



Task Force 04

**TRADE AND INVESTMENT FOR SUSTAINABLE AND INCLUSIVE GROWTH**

## An Inclusive Agenda for Small Island Developing States at the G20

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## Abstract

Despite their recognized vulnerabilities due to small sizes, limited resources, and economic fragility, Small Island Developing States (SIDS)—spanning the Pacific, Africa, and Caribbean regions—are inconsistently treated within the global governance framework. This inconsistency hinders their access to crucial financial aid, particularly for climate change impacts, which SIDS are disproportionately susceptible to. This Policy Brief argues for the G20, now inclusive of SIDS through the African Union's accession, to champion SIDS' interests vigorously. It advocates for the acknowledgment of SIDS as a distinct development category, securing dedicated trade and related financing for climate adaptation and mitigation, and the necessary reform of international trade systems to support these aims. The Brief also highlights the critical importance of aligning global economic discussions with the specific needs and negotiating priorities of SIDS, ensuring they are not marginalized in global forums.

**Keywords:** Small Island Developing States (SIDS), High Income, Multidimensional Vulnerability Index (MVI), United Nations Framework Convention on Climate Change (UNFCCC), Paris Agreement, Intergovernmental Panel on Climate Change (IPCC), climate change, trade and investment, food security, climate action.

## Diagnosis of the Issue

The unique vulnerabilities of SIDS have been acknowledged on global platforms since the 1992 United Nations Conference on Environment and Development. While various UN bodies, including the United Nations Conference on Trade and Development (UNCTAD), have recognized these challenges, SIDS are still inconsistently treated in global governance systems.

### Inconsistent Recognition of SIDS

Although SIDS are acknowledged for their unique environmental and developmental needs, there is little to no consensus on their official recognition, leading to inconsistent treatment across different forums. For instance, the World Trade Organization (WTO), while highlighting in the past the special needs of Small Vulnerable Economies (SVEs), does not recognize them as a formal sub-grouping deserving of a priori “Special and Differential Treatment” as it does for LDCs. This contrasts with the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement where SIDS are readily and easily identified as needing special consideration due to their climate and finance vulnerability<sup>1</sup>. The discrepancy is not because of a lack of appreciation of the special needs of SIDS in trade circles. For instance, in the new WTO Fisheries Subsidies Agreement agreed to at MC12 SIDS were indirectly referenced through provisions that exempt countries with a share of global marine capture of less than 0.8% from the notification requirement.

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<sup>1</sup> See for instance UNFCCC Preamble and Article 4.8; Paris Agreement Articles 3.6, 9.4, 9.9, 11.1.

This disparity in recognition affects their access to essential support like grants, aid, and concessional finance. Many SIDS, classified as high-income countries based on GDP per capita, are paradoxically considered too wealthy for certain types of aid, despite their vulnerability to external shocks. The MVI has been proposed to better reflect the special demands and needs of SIDS, highlighting their significant vulnerability. (see Appendix 1).

### **Climate Vulnerability of SIDS**

SIDS face existential threats from climate change, ranging from an increase in the instances and severity of natural disasters, the destruction of marine habitats and loss of biodiversity and the exacerbation of food and water insecurity. (Remy 2023) This is supported by the MVI which ranked SIDS as some of the most vulnerable countries as it relates to Exposure to Extreme Weather Events<sup>2</sup>, (see Appendix 2). Their minor contribution to global greenhouse gas emissions contrasts sharply with the severe impacts of climate change on their communities.


### **Challenges in Accessing Climate Finance**

Despite the global consensus that external financial support is urgently needed for SIDS to assist with their climate adaptation and mitigation, and pledges under the UNFCCC and Paris Agreement to contribute to these efforts, SIDS often face individually insurmountable challenges in trying to access such support.

In a recent report, the United Nations identified the main challenges faced by SIDS in accessing climate finance, the major human and technical capacity constraints faced by

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<sup>2</sup> Listed under the MVI's proxies related to Structural Vulnerability.




SIDS, and the failure of the current climate and development finance systems to accommodate SIDS' unique needs, realities, and vulnerabilities, resulting in fewer funding opportunities. (United Nations n.d.) Furthermore, while the amount of global climate financing pledged has tripled over the last decade, reaching \$1.27 trillion, there remains a significant gap between global finance flows and the levels needed to achieve the low-carbon transition and build resilience. This may partially be attributed to the concentration of climate finance in developed economies and China, and in mitigation rather than adaptation. Furthermore, climate finance often takes the form of debt and remains in its country of origin. (Independent High-Level Expert Group on Climate Finance 2023)

In response, SIDS have put forth a number of suggestions such as the Bridgetown Initiative which provides key actions for a more equitable, fit for purpose, development finance architecture. (The United Nations 2023)

### **Calls for Global System Reforms Including at the World Trade Organization**

SIDS have called for more specific treatment in several trade-related fora, most notably at the WTO. Many SIDS have engaged in discussions on trade and natural disasters that have arisen in the Committee on Trade and Development (CTD). In 2017, in the midst of a particularly intense cycle of hurricanes and tropical storms affecting the Caribbean region, certain CARICOM SIDS tabled a proposal to bring attention to the catastrophic impact of natural disasters on SIDS and SVEs. They suggested “full flexibility” of the multilateral trading system to support disaster recovery and reconstruction, a call that catalysed discussions in the CTD and contributed to the launch of the WTO's Natural Disaster and Trade Project in 2018.



