Research Proposal and project document

Social Policies in Small States

A joint project of the Commonwealth Secretariat & United Nations Research Institute for Social Development (UNRISD)

Prepared by Naren Prasad (UNRISD)
In collaboration with Commonwealth Secretariat
Staff including Indrajit Coomaraswamy, Constance Vigilance, Janet Strachan, Roli Degazon-Johnson

June 2007
Introduction

Small states, particularly islands are convenient and manageable ‘laboratories’ where theories could be tested and processes observed within a semi-closed system. This interest in the “Lilliputians” is particularly manifested among geographers, anthropologists, ecologists and biologists (King 1993). For economists and political scientists, small states can provide insightful examples of how internal dynamics and external pressures interplay in social and economic policy making. This research intends to examine small states and how they have dealt with development challenges and opportunities within their national, often enisled, context. It would critically evaluate the economic history of these countries within a specific ‘political economy’ framework, by investigating how their social policies contributed to different social, economic and political outcomes.

Small, often island states often make news headlines when they are sites of economic or political instabilities: the ‘failed state’ of the Solomon Islands, the imminent collapse of Nauru, the crisis of East Timor, ethnic tensions and coups in Fiji are but recent examples. Small jurisdictions are also sometimes accused of being modern day pirates, bent on distorting international financial rules or operating on the margins of the financial system by creating offshore financial centers and attracting “unscrupulous” sources of funds (The Economist, 24 February 2007). There are however, many other small developing states that have made a successful transition to modernity, with quite envious standards of living and a decent quality of life. Although there has been some scattered research on the general issues of small states (mainly as a result of conferences and the sustained scholarship of the Commonwealth Secretariat), no systematic global attempt has yet been made to understand how some small states (like Iceland, Malta, Barbados and Mauritius) have (so far) managed to avoid the inevitable catastrophe that their small size forecasted in principle. There is hardly any comparative research on small states as a group of countries aimed at understanding social policy issues and the linkage between these and their economic development.

Being small is often considered to be synonymous with being powerless and vulnerable. Very often, strong arguments are made about the chronic vulnerability of small developing states. Indeed, small jurisdictions – often islands or enclaves, with a maximum of 1.5 million resident population- generally have no choice but to be exposed to the vagaries of globalization. Yet, sound socio-economic and governance policies – at intersecting individual, household and national levels - can offset what is often considered as structural and inherent handicaps. Thus, while small states are more vulnerable (economically and environmentally), they also tend to spawn ingenious, homegrown policies and strategies that compensate for this vulnerability.

Some of the successful strategies of small states include tourism, export processing zones, offshore financial centres, or export of niche products. Although many small countries have tried to have one or several of these development strategies, some have failed while others have succeeded. It is increasingly recognized that putting in place good policies is not sufficient in order to generate good outcomes. A combination of free market policies and a dose of good institutions have a strong track record of growth and development. In other words, what seems to work is good economic policies and good institutions that deliver such packages (Rodrik 2005). It is argued that institutions emerge from social norms and

---

1 For example, in 1960, James Meade, the Noble Price Winner in Economics (1977), had forecasted that Mauritius was doomed to failure because of heavy economic dependence on a single crop (sugar), high levels of vulnerability to terms of trade shocks, rapid population growth, and potential for ethnic tensions.
spontaneous arrangements of many actors. Therefore, understanding social structures and political institutions is an important component to any effective policy making. During the past decades, social policy issues have increasingly been recognized as having economic implications. Put differently, social policy now encompasses production activities, distributive concerns, social protection and to a certain extent family and gender issues.

This research will investigate why some small economies have succeeded in formulating ingenious social development policies to overcome their chronic vulnerabilities and have managed to improve their social indicators. It will also investigate why other small countries, with similar or different policies, have not succeeded in increasing the welfare of their population. This research will investigate the reasons behind such policy performance looking into different hypotheses that explain such good or bad performance such as consensual democracy (‘social pacts’ or societal corporatism), welfare state, power of jurisdictional resourcefulness, and levels of social cohesion/capital. The approach of this research would be from a comparative analytical economic and political history to explain why and how things evolved historically. This approach will combine both a qualitative and a quantitative analysis.

This research project has the merit of being both academic and at the same time relevant for policy making. Issues surrounding small, often island states are still under-researched, especially in relation to social policy issues. The aim of this research will also be to contribute towards the empirical literature on small states. In addition, by investigating social policies in small states from a comparative perspective, the findings will help unmask the complexities in designing social policies within different socio-economic, institutional and historic settings. Studying countries (both that have succeeded in achieving better social outcome and those that are still lagging behind) will provide lessons for others to consider.

**Literature on small states**

Small states and especially island states have always fascinated people as they were associated with adventure, isolation, darkness, dream, splendor and paradise. Some researchers, like Charles Darwin (evolution on the island of Galapagos), Margaret Mead (Coming to Age in Samoa), and Bronislaw Malinowski (ethnography in Papua New Guinea), were interested in studying small states for their microcosmic environment and their inhabitants. Small states have been studied through different angles. Historians and political scientists started to study small states as a group of countries in the international relations context including foreign affairs, security, power relations, diplomacy, peace and war (for a literature review see (Ingebritsen, Neumann et al. 2006)).

