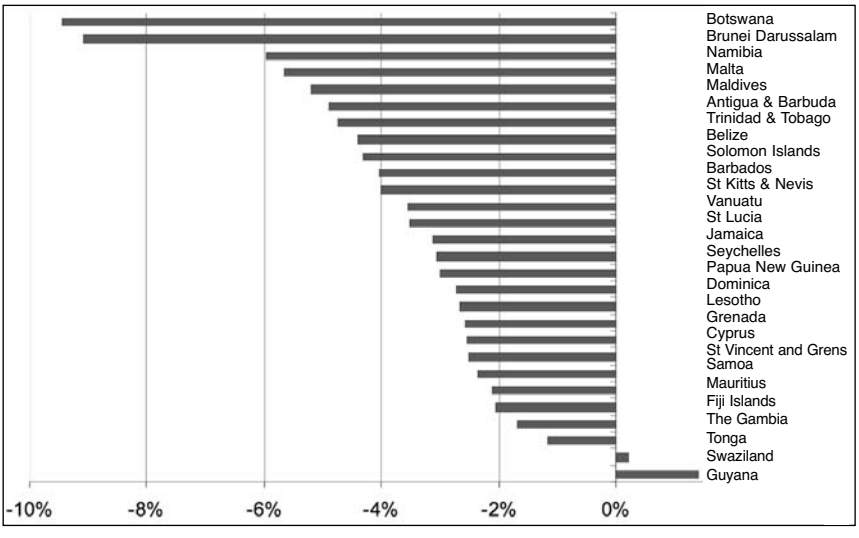
Source: Authors' elaboration on UNCTAD (2009) and *World Development Indicators* (*2009*)

We then use these shares and the trade effects of the crisis computed above to estimate the possible direct impact of the trade channel of the crisis on GDP. In order to do this, we take the average of the two merchandise trade resilience indices above and multiply it by the share of merchandise exports in GDP (from Figure 22). We then add the share of 'less resilient' services in GDP (from Figure 23) multiplied by –0.15. The latter is based on the assumption that these services would shrink by 15 per cent on average (while the other services would stay unchanged). The multiplicity of strong assumptions underlying this computation makes the results subject to large margins of errors and means that caution should be used in interpreting them. Figure 24 presents the results (as a share of GDP), which also represent a sort of summary of the various estimations in the study.

Most small countries are predicted to have fairly sizeable negative effects from the drop in exports induced by the global financial crisis. The only countries which are expected to have non-negative effects are Swaziland and Guyana, due to their dependence on basic agricultural exports such as sugar, rice and essential oils, and their low reliance on affected services exports. At the other end of the spectrum, countries that are heavily reliant on minerals and fuels, such as Botswana and Brunei Darussalam, are expected to be the most negatively affected. Also, small states that rely heavily on tourism, such as Malta, Maldives and most Caribbean and Pacific countries, are likely to be particularly heavily penalised. As shown above, there are exceptions to the rules assumed by these predictions, such as Vanuatu with its resilient tourism sector. Rather than calling into question the projections presented, we would

argue that this exception illustrates the possibilities of countervailing (to some extent) the negative effects of the crisis.

Figure 24. Possible trade channel effects of the crisis on GDP (percentage of GDP)



Source: Authors' elaboration (see main text)

A more indirect trade effect of the crisis has to do with falling government revenues. In developing countries (small states are no exception) a large share of these usually come from trade-related taxes. Falling export and import revenues may exert pressure on government expenditure (IMF, 2009a). This may further reduce the fiscal space that governments in developing countries have to develop counter-cyclical policies, including the expansion of social spending to protect their more vulnerable citizens.

The decline in trade may also have effects on poverty. The immediate impact on the poor depends mainly on the employment effects and direct linkages of export-oriented industries to domestic industries. But even in the case of industries that are fairly isolated from the rest of the domestic economy, such as mining, there can be negative spill-overs on the poor via reduced government revenues, as argued above. In countries that export agricultural commodities, falling commodity prices would cut into rural employment and incomes, thereby increasing rural poverty. The urban poor, however, may benefit as food and energy prices decrease (IMF, 2009a).