Many SIDS are also involved, even if not formally, in plurilateral discussions relating to the trade and the environment, including the Trade and Environmental Sustainability Structured Discussions (TESSD), the Informal Dialogue on Plastics Pollution and Environmentally Sustainable Plastics Trade (IDP) and the Fossil Fuel Subsidy Reform Initiative. Small states' needs have also been specifically mentioned in recent initiatives for WTO reform under the Villars Framework for a Sustainable Trade System, which advances recommendations for trade system reform in support of a just transition to a low-carbon future, and ensures that developing countries and marginalized populations are provided fair opportunities to benefit from the trade system.



## Recommendations

To address the distinct challenges of SIDS, a comprehensive and united effort from global leadership is indispensable. The G20's strategic role in global policy-making places it at the forefront of initiating and implementing policies that can significantly mitigate the vulnerabilities and fulfill the requirements of SIDS. This document presents an integrated set of recommendations aimed at fostering global cooperation and support for SIDS.

### Unified Recognition and Support for SIDS

The first step involves the G20 formally acknowledging SIDS as a distinct category, similar to how Least Developed Countries are recognized within international frameworks. This is vital for eliminating the confusion caused by the high-income status of some SIDS, which limits their access to the necessary assistance. UNCTAD emphasizes the need for this recognition, pointing out the discrepancy between recognizing the vulnerability of SIDS and the lack of proportional responses to their challenges. Implementing the MVI as a standard could clarify which nations qualify as SIDS and determine the extent of special treatment they are entitled to. This would also dispel misconceptions fueled by tourism narratives that obscure SIDS' economic and environmental realities.

### Endorsement of Strategic Initiatives

The *Bridgetown Initiative 2.0* calls for critical actions to overhaul the international financial architecture, highlighting the need for a cohesive development and resilience strategy that aligns with the Sustainable Development Goals (SDGs). The G20's

endorsement would demonstrate a solid commitment to revising and improving climate financing mechanisms for SIDS, tackling the current shortcomings of the international financial system.

The *Villars Framework 2.0* advocates for a sustainable and inclusive global trade system that caters to the needs of all nations, particularly vulnerable ones like SIDS. It underscores the necessity of reforming the global trade landscape to foster economic, environmental, and social sustainability. The G20's support would champion a trade system that promotes sustainable development and addresses the distinct challenges of vulnerable nations.

### **Reinforcing Financing and Technology Transfer Under UNFCCC**

An additional recommendation calls for the G20 to strengthen the push for developed countries to honor their financial commitments for SIDS' mitigation and adaptation needs, alongside facilitating technology transfer under the UNFCCC and the Paris Agreement. Fulfilling these commitments empowers SIDS to deploy effective climate response strategies and to progress towards sustainable development trajectories.

Implementing these recommendations requires a unified and robust approach from the G20, ensuring that the peculiarities and challenges of SIDS are recognized and addressed in a meaningful way. By adopting these measures, the G20 would significantly contribute to a fairer and more equitable global system, acknowledging the importance of solidarity and cooperation in the pursuit of global sustainability and development goals.

### **Enhancing the Recognition of SIDS in WTO Negotiations**

The G20 can play a critical role in enhancing support for SIDS within the framework of global trade negotiations, particularly through the World Trade Organization (WTO).



Recognizing the environmental and economic vulnerability of SIDS – arising from their geographic isolation, high transportation and freight costs, dependence on fragile sectors like tourism and agriculture, and limited scale of local production – much like the acknowledgment of LDCs, as being particularly trade disadvantaged, would be a fundamental step in allowing the trade community to meet their targeted needs. The discrepancy between the recognition SIDS receive under climate governance frameworks like the UNFCCC and Paris Agreement and their recognition in trade negotiations underscores a vital area where the G20 could advocate for change.

The G20 can encourage the WTO to formally recognize SIDS as a distinct group, acknowledging their unique vulnerabilities and ensuring they receive tailored support and concessions in trade agreements. This would pave the way for better-integrated climate vulnerability indices into WTO negotiations, providing a more nuanced understanding of SIDS' trade and economic needs in relation to their environmental challenges. Moreover, the G20 can advocate for the WTO to deepen its technical work on the trade and climate interface, assisting SIDS, and other smaller economies to navigate the impacts of climate change on trade competitiveness. Identifying green opportunities, liberalization needs, protection sectors, and international standards for SIDS could enhance their participation in global value chains and international markets.