During the 1960s and 1970s, there was an increased interest in small states and their development process as result of several factors. It was argued that the size of countries and their natural resource base were important in terms of economic growth. In addition, during and in the aftermath of decolonization, the question of viability of small states was also studied. To this effect, many international conferences were organized starting with the London Conference in 1962, in Barbados (in 1972 and 1974), and the Canberra conference in 1979. Most of the publications that emanated were a result of these international conferences on small economies. One of the first studies that dealt with the small size and economic growth was that edited by Robinson (1960). Although the authors tried to emphasize that small countries were at a comparative disadvantage, their data showed otherwise. There was no clear conclusion from this study. Demas (1965) later developed this analysis and presented details of the “rather atypical feature of the Caribbean economies” where he argued that small Caribbean countries were performing better than other Latin American countries. As a result
of a series of seminars organized by the Institute of Commonwealth Studies at the University of London, Benedict (1967) edited a volume that argued that small island territories shared common challenges, but because of differences in countries there was no major conclusion emerging from the book. In another edited volume, Selwyn (1975) tried to define the problems and challenges of small countries and argued how aid could help confront those challenges. Following a seminar organized by the Australian National University, the papers were published by Shand (1980).

During the 1980s and 1990s, there were yet more publications on small states, especially on the problems and challenges related to the administration, economies of scale and security. The conference proceedings on the problems of small economies were published as an edited book by Jalan (1982). A special issue of *World Development* Journal (1980) was also devoted to the problems of smallness and islandness and dealt with many development and social issues. This was one of the first attempts to bring small state issues to the mainstream academic community through a prestigious international journal. The specific characteristics of small island states were presented by Dommen (1980) in relation to such issues as demography, health, fiscal policy, agriculture and labour. Although questionable, Selywn (1980) compared Mauritius (an island) and Swaziland (landlocked) and came to a conclusion that islandness itself was not a useful concept in social science analysis because the characteristics of small islands are also common to other smaller states. Similarly, Srinivasan (1986) demonstrated that the problems of small economies, whether islands or landlocked states, were not unique and could be overcome by relevant polices and that economic performance of a country has nothing to do with its size. Easterly & Kraay (2000) also concluded that small states were not different from bigger states and therefore policies of bigger states could also be applied to smaller states.


Recently, a set of ten papers was published in a special issue of *Asia Pacific Viewpoint* (formerly *Pacific Viewpoint*) where Bertram and Watters had published their seminal work on MIRAB). They analysed the MIRAB model (Migration, Remittance, Aid and Bureaucracy) proposed twenty years earlier. As a result of these papers, Bertram (2006) in his introduction argues that in addition to MIRAB, there is the emergence of a new nomenclature: PROFIT (People, Resource, Overseas Engagement, Finance, Transportation) coined by Baldacchino and SITE (Small Island Tourist Economies) coined by Jerome McElroy. It is also argued that smallness forces small countries towards adopting ingenious development strategies.

The Commonwealth Secretariat, with over a third of members classified as small economies has been genuinely interested in studying small states. It sponsored many international conferences on small states and their vulnerabilities. It published many reports such as the *Vulnerability: Small States in the Global Society* (Commonwealth Secretariat 1985), *A Future for Small States: Overcoming Vulnerability* (Commonwealth Secretariat 1997), and the influential joint Commonwealth Secretariat and the World Bank Report on *Small States: Meeting Challenges in the Global Economy* (Commonwealth Secretariat and World Bank 2000). One of the recommendations of this later publication was the creation of a Forum on
Small States where international donors report on their activities in small states. As a result, small states have managed to garner additional support and attention from international donors. Another publication worth mentioning is that edited by Lockhart, et al (1993) which examines the economic and environmental challenges of small islands.

Another useful, but often forgotten study is that of the World Bank’s comparative perspective of the "The Political Economy of Poverty, Equity, and Growth", which consisted in a very coherent set of studies on five small island economies comprising of Hong Kong, Singapore, Jamaica, Mauritius and Malta (Findlay and Wellisz 1993). All these countries were former British colonies with less than 5 million populations and had similar levels of income in the early 1960s. Using a comparative perspective on their social, economic, political and development structures, the studies tried to explain the growth performance of these countries during the 1950-1985 period. The major conclusion of the study was that there was no unique path to prosperity. However it was argued that the three island economies (Hong Kong, Singapore, Malta) whose only natural resource was labour and a favorable location managed to succeed while the other two (Jamaica and Mauritius) with better-endowed plantation- and mineral-based economies had faltered. One of the reasons advanced for their failure had to do with the bitter “struggle among domestic groups over rents from natural resources” that hinders policies towards promoting an export-led growth strategy. To its credit, this volume is one of the rare publications on small states which was methodologically sound and well researched. Since 1985, the story has however changed in Mauritius since it is considered as a success story.

As a result of the various reports that highlighted the environmental fragility of island countries and the Rio conference and its subsequent Agenda 21, the United Nations organized a conference in 1994 on sustainable development of small island states (known as the Barbados conference). There are 14 major themes addressed in the document ranging from climate change to coastal and marine resources to tourism and human resources development. However, the major focus has been on the environment. This Barbados plan of action remains the blueprint for small island developing States and the international community to address national and regional sustainable development in Small Island Developing States (SIDS). A review of the Barbados Plan of Action (10+) led to the conference in Mauritius (2005) and a Mauritius Strategy for small islands was adopted. Although the Mauritius Strategy (2005) mentions some of the social issues and social challenges facing small island states (access to education and health care needs, HIV/AIDS and other chronic diseases and health conditions, such as diabetes, obesity, tuberculosis and malaria), it does not address the social policy issues in particular. As part of its resilience building, it also called on to fund academic research on sustainable development in small island countries. Apart from the United Nations and the Commonwealth Secretariat, many other international organizations are actively involved with issue facing small islands such as UNESCO, FAO, UNEP, UNCTAD, World Bank and WTO.