5

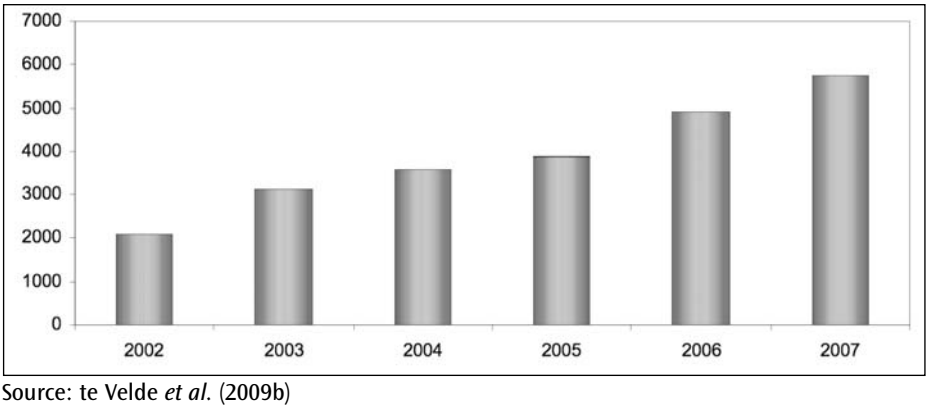
Other Direct Channels of Transmission of the Crisis in Small States

Trade is only one of the channels through which the crisis transmits its effects to developing countries. Given the degree of openness of small states, it is likely to be the most relevant channel in several cases. However, to put the discussion in context, it is worth briefly examining the other direct channels and the way they may impact on small states. Te Velde *et al.* (2009b) identify three areas other than trade where global shocks induced by the crisis may hit developing countries' economies: private capital flows, remittances and aid. We adapt the discussion in te Velde *et al.* (2009b) in what follows.

5.1 Private capital flows

Despite the small size of their markets and limited potential to reap economies of scale in production, most small states have been able to attract a relatively large flow of FDI in the past years. This is mainly due to their potential for tourism and the access to exclusive economic zones that they can offer (this is true of SIDS in particular). Small states are therefore able to attract significant resource-seeking and, to a lesser extent, strategic asset-seeking FDI inflows. Recent trends of FDI inflows to small states show significant increases up to 2007, particularly to SIDS (Figure 25). These have contributed to the large relative size of FDI in small countries, where FDI is often larger than country's entire GDP. However, FDI flows in any given year are usually less than 10 per cent of GDP, which makes a sudden halt in FDI less problematic than a sudden halt in exports for small states. Preliminary evidence gathered by te Velde *et al.* (2009b) suggests that FDI inflows to small states, especially in relation to tourism, financial services and real estate, have already fallen.

Figure 25. FDI inflows to SIDS, 2002–2007 (US$ million)



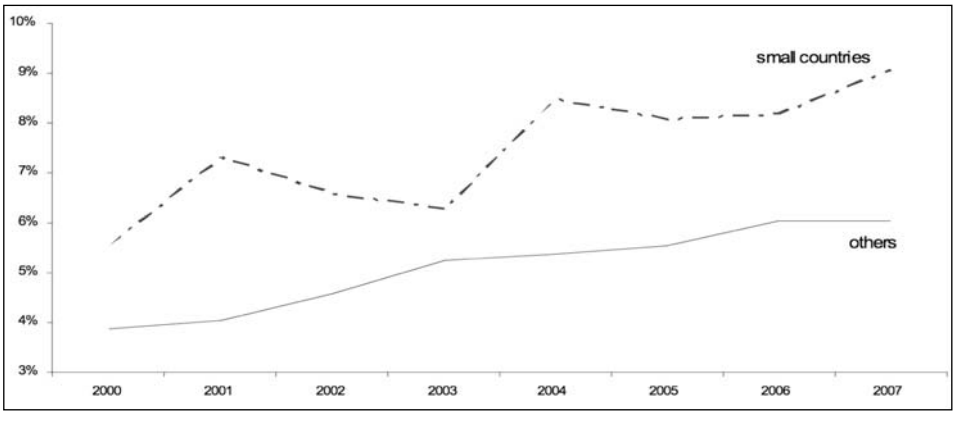
Source: te Velde *et al.* (2009b)

Over the past years, private sector development in small states has been mainly financed through domestic credit. On average, domestic credit to the private sector as a share of GDP has been rising steadily, and in a number of cases it represents over 50 per cent of GDP. The crisis has put at risk access to finance by the private sector. Increased risk aversion in international financial markets has reduced the willingness of banks to lend and has made it more difficult to obtain funds from outside because of the flight-to-quality effect. In a few small states, there have already been the first signs of a contraction in domestic credit as well as of tighter credit conditions. In St Lucia, for example, after three years of rapid growth, in 2008 the expansion in domestic credit slowed to 10.7 per cent, due to a contraction in domestic credit to the private sector, which increased by just 11.6 per cent. In Trinidad and Tobago, lending rates increased as a consequence of the Central Bank's decision to raise its 'repo' rate to 8.75 per cent and to increase the reserve requirements of banks.

