

Chapter 3

Conclusion and recommendations

Achieving sustainable development in SIDS requires building their resilience to the environmental and economic vulnerabilities that define them. As part of this effort, SIDS require economic development strategies that deliver economic growth, diversification and structural transformation.

Devising transformative economic development strategies in SIDS is complicated by their small populations and narrow resource base. Successful examples of countries that have transformed their economies in the post-war period, typically involve building economies of scale in selected industries by capitalising on a relative abundance of factors of production – capital, labour and land.

Although united by their small size and vulnerability, SIDS are otherwise quite heterogeneous, including countries with a broad range of income levels, economic complexity and productive capacity. This heterogeneity complicates a coherent policy treatment of the SIDS group, whether for international assistance or identifying economic development strategies that respond to their particular needs.

In this publication, we proposed a simple evaluation framework to identify alternative economic development strategies for SIDS. We began by looking at what exists, in terms of SIDS' endowments (Screen 1) and economic structures (Screen 2). These screens underlined, for example, that: a) SIDS' economic structures largely follow their endowment base; b) SIDS' endowments do not support large-scale manufacturing strategies and only a handful of SIDS are endowed for natural resource-based strategies; and c) as a result, most SIDS rely on services, mainly tourism.

Thus far, these findings repeat what SIDS already know about their dependence on the tertiary sector. But for 15 of the SIDS in the sample, the analysis also identified the potential for mixed strategies in one or two other sectors. In these cases, the 15 SIDS do not have a comparative advantage in the other sectors. However, according to the proxy indicators we used, they had values close to the threshold group averages for the distribution of inputs (in this case, employment) or outputs (value-added) in the secondary or primary sectors. This suggests they can explore mixed strategies, with, for example, targeted, small-scale manufacturing activities complementing that country's predominant sector, mainly services or extractives.

In Screen 3, we looked at SIDS' positioning to capitalise on future opportunities, in the context of global value chains and the Fourth Industrial Revolution. Although traditional factors of production are still required to compete for these opportunities – particularly skilled workers – success depends more on dynamic drivers that allow firms and workers to innovate and adapt to the rapid pace of technological change and shifting global value chains.

For the eight proxy indicators used in Screen 3, SIDS' values were mediocre relative to the threshold groups, especially the manufacturing- and service-based groups of economies. SIDS had higher average government spending on education than all threshold groups. But for the remaining seven indicators, they rated below the manufacturing- and service-based economies, and were on either side of the averages for the agriculture- and extractive-based economies.

On this basis, SIDS can leverage their comparative advantage in education spending, as well as their above-average performance in, for example, income per capita, gross savings and internet penetration rates, to boost their performance in the lagging drivers, such as research and development, human capital development, innovation and governance. This effort can form the basis of a long-term strategy to compete for future opportunities in, for example, financial technology, outsourced business functions and design.

Intermediate steps to this long-term strategy could include investing in new technologies in SIDS' established sectors, including in the mixed strategies identified. These can include, for example, precision agriculture or public-private partnerships with the main energy consumers to build renewable energy generation capacity. These initiatives can serve immediate policy priorities, such as food security and energy transition, while building skills in new technologies among local firms and workers.

3.1 Policy recommendations

For SIDS wishing to pursue future opportunities in global value chains or the Fourth Industrial Revolution, as part of their overall economic development strategy, we recommend implementing the following policies.

Extractive sector:

- Prioritise revenues over other strategic objectives, such as value addition. This requires an efficient taxation regime, with a balance of production, export and income taxes, maximising revenues over a project's anticipated life cycle.
- Earmark a portion of revenues and rents from extractive projects to provide a predictable stream of investments and spending in: a) other productive sectors with long-term potential for diversification and structural transformation of the economy; and b) drivers supporting these new opportunities, including research and development, human capital development, innovation and governance.
- Employ sound macroeconomic management to prevent export earnings from the extractive sector inflating the exchange rate of the local currency, which can erode the net benefit accrued from exploiting natural resources, undermine other export sectors and complicate efforts to diversify into new industries.

Agricultural sector:

- For the few SIDS with important agricultural sectors and/or competitive advantages in agriculture, create incentives to invest in smart agriculture technologies,

including precision and vertical agriculture, on a targeted and small-scale basis, with the dual objective of reinforcing food security and nutrition, as well as providing opportunities for technology transfer and human capital development for local firms and workers.

- Identify and pursue niche opportunities for value-addition, including for by-products, to build productive capacity.

Future opportunities:

- Identify and prioritise high-value activities that do not rely on economies of scale or a geographic proximity to markets, such as niche opportunities in fintech, outsourced business functions or design.
- Support priority opportunities with public investments and spending in infrastructure, research and development, human capital development, and innovation.
- Expand and ensure access to relevant enabling infrastructure, such as the internet, energy and transport.
- Engage the private sector in developing new research and development programmes in priority industries.
- Maintain an ongoing dialogue among government, employers and trade unions to inform human capital development programmes, manage employment expectations and preserve social cohesion through periods of economic structural transformation.
- Create incentives to mobilise domestic savings and FDI inflows into investments in productive capital – including both new technologies to upgrade existing sectors, as well as drivers and activities in pursuit of future opportunities.
- Expand service offerings in the tourism and financial sectors, with an emphasis on those involving new technologies.
- Where possible, engage in public–private partnerships with large energy consumers, such as tourism resorts, mines and factories, to construct renewable energy sources, with an emphasis on technology transfer and human capital development for local firms and workers.
- Continue to expand internet penetration through public investments in infrastructure and the adoption of ICTs in public education.
- Leverage relatively high education spending into other drivers for future opportunities. Examples could include: training a critical mass of researchers and instructors, and mounting tertiary and vocational training programmes oriented towards priority industries.
- Reinforce science, technology, engineering and mathematics (STEM) in the public education curriculum and support apprenticeships for graduates to acquire practical experience.

- Include explicit language in all policies and programmes that ensures equal access to new opportunities for women, minorities and youth.
- Improve governance through policy, regulatory and institutional reforms that strengthen, for example, property rights, the rule of law and competition, with a view to fostering innovation, entrepreneurship and investment.
- Improve disaster risk management by building a coherent network of institutions and preparedness measures at the regional, national and local levels.

3.2 Topics for further study

This publication is intended as a first step, leading to more detailed analysis on alternative strategies to build economic resilience in SIDS economies. Based on our findings and recommendations, we identified the following topics for further analysis:

- case studies of the development trajectories of SIDS and other small states that have successfully transformed their economies (e.g. Costa Rica, Mauritius and Singapore);
- expanded service offerings in the tourism and financial services sectors in SIDS;
- identification of niche agricultural value-addition opportunities in SIDS;
- natural resource revenue management models for SIDS;
- identification of niche opportunities in fintech, outsourced business functions and design; and
- feasibility assessments for blue-economy activities in SIDS, outside of tourism and fisheries.

In this publication we have identified several new ideas for alternative development strategies that can build resilience in chronically vulnerable SIDS. These ideas warrant further study, as part of providing SIDS with detailed policy analysis and technical assistance in redressing their particular challenges and needs. In this respect, this work stream on building economic resilience in SIDS can make an important contribution to improving their long-term sustainable development prospects, in line with the SAMOA Pathway and the 2030 Agenda for Sustainable Development.