Apart from some of the major publications that resulted from international conferences organized by international organizations, there a few scholars have also been interested in the study of small islands. One of the first scholars to theorize small islands was Geoff Bertram (with Watters) in his innovative research on how migration, remittance, bureaucracy and aid is the de facto development strategy of small islands (Bertram and Watters 1985). Godfrey Baldacchino (1993), in a provocative article, outlines some of the unorthodox development strategies in small islands such as offshore financial centres, export of niche products, postage stamps, fishing and geo-strategic rents. In his paper on manufacturing in small states, he argues that small states are experts in exploiting their rentier status and that manufacturing
is often developed as an extension, not an antecedent, of services (Baldacchino 1998). Lino Briguglio has been a pioneer in creating the vulnerability index, which suggests that small states, especially islands, are particularly vulnerable in economic and environmental terms which is not readily discernible from their GNP per capita (Briguglio 1995).

By looking at the earlier literature on small states, the titles of these publications reveal a sense of inherent weakness, vulnerability and pessimism. Recently, there has been a surge of optimism, including some research regarding resourcefulness and resilience in small states. For example, Baldacchino has been arguing that small states use their power of jurisdiction to advance their development cause (Baldacchino and Greenwood 1998) (Baldacchino 2000) (Baldacchino 2005) (Baldacchino 2006). If we look at the statistics, we tend to find that small states are in fact not that bad in their socio-economic performance. In other words, despite being highly vulnerable, small states are able to design ingenious strategies to cope with the inherent vulnerability. “Economic resilience” is defined as “a country’s ability to economically cope with or withstand its inherent vulnerability as a result of some deliberate policy” (Briguglio and Kisanga 2004) (p. 20). The resilience index comprises four indicators: macroeconomic stability, microeconomic market stability, good governance, and social development. However, due to data constraints, many small states are not included in the index (Briguglio, Cordia et al. 2006).

There are other researchers like Armstrong and Read (1998; 2002; 2003; 2006) who show that there is no correlation between the size and the level of development of a country and between economic growth and island countries on trade related issues. Similar to Geoff Bertram, Poirine (1994; 1999; 2006) has developed a theoretical model for aid, trade and remittance for micro states in the Pacific. It has been demonstrated that smaller countries are often democracies (Anckar 2002; Anckar 2004; Srebrnik 2004). Prasad (2003; 2004) argues that small states have developed very unique set of strategies to cope with their vulnerabilities. Similar to Armstrong and Read, Prasad also shows that service sector economic activities (tourism and offshore financial center) and light manufacturing (export processing zones) in small islands lead to better economic growth compared to agriculture and reliance on remittance. Some small states have excelled in small-scale, high-value products and have put to good use their island identity (Prasad and Raj 2006).

**Definitions of small states**

There is no unanimously accepted definition of small states. The notion of small and large states is a relative concept. Small states can be defined by the size of population, GDP, land area, level of trade or by a combination of all these four indicators. Population is the most widely used criterion for small states. Recently, the Commonwealth Secretariat and the World Bank have proposed to use a threshold of 1.5 million resident population to classify countries as small. However, there is no theoretical justification of taking a particular size as a cut-off point.