5.2 Remittances

The role of remittances in stimulating poverty reduction, private sector development and growth is compounded in small states by their higher level of dependence on remittances as a source of capital than is the case in other developing countries. Figure 26 shows how the share of remittances in GDP has been continuously higher in small states than in other developing countries throughout the last decade. This relatively high remittance-dependence of small states is driven by their larger share of migrants in the population. Docquier and Rapoport (2004) show that net emigration rates per capita in the sending country decrease with sending country size, so that in countries with a population of over 25 million, aggregate emigration rates are less than a fifth of those in countries with a population of less than 4 million.

Figure 26. Remittance dependence: small states compared with other developing countries



Note: Figures calculated as simple averages across countries.
Source: te Velde *et al*. (2009b)

World Bank (2009) and Calì and Dell'Erba (2009) suggest that remittances may decline by between 4 and 14 per cent (depending on the regions and the source considered). This confirms the resilience of remittances to shocks, such as the current financial crisis, relative to other flows (e.g. private capital flows and trade), but also shows that these flows are unlikely to be immune to the shock. The two most affected regions appear to be East Asia and Pacific and Latin America. As these are also the regions which have the most remittance dependent small states, this may pose some strains to the availability of external capital in a number of those states. In countries like Tonga, Lesotho, Guyana, Samoa and Jamaica remittances represent over one-fifth of GDP. Some preliminary evidence reported in te Velde *et al.* (2009b) suggests that remittance-dependent small states are already suffering substantial reductions in these flows. In Tonga, for instance, remittances are down by about 15 per cent for the 2008/2009 financial year ending in June, increasing the risk of unsustainability of debt. Jamaica experienced a similar drop of 18 per cent in February 2009, which brought the decline to 14 per cent for the first two months of 2009. On the other hand, remittances seem to have held up thus far in Samoa, which saw an increase of 4 per cent in the first nine months of the 2008/2009 financial year.

5.3 Aid

Small states usually receive more aid per capita than other developing countries, and therefore tend to be more vulnerable to falls in aid than other developing countries. Figure 27 shows the relative magnitude of an important category of aid flows (particularly relevant in this context), aid for trade, on a per capita basis in small and vulnerable economies (SVEs) and in other developing countries.

Figure 27. Aid for trade to small and vulnerable economies and other developing countries (US$ per capita)

Note: Preliminary data available for 2007.
Source: Calì and te Velde (2009b) based on OECD/DAC Creditor Reporting System (source and definition of SVE also included)

Whether aid budgets will indeed be squeezed by the increasing pressure of the financial crisis on industrial countries can only be matter of speculation at this time. However, a recent study (Frot, 2009) supports the view that this may be the case if one looks at the effects of previous crises. Past evidence suggests that a crisis reduces aid budgets by 13 per cent and the adverse effects are still felt up to five years after the crisis.

6

Policy Implications

A major finding of this study is that small states are likely to see their exports fall fairly substantially, and that for some of them the reduction may be critical. These countries need to adopt both short-term and long-term policies to mitigate and (eventually) counteract the effects of the crisis and increase their resilience to possible future shocks, which are not rare, as this crisis has once again shown. We review these policy implications in turn.

6.1 Long-term policies

The wide variation in trade effects is related to the varying composition of countries' exports in terms of both markets and sectors. It is clearly more difficult to change the sectoral specialisation of a country than to change its trading partners, especially for a small state. In this context, diversifying export markets is a strategy with a high return in times of crisis. Often, however, small states have been locked in to export to certain markets via preferential schemes; the most important of these are schemes with the EU, covering a number of agricultural products. Moving away from this preferential system is likely to facilitate the market diversification process.

In addition, for those small states exporting commodities and minerals and fuel in particular (e.g. Brunei Darussalam, Papua New Guinea, Trinidad and Guyana), diversifying export markets is not a solution, as exports are to world markets and the export value in the short term depends on the price which is set internationally. Obviously, in the medium to long run the export is also a function of supply capacity (e.g. capital invested in new oil exploration or in expanding the area under production of tropical products). But even that is often ultimately driven by the international price. The crisis is showing once again how vulnerable to demand shocks mineral and oil markets can be. Therefore, small states need to build resilience to these types of shock. One possible way to reduce the drop in exports in these sectors would be to increase the quantities sold. However, with dwindling incomes and demand this strategy seems very difficult to implement. The most feasible option for mineral and oil exporters is probably sectoral, rather than market, diversification. Although booming mineral export sectors are often a problem for sectoral diversification owing to 'Dutch-disease' type effects, this need not be the case. Chile is illustrative in this respect. In Chile copper booms have been accompanied by the development of successful non-traditional export sectors. This underscores the importance of managing the response to swings in commodity prices in a careful way, extracting resources from the mineral sector during boom times in order to cope when times are lean. As noted by Calì and te Velde (2007), if enough windfall revenues are chan-

nelled into the public sector, there is an option of creating a trust fund to save for periods of adverse terms of trade and to take pressure off the currency (along the lines of the Chilean experience). This will also have the effect of not constraining the growth of other sectors during mineral boom times. The success of granting preferential market access has been mixed, especially as falling tariffs and increasing numbers of countries with preferential access have greatly reduced the scope for preferences.

