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11.00 GMT/UST; 7.00 AM EDT (MORNING NEWSPAPERS,
THURSDAY MAY 22)**

The Growth Report – Highlights on Small States

- There are over 50 small states, each with a population of less than 2 million.
- Small states have three disadvantages: the absence of scale economies, both in the production of goods and the provision of public services; significant risk due to their economies being less diversified and vulnerable to natural disasters; and their remoteness often making it harder to integrate with the world economy.
- Another challenge is the danger of having a dominant foreign investor, exercising undue political influence and undermining domestic governance.
- One of the competitive advances of small states, however, is that they are easier to monitor and comprehend, and they also have little choice but to turn outward. The ratio of trade to GDP in small states is higher than for other country groups.
- Of the 13 high-growth economies examined in the Report, Singapore is the only small state. The case of Singapore shows that smallness is not a decisive handicap in economics, especially if the country enjoys close proximity to world markets and a privileged geographical location.
- The Growth Report says that some small states have been successful in pooling their efforts and outsourcing public services (often helped through ICT advances). The Central and West Africa region, for example, relies on multi-country central banking, as does the Eastern Caribbean. The Eastern Caribbean also has a single telecommunications authority and a Supreme Court, which is the superior court of record for eight independent states.
- These examples are in contrast to the dozen micro-states in the Pacific, however, which possess many of the institutions typical of a large country (embassies abroad, central banks etc) - an expensive proposition.
- The Growth Report recommends greater regional economic integration, and a spreading of the burden of public services, through partial political union, helping reduce the high per capita costs of effective government. A more viable model for the Pacific states, for example, would be a self-governing structure in association with Australia or New Zealand, according to the Report.
- The Growth Report also says that the global financial industry and the international financial institutions should be able to create financial instruments of interest to small states. For example, Caribbean states, with the help of donors, have created an insurance fund for members struck by hurricanes or earthquakes. Their reserve pool is reinsured in the international financial markets.
- Finally, the Growth Report urges the WTO, other international organizations, and advanced countries to make a special effort to take into account the peculiar needs and interests of small states in international trade negotiations.