Using a criteria of 1.5 million, there are 45 small states. Even if we use composite indicators as proposed by Crowards (2002) or take the level of global trade as proposed by Davenport (2002) we still have the same number of countries.
<table>
<thead>
<tr>
<th>Country</th>
<th>Land (Sq km)</th>
<th>Population</th>
<th>GNI (current US$ millions)</th>
<th>GDP per capita</th>
<th>Growth (2000-2003 average)</th>
<th>Poverty</th>
<th>Gini index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>440</td>
<td>75'779</td>
<td>716.0</td>
<td>9'134.65</td>
<td>2.47</td>
<td>12.0</td>
<td>0.53</td>
</tr>
<tr>
<td>Bahamas</td>
<td>10'070</td>
<td>311'560</td>
<td>4'840.0</td>
<td>15'591.00</td>
<td>1.23</td>
<td>9.3</td>
<td>0.46</td>
</tr>
<tr>
<td>Bahrain</td>
<td>620</td>
<td>690'865</td>
<td>610.0</td>
<td>11'851.67</td>
<td>3.47</td>
<td>6.0</td>
<td></td>
</tr>
<tr>
<td>Barbados</td>
<td>430</td>
<td>268'788</td>
<td>2'520.0</td>
<td>9'372.93</td>
<td>-0.12</td>
<td>13.9</td>
<td>0.39</td>
</tr>
<tr>
<td>Belize</td>
<td>22'800</td>
<td>261'500</td>
<td>899.0</td>
<td>3'446.65</td>
<td>7.70</td>
<td>33.0</td>
<td>0.40</td>
</tr>
<tr>
<td>Bhutan</td>
<td>47'000</td>
<td>839'443</td>
<td>584.0</td>
<td>642.30</td>
<td>6.85</td>
<td>25.3</td>
<td>0.34</td>
</tr>
<tr>
<td>Brunei</td>
<td>349</td>
<td>347'270</td>
<td></td>
<td></td>
<td>2.95</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cape Verde</td>
<td>4'030</td>
<td>452'230</td>
<td>784.0</td>
<td>1'251.78</td>
<td>5.00</td>
<td>44.0</td>
<td></td>
</tr>
<tr>
<td>Comoros</td>
<td>2'170</td>
<td>578'993</td>
<td>323.0</td>
<td>364.98</td>
<td>1.46</td>
<td>60.0</td>
<td></td>
</tr>
<tr>
<td>Cook Islands</td>
<td>240</td>
<td>18'250</td>
<td></td>
<td></td>
<td>5'349.28</td>
<td>7.57</td>
<td>12.0</td>
</tr>
<tr>
<td>Cyprus</td>
<td>9'240</td>
<td>763'143</td>
<td>9'100.0</td>
<td>12'153.75</td>
<td>3.78</td>
<td>25.5</td>
<td>0.34</td>
</tr>
<tr>
<td>Djibouti</td>
<td>21'980</td>
<td>686'270</td>
<td>641.0</td>
<td>834.73</td>
<td>2.17</td>
<td>45.1</td>
<td></td>
</tr>
<tr>
<td>Dominica</td>
<td>750</td>
<td>71'175</td>
<td>239.0</td>
<td>3'597.53</td>
<td>-2.24</td>
<td>30.0</td>
<td>0.35</td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>28'050</td>
<td>475'930</td>
<td>454.0</td>
<td>3'215.10</td>
<td>8.81</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td>43'211</td>
<td>1'361'125</td>
<td>8'510.0</td>
<td>4'418.70</td>
<td>6.65</td>
<td>8.9</td>
<td>0.37</td>
</tr>
<tr>
<td>Federated States of Micronesia</td>
<td>702</td>
<td>121'318</td>
<td>261.0</td>
<td>1'832.83</td>
<td>2.18</td>
<td>27.9</td>
<td>0.41</td>
</tr>
<tr>
<td>Fiji</td>
<td>18'270</td>
<td>821'800</td>
<td>1960.0</td>
<td>2'222.50</td>
<td>2.25</td>
<td>25.5</td>
<td>0.49</td>
</tr>
<tr>
<td>Gabon</td>
<td>257'670</td>
<td>1'301'100</td>
<td>5'210.0</td>
<td>3'889.38</td>
<td>1.83</td>
<td>62.0</td>
<td>0.48</td>
</tr>
<tr>
<td>Gambia</td>
<td>10'000</td>
<td>1'368'400</td>
<td>370.0</td>
<td>321.07</td>
<td>3.70</td>
<td>40.0</td>
<td>0.40</td>
</tr>
<tr>
<td>Grenada</td>
<td>340</td>
<td>103'025</td>
<td>388.0</td>
<td>3'830.63</td>
<td>1.64</td>
<td>32.0</td>
<td>0.45</td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>245'860</td>
<td>1'427'325</td>
<td>3'600.0</td>
<td>146.25</td>
<td>0.28</td>
<td>20.8</td>
<td>0.47</td>
</tr>
<tr>
<td>Guyana</td>
<td>196'850</td>
<td>763'935</td>
<td>698.0</td>
<td>950.16</td>
<td>0.08</td>
<td>43.0</td>
<td>0.43</td>
</tr>
<tr>
<td>Iceland</td>
<td>100'250</td>
<td>285'750</td>
<td>10'030.0</td>
<td>30'276.75</td>
<td>2.94</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kiribati</td>
<td>717</td>
<td>93'647</td>
<td>84.6</td>
<td>569.09</td>
<td>1.73</td>
<td>51.0</td>
<td></td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2'586</td>
<td>442'250</td>
<td>23'600.0</td>
<td>45'398.75</td>
<td>3.56</td>
<td>5.5</td>
<td>0.31</td>
</tr>
<tr>
<td>Macao, China</td>
<td>21</td>
<td>437'000</td>
<td>14'956.0</td>
<td></td>
<td>5.65</td>
<td>19.0</td>
<td>0.40</td>
</tr>
<tr>
<td>Maldives</td>
<td>300</td>
<td>283'520</td>
<td>680.0</td>
<td>2'377.90</td>
<td>5.73</td>
<td>43.0</td>
<td></td>
</tr>
<tr>
<td>Malta</td>
<td>320</td>
<td>395'250</td>
<td>3'660.0</td>
<td>9706.65</td>
<td>1.42</td>
<td>15.0</td>
<td>0.30</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>181</td>
<td>52'325</td>
<td>139.0</td>
<td>1'903.30</td>
<td>1.40</td>
<td>20.0</td>
<td>0.54</td>
</tr>
<tr>
<td>Mauritius</td>
<td>1'850</td>
<td>1'204'800</td>
<td>5'220.0</td>
<td>3'973.55</td>
<td>4.58</td>
<td>12.1</td>
<td>0.37</td>
</tr>
<tr>
<td>Palau</td>
<td>458</td>
<td>19'792</td>
<td>130.0</td>
<td></td>
<td>1.85</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country</td>
<td>Population</td>
<td>GNI Per Capita</td>
<td>Gini Coefficient</td>
<td>Income Inequality</td>
<td>90/10 Ratio</td>
<td>GNI Per Capita Growth Rate</td>
<td></td>
</tr>
<tr>
<td>-------------------------------</td>
<td>------------</td>
<td>----------------</td>
<td>------------------</td>
<td>-------------------</td>
<td>-------------</td>
<td>-----------------------------</td>
<td></td>
</tr>
<tr>
<td>Qatar</td>
<td>11'437</td>
<td>604'158</td>
<td>0.38</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Samoa</td>
<td>2'850</td>
<td>175'050</td>
<td>265.0</td>
<td>1'474.78</td>
<td>4.55</td>
<td>20.3</td>
<td></td>
</tr>
<tr>
<td>Sao Tome &amp; Principe</td>
<td>1'000</td>
<td>152'675</td>
<td>50.2</td>
<td>323.64</td>
<td>3.90</td>
<td>53.8</td>
<td></td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>27'540</td>
<td>437'425</td>
<td>247.0</td>
<td>621.60</td>
<td>-4.95</td>
<td></td>
<td></td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td>269</td>
<td>45'955</td>
<td>299.0</td>
<td>7'413.25</td>
<td>2.38</td>
<td>32.0</td>
<td></td>
</tr>
<tr>
<td>St. Lucia</td>
<td>610</td>
<td>158'435</td>
<td>644.0</td>
<td>4'195.98</td>
<td>-0.44</td>
<td>25.1</td>
<td></td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>340</td>
<td>109'833</td>
<td>356.0</td>
<td>3'125.48</td>
<td>1.83</td>
<td>37.0</td>
<td></td>
</tr>
<tr>
<td>Suriname</td>
<td>161'470</td>
<td>431'408</td>
<td>1'150.0</td>
<td>2'155.85</td>
<td>3.49</td>
<td>70.0</td>
<td></td>
</tr>
<tr>
<td>Swaziland</td>
<td>17'200</td>
<td>1'076'650</td>
<td>1'890.0</td>
<td>1'343.68</td>
<td>2.36</td>
<td>40.0</td>
<td></td>
</tr>
<tr>
<td>Seychelles</td>
<td>455</td>
<td>82'102</td>
<td>678.0</td>
<td>7'324.43</td>
<td>-0.54</td>
<td>19.0</td>
<td></td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>14'609</td>
<td>819'500</td>
<td>341.0</td>
<td>438.44</td>
<td>5.01</td>
<td>41.0</td>
<td></td>
</tr>
<tr>
<td>Tonga</td>
<td>718</td>
<td>100'900</td>
<td>161.0</td>
<td>1'606.20</td>
<td>2.75</td>
<td>22.7</td>
<td></td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>5'130</td>
<td>1'300'525</td>
<td>10'100.0</td>
<td>6'708.85</td>
<td>6.57</td>
<td>21.0</td>
<td></td>
</tr>
<tr>
<td>Vanuatu</td>
<td>14'760</td>
<td>203'480</td>
<td>279.0</td>
<td>1'124.73</td>
<td>0.58</td>
<td>40.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: WDI (World Bank 2006), for Gini coefficient various IMF country reports
Statehood is interpreted in terms of political sovereignty, in the sense that most states today are members of the United Nations. Of the 192 member states in the United Nations, 46 have a population of less than 1.5 million; 30 of these are islands or archipelagos, of which 25 are identified as small island developing states (see Table 1).