On the other hand, to the extent that services exports are more resilient than exports of goods in the face of the global financial crisis, the crisis may induce a further switch to a services-based specialisation. This has already been identified as one of the most viable specialisation patterns for small states (Briguglio, Persaud and Stern, 2006), as for services exports the penalties of smallness and remoteness are generally less severe than for exports of goods. Within the services sector, several small states, and in particular small island countries, have an inherent advantage in tourism. However, tourism is one of the most negatively affected services exports. Business and professional services appear to be more resilient and they could provide interesting areas for future export specialisation for small states, including via temporary movement of persons. This requires consistent and focused investment in tertiary education that not many small states are able to make, due to the economies of scale needed to develop an effective tertiary education system (e.g. a critical mass of students to establish a university degree in a particular subject). This may be a further reason for investing in these types of activity at the regional level, e.g. by creating regional universities.

6.2 Short-term policies

In the short run, small states are constrained in the policies they can implement to limit the adverse effects of the export crisis. A first possibility is to use exchange rate policy by devaluing the domestic currency vis-à-vis that of the major competitors in order to improve the competitiveness of the country's exporters. However, the scope of this measure is often constrained by the pegged and semi-pegged exchange rates adopted by small states. Moreover, devaluation will increase the price of imports and the costs of external debt.

Another possibility is to use fiscal policy to stimulate exports by reducing (or eliminating) both explicit and implicit forms of export taxes (e.g. via import taxes on inputs). A measure of this type appears to have yielded some success in Vanuatu, which recently scrapped the fee charged to cruise ships to dock in the port. This seems to have contributed to the recent increase in tourist arrivals via sea. In general, all measures that reduce the costs of trading may be particularly effective in a period of price-sensitive international demand. Trade facilitation activities may help reduce these costs in the short run, and have proven to be particularly effective in decreasing the costs of exporting in SVEs (Calì and te Velde, 2009b). Upgrading and developing infrastructure are possibly more effective in reducing trading costs,

but are longer-term measures. In some cases, the latter could be an effective way of implementing counter-cyclical fiscal stimulus packages.

As argued in Section 2, one of the major factors responsible for the fall in trade has been the lack of general credit, of which trade finance is one part. This tends to constrain especially those firms that lack assets (and thus guarantees), for which producing and exporting (or import competing) becomes increasingly difficult. Ensuring access to credit to such firms in particular may help limit the fall in exports and in some cases may support and save domestic industries.

One possible implication of falling prices in commodity export sectors is that these may receive government transfers to offset part of the falling revenues (IMF, 2009a). This will happen if commodity marketing boards or state-owned export enterprises, which are quite common in small states, decide to subsidise domestic producers by maintaining higher domestic prices than the corresponding export prices. This will obviously have negative effects on domestic consumers, and thus needs to be carefully evaluated.

The crisis has also had a negative effect on the prospects of the offshore financial centres, which have come under closer scrutiny. This may explain in part the drop in financial services imports by the USA and could suggest re-orienting existing offshore centres, which are present in a number of small states, to offer more sustainable types of financial services.[15]

Finally, all the efforts of the international trade community to minimise the impacts of the crisis on international trade will be particularly beneficial for small states, given their high degree of openness and dependence on international trade. Such international policy responses could include the fight against any form of trade protectionism, the provision of adequate funds and guarantees to ensure sustained trade finance, and the provision of AfT in effective areas of intervention.

7

Conclusions

For developing countries, trade is a key transmission mechanism of the current global financial crisis. The effects of the crisis on trade are likely to play out through falling demand (due to falling incomes), increased trade protectionism, mainly taking non-traditional forms, and drying up of finance, including trade finance. The adverse effects on trade are possibly even more important for small states, which are heavily dependent on trade, given their need to specialise in a handful of productive activities. This study is the first to look specifically at the trade effects of the current global slowdown on small states. It has shown that small states' exports seem to be affected at least as much as other countries' exports. Given their reliance on trade, this means that the effects on their economies may be more significant than the impact on the economies of other developing countries.