Furthermore, the G20 could facilitate greater coordination between the WTO and the UNFCCC, ensuring that climate and trade goals are harmonized. This could involve utilizing Nationally Determined Contributions (NDCs) to inform trade-related needs and incorporating technology needs assessments into WTO negotiations, especially those involving technology transfer and aid for trade.

Lastly, the G20 can promote a supportive approach within the WTO towards transitioning to low-carbon economies. This involves moving to a place where SIDS'

needs are actively considered and supported, encouraging sustainable development and environmental goods and services trade that benefits them.

### **Scenario of Outcomes**

If the G20 were to fully embrace the recommendations proposed for enhancing support to SIDS within global trade negotiations, particularly through frameworks like the WTO, both positive outcomes and challenges, could emerge. Facing these challenges directly presents the best chance for SIDS to benefit more from the international global governance regime.

#### **Positive Outcomes**

- **Enhanced SIDS Representation and Support:** recognizing SIDS formally in WTO negotiations as a distinct group would likely lead to more tailored support mechanisms, directly addressing their vulnerabilities. This would facilitate their integration into the global economy, potentially boosting their economic resilience against climate impacts and other sustainability challenges, as well as possibly providing the basis for prioritizing technical work on the trade and sustainability interface. SIDS could identify new green and blue opportunities thereby enhancing their trade competitiveness which would assist in their economic diversification beyond traditional sectors like tourism and agriculture.
- **Harmonization of Climate and Trade Goals:** Greater coordination between the WTO and the UNFCCC might streamline the integration of SIDS' climate adaptation and mitigation needs with their trade strategies, leading to more cohesive policy frameworks that support sustainable development.

## Challenges and Trade-Offs

- **Economic Disparities:** Increased focus on SIDS could exacerbate disparities between SIDS and other sub-groupings of developing economies within the WTO which might lead to resistance in negotiations.
- **Resource Allocation:** Prioritizing SIDS in global trade discussions and climate finance could lead to debates over resource allocation, especially in contexts where financial and technical resources are limited. Developed countries may be reluctant to reallocate funds or may demand stringent accountability measures that could complicate disbursement.
- **Sustainability versus Economic Growth:** Focusing on green opportunities and renewable energy subsidies as pathways for SIDS' economic development introduces the trade-off between sustainability and immediate economic growth. Transitioning to low-carbon economies could initially be costly and slow to yield financial returns, posing a challenge for SIDS with urgent development needs.
- **Competition for Green and Blue Opportunities:** Identifying and capitalizing on new green and blue opportunities in global value chains could lead to increased competition among SIDS and with other developing economies. This competition could strain regional cooperation and resource sharing, critical elements for SIDS' collective resilience.

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**Appendix 1: SIDS MVI Preliminary Country Scores**

<b>Country</b>	<b>MVI Preliminary Country Score</b>
Maldives	72.2
Nauru	68.7
Saint Lucia	66.5
Haiti	65.6
Tuvalu	64.3
Samoa	62.5
Saint Vincent and the Grenadines	61.8
Grenada	61.7
Antigua and Barbuda	61.7
Cabo Verde	60.5
Comoros	60.3
Bahamas	59.9
Kiribati	59.8
Marshall Islands	58.9
Guinea-Bissau	58.8
Barbados	57.9
Tonga	57.0
Palau	57.0
Solomon Islands	55.9
Dominica	55.4
Saint Kitts and Nevis	55.0
Seychelles	54.5

Vanuatu	54.4
Sao Tome and Principe	53.5
Belize	53.0
Singapore	52.4
Mauritius	52.2
Fiji	51.7
Trinidad and Tobago	50.3
Jamaica	49.6
Papua New Guinea	47.1
Cuba	46.6
Guyana	46.4
Timor-Leste	46.4
Dominican Republic	45.1
Suriname	43.2

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**Appendix 2: SIDS Ranking for Exposure to Extreme Weather Events**

<b>Country</b>	<b>Exposure to Extreme Weather Events</b>
Barbados	83.71
Saint Lucia	83.33
Palau	82.94
Trinidad and Tobago	82.93
Haiti	81.85
Jamaica	81.76
Dominica	81.72
Mauritania	79.60
Fiji	79.40
Saint Vincent and the Grenadines	78.58
Micronesia (Federated States of)	77.85
Belize	77.84
Saint Kitts and Nevis	75.77
Antigua and Barbuda	74.85
Samoa	74.72
Comoros	74.44
Equatorial Guinea	73.71
Costa Rica	69.02
Grenada	69.02
Guinea-Bissau	68.62
Bahamas	65.46
Maldives	63.87



Cabo Verde	63.81
Guyana	63.14
Sao Tome and Principe	54.09
Marshall Islands	53.37
Singapore	52.25
Nauru	48.36
Dominican Republic	47.38
Solomon Islands	43.69
Vanuatu	42.39
Mauritius	42.06
Papua New Guinea	38.20

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