Characteristics

Compared to larger and continental countries, small (island) states tend to have distinctive geographic, social, demographic and economic characteristics, which may affect their development strategies and prospects in significant ways. These characteristics include geographic features such as remoteness and isolation (measured by transport costs); vulnerability to natural disasters (measured by the number of natural disasters); and limited resource base (measured by the preponderance of primary production). The social, political, and administrative features of small islands include the intensity of social cohesion; issues relating to the public and private sectors; and the demographic issue of significant emigration. This latter issue is a major concern to many small states because of the fear and reality of brain drain and because it is not known whether remittance can compensate such losses.

Economies of scale (mainly linked to domestic population) are a major component in business strategy. To achieve economies of scale, small states require external markets to export. It is not surprising to see that small islands rely heavily on trade (exports and imports) to a greater extent than larger countries. These countries have an exceptionally high degree of openness to external economic developments with respect to trade, capital flows and technology. They tend to have a concentration of exports on a narrow range of commodities and markets and dependence on foreign resource flows. However, certain public services cannot be imported, so their higher costs must be borne. Recent empirical studies by Winters and Martins (2004) also show that small islands are in a disadvantaged position in doing business in the global market as a result of their inherent cost associated with smallness. They show that the cost disadvantage for (micro) islands in the manufacturing sector (clothing and electronic assembly) is 36% higher compared to a median sized country, and 58% higher for tourism industry.

Social and economic performance of small states

Development economists have been mainly preoccupied with trying to explain why large countries with abundant resources (natural, economic, human, diplomatic) nevertheless remain poor. Meanwhile, some researchers have drawn attention to how several small states with very limited resources are pursuing their development. It has been seen that a number of small island countries have somehow succeeded in achieving relatively high standards of living, as evidenced by relatively high average per capita incomes, sustained levels of economic growth and a high ranking on the human development index (HDI). Some of the richest countries in the world are small states such as Luxembourg, and Iceland. Yet, it is also true that some other small island states – Cape Verde, Comoros, Vanuatu, Solomon Islands, Sao Tome and Principe – are included among the least developed countries (LDCs). However, no generalizations could be made in terms of country size and prosperity.

Empirical evidence suggests that smallness does not seem to be associated with economic growth. In other words, being small is not a handicap to having higher economic growth. If we look into the growth patterns, we find that small countries generally had higher levels of average growth in the 1980s and 1990s. This good performance has been declining in the
2000s on average despite some small countries showing high levels of growth such as Trinidad & Tobago.

![Growth of GDP per capita in 2000s (average)](image)

Source: WDI (World Bank 2006)

In order to achieve policy objectives, there are three public policy instruments that are broadly used by governments: expenditure policy, tax policy, and regulatory policy. The actual spending on such services may be an indication of government’s priorities (policy or response) in this area. Each of these policy instruments depends on the overall development strategy of a country, but most countries have growth, equity or employment creation, and poverty reduction as their objectives. A very quick way to investigate the patterns of social policy is to analyze social spending. There is hardly any contention between the link between spending and social outcome: the countries that spend more in social sector tend to have higher levels of HDI (See (Baldacci, Clements et al. 2004)). Based on the graphic, we find that there is no coherent pattern of social spending among small and non small states. However, on average we find that social spending is higher in small states (7.4% for small states compared to 6.0% for non small states). There are some small countries that spend between 10-15% of their GDP on education and health, while others spend less than 5%.
In terms of sectoral allocation, we find that small states generally assign higher priority to spending on education and health compared to spending on social security (old age, sickness, work injury unemployment). Average figures for the year 2000 show that small countries spend around 4% of their GDP on social security programmes compared to over 6% for non-small countries. As argued above, spending in social services has better chances towards creating human capital. This may partly explain why some small states have higher levels of HDI.