The export dependence of small states on a few sectors and markets implies that if these sectors and/or markets are adversely affected, the effects on small states' exports will be important. On the basis of these characteristics, this study has identified the possible exposure of small states to adverse trade shocks. In particular, countries that export minerals and fuels, and 'luxury' goods and services, such as beef and tourism, are likely to be more affected. On the other hand, countries that export more basic agricultural goods, such as sugar, rice and fruits, are likely to be more resilient. Similar arguments apply in relation to export markets, although most markets appear to be negatively affected by the crisis and that is why trade resilience measures based on merchandise export markets are negative for all states except Solomon Islands, whose exports are concentrated on China, which is weathering the crisis well.

On the other hand, exports of services appear to be more resilient in face of the crisis than exports of goods, although this is less the case for tourism, the major services export of small states. Many small states which depend on tourism are experiencing considerable drops in tourism arrivals and revenues, in line with the proposition that tourism has a high income elasticity of demand. Vanuatu is an exception to this pattern in that its increase in tourist arrivals has continued unabated, due in part to political and weather-related problems in its main competitor, Fiji Islands.

According to our computations, the only countries which are expected to have non-negative trade-related effects from the crisis are Swaziland and Guyana, due to their dependence on basic agricultural exports such as sugar, rice and essential oils, and their low reliance on affected services exports. At the other end of the spectrum, it is probable that countries that rely heavily on minerals and fuels, such as Botswana and Brunei Darussalam, will be the most negatively affected. In addition, small states such as Malta, Maldives and most Caribbean and Pacific countries that are heavily

reliant on tourism are likely to be particularly heavily penalised.

Other flows, including private capital flows, remittances and aid, are also likely to dry up as a consequence of the crisis, although they do not seem to pose the same strains on the economies of many small states as does trade.

It is difficult for small states to respond to the trade-induced effects of the crisis, given their limited fiscal space (in the context of shrinking trade-related taxes which represent a large part of government revenues), exchange rate policy and lack of influence in the international trade arena. However, eliminating taxes on exports, ensuring timely finance for credit-constrained domestic firms and reducing the (relatively high) costs of trading may be helpful short-term responses to the adverse trade effects of the crisis. The crisis may also sound an alarm bell that will encourage small states to implement certain trade-related policies. Small states should aim to diversify their export markets, quickly moving away from the system of trade preferences; reconsider the role of offshore financial centres, which have come under increasing scrutiny; and upgrade and develop trade-related infrastructure to reduce the handicap of remoteness. Finally, the international community has a key role to play in adopting policies to help international trade withstand the adverse effects of the crisis by fighting protectionism, guaranteeing adequate funds to sustain trade finance and providing effective aid for trade. It is in the particular interest of small states to support and stimulate such initiatives.

Annex

Table A1. Main export sectors covering 90 per cent of small states' total exports[a] (191 3-digit codes)

SITC	Description	No. of 3-digit codes[b]
0 – Food and live animals		**27**
00	Live animals other than animals of division 03	1
01	Meat and meat preparations	3
02	Dairy products and birds' eggs	2
03	Fish (not marine mammals), crustaceans, molluscs and aquatic invertebrates and preparations thereof	4
04	Cereals and cereal preparations	4
05	Vegetables and fruit	5
06	Sugars, sugar preparations and honey	2
07	Coffee, tea, cocoa, spices and manufactures thereof	3
08	Feeding stuff for animals (not including unmilled cereals)	1
09	Miscellaneous edible products and preparations	2
1 – Beverages and tobacco		**3**
11	Beverages	2
12	Tobacco and tobacco manufactures	1
2 – Crude materials, inedible, except fuels		**26**
21	Hides, skins and furskins, raw	1
22	Oil-seeds and oleaginous fruits	2
23	Crude rubber (including synthetic and reclaimed)	1
24	Cork and wood	4
25	Pulp and waste paper	1
26	Textile fibres (other than wool tops and other combed wool) and their wastes (not manufactured into yarn or fabric)	2
27	Crude fertilisers, other than those of division 56, and crude minerals (excluding coal, petroleum and precious stones)	4
28	Metalliferous ores and metal scrap	9
29	Crude animal and vegetable materials, n.e.s.	2
3 – Mineral fuels, lubricants and related materials		**7**
32	Coal, coke and briquettes	1
33	Petroleum, petroleum products and related materials	3
34	Gas, natural and manufactured	3
35	Electric current	0
4 – Animal and vegetable oils, fats and waxes		**2**
41	Animal oils and fats	0
42	Fixed vegetable fats and oils, crude, refined or fractionated	2
43	Animal or vegetable fats and oils, processed; waxes of animal or vegetable origin; inedible mixtures or preparations of animal or vegetable fats or oils, n.e.s.	0

Table A1 (continued)

SITC	Description	No. of 3-digit codes[b]
5 – Chemicals and related products, n.e.s.		**23**
51	Organic chemicals	4
52	Inorganic chemicals	4
53	Dyeing, tanning and colouring materials	3
54	Medicinal and pharmaceutical products	2
55	Essential oils and resinoids and perfume materials; toilet, polishing and cleansing preparations	3
56	Fertilizers (other than those of group 272)	0
57	Plastics in primary forms	2
58	Plastics in non-primary forms	2
59	Chemical materials and products, n.e.s.	3
6 – Manufactured goods classified chiefly by material		**35**
61	Leather, leather manufactures, n.e.s., and dressed furskins	1
62	Rubber manufactures, n.e.s.	2
63	Cork and wood manufactures (excluding furniture)	2
64	Paper, paperboard and articles of paper pulp, of paper or of paperboard	2
65	Textile yarn, fabrics, made-up articles, n.e.s., and related products	8
66	Non-metallic mineral manufactures, n.e.s.	6
67	Iron and steel	4
68	Non-ferrous metals	3
69	Manufactures of metals, n.e.s.	7
7 – Machinery and transport equipment		**38**
71	Power-generating machinery and equipment	3
72	Machinery specialized for particular industries	5
73	Metalworking machinery	2
74	General industrial machinery and equipment, n.e.s., and machine parts, n.e.s.	7
75	Office machines and automatic data-processing machines	3
76	Telecommunications and sound-recording and reproducing apparatus and equipment	4
77	Electrical machinery, apparatus and appliances, n.e.s., and electrical parts thereof (including non-electrical counterparts, n.e.s., of electrical household-type equipment)	7
78	Road vehicles (including air-cushion vehicles)	5
79	Other transport equipment	2
8 – Miscellaneous manufactured articles		**28**
81	Prefabricated buildings; sanitary, plumbing, heating and lighting fixtures and fittings, n.e.s.	2
82	Furniture, and parts thereof; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings	1
83	Travel goods, handbags and similar containers	1
84	Articles of apparel and clothing accessories	7
85	Footwear	1
87	Professional, scientific and controlling instruments and apparatus, n.e.s.	3

Table A1 (continued)

SITC	Description	No. of 3-digit codes[b]
88	Photographic apparatus, equipment and supplies and optical goods, n.e.s.; watches and clocks	4
89	Miscellaneous manufactured articles, n.e.s.	9
9 – Commodities and transactions not classified elsewhere in the SITC		**2**
91	Postal packages not classified according to kind	0
93	Special transactions and commodities not classified according to kind	0
96	Coin (other than gold coin), not being legal tender	1
97	Gold, non-monetary (excluding gold ores and concentrates)	1

[a]By value, in the most recent year reported to the UN's Comtrade database.
[b]Accounting for 10 per cent or more of any country's total exports.
Source: See Table 2

Table A2. Coverage of main export sectors by individual small states

Country	# codes identified as important	Value (US$ m)	Share of total export value (%)
Totals	**76**	**30,544**	**66.5**
Brunei Darussalam	2	7,355	96.3
Seychelles	1	183	91.9
Maldives	2	95	87.5
Belize	4	213	83.9
The Bahamas	3	309	81.4
Antigua and Barbuda	3	3	81.3
Botswana	2	3,972	78.3
Samoa	1	76	78.2
St Kitts and Nevis	2	24	76.2
Jamaica	2	1,632	75.5
Lesotho	3	731	75.5
Papua New Guinea	3	1,874	68.8
Swaziland	3	709	65.5
Dominica	3	23	65.1
Kiribati	3	2	63.6
Solomon Islands	1	100	63.5
St Vincent and Grenadines	3	23	62.6
St Lucia	2	32	61.8
Trinidad and Tobago	3	8,005	59.8
Grenada	4	20	59.2
Nauru (*mirror data*)	1	13	59.1
Guyana	3	408	53.7
Gambia, The	3	6	51.0
Mauritius	3	1,000	48.7
Fiji Islands	3	245	47.9
Vanuatu	3	14	47.4
Malta	1	1,371	44.7
Tonga	1	4	44.3
Namibia	3	1,761	43.6
Barbados	2	105	35.2
Cyprus	2	235	33.9
Tuvalu	1	0	12.2