Social security policies are also important to see how a country treats its weak and vulnerable populations in terms of social risks such as old age, disability, sickness and maternity, work injury, and unemployment. ² We constructed an index that measures coverage of social security and redistribution. The coverage can range from universal coverage, with or without state subsidy to private contributions and finally to no policy at all. We assigned a score between 0 (no policy) to 9 (universal coverage with state subsidy). We found that small states are placed towards the bottom of the scores. Social security responsibilities are mainly taken care of by the family and community and by the provident funds or social insurance schemes for workers in the formal sector.

Research hypothesis

There are many reasons why a country succeeds in achieving higher levels of social development. Good policies and better governance are the main contributors to prosperity. Apart from these economic and political variables, there may be other social forces that promote better development outcomes. Many researchers have their own favourite explanatory variable or variables that seek to explain why certain countries have fared better.

² See the Social Security Programs Throughout the World 
than others. These variables could be purely economic, geographic, legal, political, cultural, historical or a combination of all of these. Durlauf, Johnson et al (2005) identify 145 different determinants of growth and 43 distinct growth “theories” which have been identified in the literature for over four decades.

This research will advance at least four strands of theoretical inspiration for better understanding of the success and failure of the small states.

The first can be traced back to Lijphart (1969; 1975; 1984; 1990; 1991; 1999) who argued that although fragmented societies, developed small states are relatively stable because of “consensual democracy” and the “politics of accommodation”. Katzenstein (1985; 2003) argues that small states are consensual because there is a shared perception of a vulnerability emanating from external economic shocks, price takers, natural disasters, migration, invasion, etc. Consensual politics is manifested by participatory decision making of state, capital and labor, which is labeled as corporatism. He demonstrated that small economies of Austria and Switzerland have a particular type of politics referred to as neo-corporatism. Others go further, claiming that the geographical attributes, social fabric and history of small island territories generates a shared culture of islandness which is intrinsically linked with the state (Lowenthal 1987).

The second is based on Cameron (1978) who argued that small open economies respond to globalization challenges by redistributive policies through the welfare state. This in turn provides a cushion to their citizens who are otherwise exposed to external shocks. In other words, small economies tend to have larger public sectors in terms of spending and employment; and countries with larger public sectors have more equitable levels of prosperity amongst the population (Baker 1992).

Thirdly, the power of jurisdiction cannot be underestimated: both in the case of sovereign states, as well as in the case of many jurisdictions which enjoy ample measures of autonomy, there is evidence that good governance – the rule of law, strategic law making, international relations and diplomacy – can prove to be very effective economic resources (Baldacchino and Milne 2000; Baldacchino 2006). Prasad (2004) demonstrates how some small states are able to use their sovereignty and political status more than their economic influence to advance their cause. Here, they often resort to non-market solutions or non-orthodox approaches, such as their power to negotiate aid, to provide an emigration outlet for their population, or to ask for derogations in international systems. In other words, small states are able to manipulate the global system in their favor.

Fourthly, Baldacchino (2005) has argued that, although democracy and good governance are necessary conditions for economic growth and prosperity, they are not sufficient in explaining such economic performances. He argues that social capital should be able to provide more answers as to why smaller countries tend to have better levels of development. He defines social capital as “resourcefulness of a people to respond to positively, collectively and responsibly to an identified political, economic, labor-related or social challenge” (p. 32). In other words, high social capital settings avoid divisive and damaging strategies. These characteristics are generally known and applied in the Nordic states and other smaller European countries like Switzerland, Austria, and Netherlands.
Research objectives

This research project aims to contribute to scholarly and policy debates on social policy and development issues facing small states. This will consist in investigating how some small states have succeeded in improving their social indicators while others are failing. Central to this investigation would be how different types of regimes (developmental, welfarist or democratic) have put in place different social policies. This question will be addressed by evaluating the practice of domestic public policy in these small states, paying particular attention to the function, role and evolution of:

1. consensual democracy or social corporatism;
2. the welfare state;
3. deployment of jurisdiction resourcefulness
4. social cohesion/capital.

Each research will deal with social policies and institutions in relation to the four themes mentioned above and investigate how they impacted on the policy formulation and the social development outcomes. Each study will seek to understand how social policies are formulated and negotiated within the local settings (ethnicity, history, political structure, etc). In other words, the local setting will illustrate how different institutions (political, economic, social) operate and complement each other. It will also seek to understand how different policies and institutions are configured and sequenced. This may highlight why countries with similar local structure or similar levels of development manage to get different outcomes.

Framework & Methodology

Social outcomes are a function of socio-economic development policy. It is now increasingly recognized that economic and social policies are at the heart of any development strategy. Social policy here will mean any policies put in place by the government or its bodies for the betterment of the population, but especially the less privileged sections of the populations. According to Mkandawire (2006) (p. 1), “Social policy is state intervention that directly affects social welfare, social institutions and social relations. It involves overarching concerns with redistribution, production, reproduction and protection and works in tandem with economic policy in pursuit of national social and economic goals”.

Each of these components are given more or less priority depending on the national institutional setting and other socio-economic and political conditions such as inequality, level of income, political systems, ethnicity, etc. These factors also determine how the state, market, family and civil society are involved in delivering such social policies. In some countries, social policies may reflect or go hand in hand with the overall development strategies in the promotion of economic growth.