Source: See Table 2

Table A3. Variation in import values and unit values for the EU and USA

Code description	EU UVs for imports from extra-EU		Change in total import value: 08/09 over 07/08 (%)				
	Change in average UV: 08/09 over 07/08 (%)		EU imports from extra-EU		US imports from world		Average of columns 1–4
	Last 6 months (Sept–Feb)	*Last 3 months (Dec–Feb)*	*Last 6 months (Sept–Feb)*	*Last 3 months (Dec–Feb)*	*Last 7 months (Sept–Mar)*	*Last 4 months (Dec–Mar)*	
Fish,live/frsh/chld/froz	–2.3	–2.5	–0.4	–0.7	4.8	4.0	1.9
Crustaceans molluscs etc.	–2.1	–4.3	–4.4	–7.5	–2.0	–11.4	–6.3
Fish/shellfish,prep/pres	12.8	15.0	18.8	13.3	7.6	4.2	11.0
Flour/meal wheat/meslin	32.3	38.1	47.2	54.5	0.4	–15.1	21.8
Vegetables,frsh/chld/frz	49.1	35.3	–1.5	–4.1	–0.9	–4.9	–2.9
Fruit/nuts, fresh/dried	0.2	–1.7	–2.1	–2.5	6.9	6.3	2.2
Fruit/veg juices	–12.6	–13.3	–11.6	–5.0	–20.3	–35.3	–18.0
Sugar/molasses/honey	16.1	21.8	3.4	–1.4	36.6	37.7	19.1
Animal feed ex unml cer.	14.0	–2.0	–3.2	–14.4	11.6	8.4	0.6
Beverage non-alcohol n.e.s.	38.5	31.7	–7.5	–11.1	–4.3	–15.0	–9.5
Alcoholic beverages	–9.9	–8.5	–5.3	–2.0	–4.1	–8.1	–4.9
Oil seeds-not soft oil	46.9	49.6	11.2	–9.4	–15.7	–29.6	–10.8
Wood in rough/squared	–4.2	1.4	–44.0	–59.4	–18.5	–17.8	–34.9
Fertilizers crude	195.2	113.1	101.3	–28.7	78.6	61.4	53.2
Stone/sand/gravel	–5.6	–4.8	–18.5	–25.1	–23.2	–28.6	–23.8
Copper ores/concentrates	–25.2	–39.1	–22.0	–29.4	–63.6	–75.2	–47.5
Nickel ores/concs/etc.	–52.9	–62.8	–11.0	–38.4	–47.6	–92.2	–47.3
Aluminium ores/concs/etc.	37.1	46.1	12.9	–6.0	–4.2	–18.6	–4.0
Petrol./bitum. oil, crude	–20.0	–46.0	–21.2	–47.6	–21.0	–48.0	–34.4
Heavy petrol/bitum oils	–9.8	–34.1	–8.0	–31.0	–23.0	–44.0	–26.5
Natural gas	43.4	33.7	36.1	19.8	–15.7	–30.3	2.5
Fixed veg oil/fat, soft	13.4	–5.4	18.9	–7.5	4.1	–17.2	–0.4
Fixed veg oils not soft	10.7	–5.1	31.2	23.2	15.5	–4.0	16.5
Organo-inorganic compnds	–3.5	4.9	–9.5	–1.9	14.4	19.5	5.6
Pigments/paints/varnish	30.9	28.1	–17.2	–20.2	–21.6	–28.5	–21.9
Medicaments include vet	6.4	9.1	13.5	17.0	4.5	4.2	9.8
Essent.oil/perfume/flavr	12.3	11.8	–0.8	–8.3	–1.7	–1.5	–3.1
Soaps/cleansers/polishes	6.0	4.8	7.6	2.4	–4.1	–8.5	–0.7
Styrene primary polymers	–7.9	–18.2	–6.5	–26.8	–5.6	–29.4	–17.1
Misc chemical prods n.e.s.	–4.0	–6.8	21.6	9.4	–7.3	–23.9	–0.1
Made-up textile articles	4.3	6.4	0.1	–0.8	–7.3	–11.7	–4.9
Pearls/precious stones	–24.1	–41.7	–35.3	–50.6	–32.7	–47.0	–41.4
Rolled plated m-steel	22.0	18.0	–12.0	–31.8	22.6	0.8	–5.1
Zinc	–44.7	–43.9	–63.0	–63.5	–54.3	–54.8	–58.9
Telecomms equipment n.e.s.	7.7	9.2	–13.5	–23.2	–10.2	–14.9	–15.4
Electric circuit equipmt	7.3	7.7	–9.5	–19.1	–16.0	–24.9	–17.4
Electrical distrib equip	0.1	–3.8	–12.6	–22.7	–27.4	–37.8	–25.1
Valves/transistors/etc.	–26.0	–22.8	–1.9	–20.1	–18.6	–27.1	–16.9
Mens/boys wear, woven	7.3	8.1	2.7	4.3	–7.1	–9.5	–2.4

Table A3 (continued)