Countries will be selected according to the theoretical framework development by UNRISD research on “social policy in a development context”: developmentalist, welfarist, and democratic. Certain countries tend to focus primarily on increasing economic growth and development as was the case for East Asian countries. Others put more emphasis on welfare provision, as demonstrated by some European and Nordic countries, while others still tend to give priority to democracy and governance issues. Using this framework, countries will be selected based on our four hypotheses: consensual democracy with ‘social pacts’ or societal
corporatism, embedded liberalism, power of jurisdictional resourcefulness, social cohesion/capital. We can have the following combination:

**Growth, welfare and political regimes**

<table>
<thead>
<tr>
<th>Economic Performance</th>
<th>Social Performance</th>
<th>Political Regime (high &amp; lows)</th>
<th>Possible Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Growth</td>
<td>High Equality</td>
<td>Democratic</td>
<td>Mauritius, Malta</td>
</tr>
<tr>
<td>High Growth</td>
<td>High Equality</td>
<td>Low Democracy</td>
<td>Bhutan</td>
</tr>
<tr>
<td>High Growth</td>
<td>Low Equality</td>
<td>Democratic</td>
<td>Botswana, Trinidad</td>
</tr>
<tr>
<td>High Growth</td>
<td>Low Equality</td>
<td>Low Democracy</td>
<td>Maldives, Guyana, Equatorial, Guinea, Samoa</td>
</tr>
<tr>
<td>Low Growth</td>
<td>High Equality</td>
<td>Democratic</td>
<td>Dominica, Barbados, Cyprus</td>
</tr>
<tr>
<td>Low Growth</td>
<td>High Equality</td>
<td>Low Democracy</td>
<td>Seychelles</td>
</tr>
<tr>
<td>Low Growth</td>
<td>Low Equality</td>
<td>Democratic</td>
<td>Vanuatu, PNG, Solomon, Kiribati, Palau, FSM</td>
</tr>
<tr>
<td>Low Growth</td>
<td>Low Equality</td>
<td>Low Democracy</td>
<td>Fiji, Comoros, Swaziland</td>
</tr>
</tbody>
</table>

On the positive side are countries that have achieved high growth rates together with good social policies and good governance like Mauritius and Malta. On the other end of the spectrum are those that are trapped in a low growth, low equality and low levels of democracy such as Fiji, Comoros or Swaziland. In between there is a variety of different combinations of growth, equality and democracy.

One or several countries from each category will be chosen:
1. Mauritius,  
2. Bhutan  
3. Trinidad & Tobago  
4. Guyana  
5. Cyprus, Malta  
6. Seychelles, Maldives  
7. Vanuatu, Solomon Islands & Papua New Guinea  
8. Fiji  
9. Federated States of Micronesia, Palau, Kiribati, Tuvalu  
10. Samoa, Tonga  
11. Barbados, Dominica, Saint Kitts & Nevis,

After selecting the country studies and paper writers, there will be a need to bring the researchers together to discuss the methodology of the research.

**Methodology workshop**

This workshop will aim to present the project details and to discuss the methodological issues.
and conceptual framework of the research project. To help researchers formulate their country proposals, the four thematic papers will also be presented and discussed. A common methodology will also be accepted. It will assure that there is a common understanding by all the researchers involved in the project. This workshop will provide an opportunity for the selected researchers to present their country proposals and have an in-depth discussion. The workshop will provide detailed suggestions and feedback for further work on country studies. Finally, as a result of this workshop a research network on the topic will also be created.

We will outline some of the research focus of this project and the terms of references for the country paper writers.

Country/regional studies

The first section of the paper should outline the general development strategies of the country and how it has achieved its objectives in terms of generating growth. Development plans and national strategic documents of the country will be analyzed to see how the strategies have changed or stayed the same over the 3-4 decade period. By doing so, it would be important to highlight the policies and institutions that were put in place for promoting economic growth. What was the initial condition during the pre-colonial and just after independence? Were these strategies and policies successful in achieving growth, promoting employment, transforming/modernizing the economy? How were strategies or policies revised during economic downturns or during natural disasters or global crises? It would also be important to look into how the major international actors (international organizations) influenced policy making and whether neo-liberal policies were adopted, challenged or adapted to local settings. How did the private sector interact with policy makers? How were resources mobilized? How much importance was given to human capital formation?

Section two will present how the social situation of the country has evolved over the past 3-4 decades. It will present the evolution of social indicators such as poverty levels, inequality, unemployment, and indicators of education (literacy, enrollment, etc.) and health (infant mortality, etc.), water supply and sanitation, etc…

Section three will present the role of social policies and how they were designed to address (or were an outcome of) the social situation described in the above section. In other words, it will link social policies with the overall development strategy of the country and the social situation. The framework of social policy will include interventions in spheres of production (human capital/social services), social protection (pension, sickness, work injury, unemployment, social assistance), distribution (fiscal policy), and reproduction (gender equality, pre-school care, female employment). Each of these components will be analyzed in detail with data on spending patterns in the social sector (disaggregated data on education, health, sanitation, and disaggregated data on social welfare and protection). It will highlight the trends in spending during different periods, how such spending is distributed according to economic functions (salaries, etc.) and geographic area. It will also highlight whether social policies have been universal in terms of coverage or were they targeted or means-tested. Such policies may include different levels of education (primary or basic education, secondary, and tertiary), health care, social security schemes, etc. It will also analyze how resources were mobilized for social spending, especially social protection (taxes, social insurance schemes, pay as you go, provident funds, etc.). Apart from the state, what is the role of family, market
and civil society in providing certain type of social services? For the distribution component of social policy, the researcher will analyze whether the tax policy is regressive or progressive in helping the poor.