Code description	EU UVs for imports from extra-EU		Change in total import value: 08/09 over 07/08 (%)				
	Change in average UV (%): 08/09 over 07/08 (%)		EU imports from extra-EU		US imports from world		Average of columns 1–4
	Last 6 months (Sept–Feb)	*Last 3 months (Dec–Feb)*	*Last 6 months (Sept–Feb)*	*Last 3 months (Dec–Feb)*	*Last 7 months (Sept–Mar)*	*Last 4 months (Dec–Mar)*	
Articles of apparel n.e.s.	2.5	3.9	4.8	6.1	–2.2	–4.7	1.0
Printed matter	8.4	10.9	1.7	–1.4	–13.4	–19.0	–8.0
Gold	20.1	12.2	51.5	80.7	–3.2	–4.6	31.1

Sources: Eurostat COMEXT database and USITC Interactive Tariff and Trade DataWeb

Table A4. Projected growth rates in advanced economies for 2009

2009 (projected)		2009 (projected)	
Iceland	–10.6	Czech Republic	–3.5
Singapore	–10.0	France	–3.0
Ireland	–8.0	Spain	–3.0
Taiwan	–7.5	Austria	–3.0
Japan	–6.2	Switzerland	–3.0
Germany	–5.6	USA	–2.8
Finland	–5.2	Slovenia	–2.7
Netherlands	–4.8	Canada	–2.5
Luxembourg	–4.8	Slovakia	–2.1
Hong Kong	–4.5	New Zealand	–2.0
Italy	–4.4	Norway	–1.7
Sweden	–4.3	Israel	–1.7
Portugal	–4.1	Malta	–1.5
UK	–4.1	Australia	–1.4
Korea	–4.0	Greece	–0.2
Denmark	–4.0	Cyprus	0.3
Belgium	–3.8	**Advanced economies**	**–3.8**

Source: IMF (2009b)

Notes

1 These states are Antigua and Barbuda, The Bahamas, Barbados, Belize, Botswana, Brunei Darussalam, Cyprus, Dominica, Fiji Islands, The Gambia, Grenada, Guyana, Jamaica, Kiribati, Lesotho, Maldives, Malta, Mauritius, Namibia, Nauru, Papua New Guinea, Samoa, Seychelles, Solomon Islands, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Swaziland, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu.

2 Despite the focus of the empirical work on this community of countries, its implications probably apply to a broad range of small states. In this study, therefore, we refer to small states and to the CSIC interchangeably.

3 The following discussion on income elasticities of demand for various merchandise goods is mainly taken from Meyn and Kennan (2009).

4 Engel's law states that as income rises, the proportion of income spent on food falls, even if actual expenditure on food rises. In other words, the income elasticity of demand of food is less than 1.

5 See Qureshi and te Velde (2008) for a more complete analysis of the challenges faced by small states.

6 Note that the relatively high share of fuel in small states' merchandise exports is driven by the exports of Brunei Darussalam, which is the largest merchandise exporter in the sample. If an unweighted average of exports is used, this share shrinks considerably.

7 The Commonwealth Secretariat/World Bank Report for 2006 suggests that small states should reposition themselves in the global economy in knowledge-based and service industries such as tourism, finance, insurance, health, education, and information and communication technology services. Qureshi and te Velde (2008) analyse some of the successful cases in these areas,

8 The trade statistics reported by Tuvalu to UN Comtrade are anomalous in that the sum of the values of the discrete exports reported amounts to only 47 per cent of the reported 'total trade' value. The composition of the 'missing' 53 per cent of exports is unknown. It is for this reason that the exports identified as important for Tuvalu represent a far lower share of total exports than is the case for the other countries. The same applies (to a lesser extent) for Vanuatu – for which the individual exports reported represent only 72 per cent of total trade.

9 Note that price data for manufactured goods are not available from the source consulted.

10 See Table A4 for projected GDP growth rates of the advanced economies according to the IMF (2009b).

11 Part of Mode 4 trade tends to be captured through workers' remittance data in the balance of payment statistics, while Mode 3 trade goes usually unrecorded as it involves domestic transactions by foreign entities.

12 Statement by The Governor for Antigua and Barbuda, available at: http://www.caribank.org/titanweb/cdb/webcms.nsf/AllDoc/8B52354E19554C7B042575C30074CB6F?OpenDocument

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14 *ANZ Pacific Quarterly*, May 2009, http://www.anz.com/resources/2/8/281646004e4a3a5da700af93c5571dd1/Pacific-Quarterly-May2009.pdf?CACHEID=e64bc5804e472fbd9c52bc6672659df2

15 The kind of services provided by Mauritius to foreign banks, for example, may be a possible model.

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This is the first study to look at the trade effects on small states of the current global slowdown. Export industries in these countries have been affected at least as much as those of other developing countries. Given their reliance on trade, this means that the overall economic impact on small states may be greater than for other developing countries, all the more so for those countries exporting minerals and fuels, and 'luxury' goods and services, such as beef and tourism.

The authors suggest a number of policy responses for governments of small states which may help to address the issues that arise.

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