Section four will investigate the eventual role and contributions of different set of literature such as Consensual democracy or social corporatism, Welfare regime, Power of jurisdiction, and Social cohesion in formulating and implementing such social policies (production, protection, distribution, reproduction) and how each of these have contributed in achieving the social indicators (see thematic papers). For example, regarding the social corporatism, social cohesion and welfare regime literature, it will examine the role and interaction of interests groups (unions, ethnicity, farmers, business, civil society, etc.) in formulating and delivering public social policies. In doing so, it will investigate whether there are institutions that facilitate such interactions. As for the power of jurisdiction literature, it will examine how certain states have successfully used the state apparatus/jurisdiction in designing effective socio-economic development strategies to promote well-being of its citizens such as securing aid, outlets for migrants, creating offshore financial centers, or other rent seeking activities.

Thematic papers

Four thematic papers will be used as background papers for the project:
- Consensual democracy and social corporatism as a tool for promoting social policies
- Welfare regime and social policies
- Social cohesion as a tool for promoting social policies
- Power of jurisdiction as a tool for promoting social policies

These papers will be presented during the first methodology workshop on the project in September 2007. The workshop will aim to clarify the conceptual and methodological framework and the relevant thematic issues in the study of social policies in small states. These papers will present the literature review on each of the themes and how this could be applied in explaining social performance in small states. The authors of the thematic papers will have to provide an overview with a literature review of the concept of each theme, propose several indicators to measure each of these areas, present from a historical perspective how it has been used as components in advancing social development in developed countries; provide some concrete country examples where such strategies have been successfully used in socio-economic development, discuss how lessons can be drawn from such historical examples for understanding social development and social policies issues in other developing countries and in small states in particular; examine how each of these areas could be used to promote social development through social policies;

Data

National level data will be sought regarding social policies in the following areas

Human capital production
Data on spending on education, health, housing & water supply.

Social protection
Data on spending on social welfare and protection and documenting national legislations relating to social security and welfare programmes.

Distribution
Data on how each country has designed its taxation policy as a tool for distribution.

Reproduction

Data on spending and legislation concerning family related issues such as gender equality and pre-school care.

In addition to the four components of social policies mention above, indicators on the following areas will also be sought:

- Consensual democracy or social corporatism
- Welfare regime
- Power of jurisdiction
- Social cohesion

Output

There will be main four outputs of this project:

- UNRISD/Commonwealth Secretariat paper series. These papers will be widely available through the internet and limited printed copies will be distributed.
- Special issue of an international Journal on development. This will consist of having scholarly articles published in a selected journal, mainly addressed to the academic community.
- An edited book will be published by a commercial publisher. The audience of this book will be the general public, international organization, students, NGOs, policy makers, and those interested in development issues. The main channel of distribution would be libraries. An additional effort will be made to include this as a university textbook.
- A policy brief summarizing the research findings, mainly targeted to the policy makers.
Time Table

This will be a two-year project starting in May 2007 and ending in May 2009.

<table>
<thead>
<tr>
<th>Tasks</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project preparation and planning</strong></td>
<td></td>
</tr>
<tr>
<td>UNRISD/Commonwealth meeting</td>
<td>May-July 2007</td>
</tr>
<tr>
<td>Revision of project document</td>
<td></td>
</tr>
<tr>
<td>Identification of researchers</td>
<td></td>
</tr>
<tr>
<td><strong>Thematic papers</strong></td>
<td></td>
</tr>
<tr>
<td>Draft terms of reference for researchers</td>
<td>June – September 2007</td>
</tr>
<tr>
<td>First draft</td>
<td></td>
</tr>
<tr>
<td><strong>Workshop</strong></td>
<td></td>
</tr>
<tr>
<td>Planning for workshop, agenda</td>
<td>August-September 2007</td>
</tr>
<tr>
<td>Preparing TOR for researchers</td>
<td></td>
</tr>
<tr>
<td><strong>Research</strong></td>
<td></td>
</tr>
<tr>
<td>Finalization of thematic papers</td>
<td>October 2007 – April 2008</td>
</tr>
<tr>
<td>First drafts</td>
<td></td>
</tr>
<tr>
<td>Second drafts</td>
<td></td>
</tr>
<tr>
<td><strong>Workshop to present findings</strong></td>
<td></td>
</tr>
<tr>
<td>Preparation of workshop</td>
<td>January – May 2008</td>
</tr>
<tr>
<td>Final drafts</td>
<td></td>
</tr>
<tr>
<td><strong>Publication</strong></td>
<td></td>
</tr>
<tr>
<td>Discussion papers</td>
<td>July-December 2008</td>
</tr>
<tr>
<td>Journal</td>
<td></td>
</tr>
<tr>
<td>Review process</td>
<td></td>
</tr>
<tr>
<td>Book</td>
<td></td>
</tr>
<tr>
<td>Editing and reviewing process</td>
<td></td>
</tr>
<tr>
<td>Policy brief</td>
<td></td>
</tr>
<tr>
<td><strong>Dissemination</strong></td>
<td></td>
</tr>
<tr>
<td>Ministerial meetings, UN meetings, other international meetings</td>
<td>January -May 2009</td>
</tr>
</tbody>
</table>
Budget (US Dollars)

**Thematic papers**

**Methodology Workshop**

Travel
DSA
Miscellaneous

**Country/regional Papers**

- 9 country papers
- 3 regional papers

**Final workshop**

Travel
DSA
Miscellaneous

**Publication/Dissemination**

- Programme papers
- Special issues of a journal
- Book (buyback)
- Policy Brief
- Dissemination (travel)

Miscellaneous

**Total**
Bibliography


